UNITED STATES DISTRICT COURT

NORTHERN DISTRICT OF ILLINOIS

EASTERN DIVISION

LAWRENCE E. JAFFE PENSION PLAN, ON BEHALF OF ITSELF AND ALL OTHERS SIMILARLY SITUATED, Plaintiff,	Lead Case No. 02-C-5893 (Consolidated)
	CLASS ACTION
- against -	Judge Ronald A. Guzmán
HOUSEHOLD INTERNATIONAL, INC., ET. AL., Defendants.	

DECLARATION OF THOMAS J. KAVALER IN SUPPORT OF DEFENDANTS' MOTION FOR JUDGMENT AS A MATTER OF LAW PURSUANT TO RULE 50(b) AND DEFENDANTS' MOTION FOR NEW TRIAL PURSUANT TO RULE 59

I, THOMAS J. KAVALER, declare as follows:

1. I am a member of the bar and the trial bar of this Court and a member of the firm Cahill Gordon & Reindel LLP, attorneys for Household International, Inc., William F. Aldinger, David A. Schoenholz and Gary Gilmer, Defendants in this action. I submit this declaration to place before the Court certain information and documents referenced in the accompanying Memorandum of Law in Support of Defendants' Motion for Judgment as a Matter of Law Pursuant to Rule 50(b) and/or the accompanying Memorandum of Law in Support of Defendants' Motion for New Trial Pursuant to Rule 59.

2. Attached hereto as Exhibit 1 is a true and correct copy of the Report of Daniel R. Fischel, including selected exhibits to that report (Exhibits 53 and 56), which was served upon Defendants by Plaintiffs in this action on August 15, 2007.

3. Attached hereto as Exhibit 2 is a true and correct copy of the Rebuttal Report of Daniel R. Fischel, which was served upon Defendants by Plaintiffs in this action on February 1, 2008.

4. Attached hereto as Exhibit 3 is a true and correct copy of an excerpt of the transcript of the deposition of Daniel R. Fischel taken in this action on March 21, 2008.

5. Attached hereto as Exhibit 4 is a true and correct copy of the Affidavit of Bradford Cornell, dated October 30, 2008.

6. Attached hereto as Exhibit 5 is a true and correct copy of an excerpt of Lead Plaintiffs' Fourth Amended Objections and Responses to Defendants' [Ninth] Set of Interrogatories, dated February 1, 2008.

7. Attached hereto as Exhibit 6 is a true and correct copy of an excerpt of the transcript of the deposition of Charles Cross taken in this action on April 9, 2008 which was not presented to the jury during the trial of this action.

8. Attached hereto as Exhibit 7 is a true and correct copy of Lead Plaintiffs' Status Report for the February 7, 2008 Telephone Status Conference, dated February 6, 2008.

9. Attached hereto as Exhibit 8 is a true and correct copy of an excerpt of the transcript of the telephone status conference before the Honorable Nan R. Nolan, Magistrate Judge, dated February 7, 2008.

10. Attached hereto as Exhibit 9 is a true and correct copy of an e-mail chain between Josh Newville and Luke Brooks, dated March 29, 2009.

11. Attached hereto as Exhibit 10 is a true and correct copy of an e-mail chain between Josh Newville and Luke Brooks, dated March 29 through April 6, 2009.

12. Attached hereto as Exhibit 11 is a true and correct copy of an excerpt of Exhibit D-1 to the [Proposed] Final Pretrial Order that was submitted to the Court by Plaintiffs on January 30, 2009.

13. Attached hereto as Exhibit 12 is a true and correct copy of Plaintiffs' Demonstrative Exhibit 40.

14. True and correct copies of excerpts of the transcript of the final pre-trial conference, trial and jury instructions conferences in this action, and excerpts of the transcripts of deposition selections played during the trial in this action are collected in the accompanying separately bound Appendix of Transcript Excerpts.

15. I declare under penalty of perjury under the laws of the State of New York that the foregoing is true and correct.

Executed this 20th day of July, 2009, in New York, New York.

/s/ Thomas J. Kavaler

Thomas J. Kavaler

EXHIBIT 1

UNITED STATES DISTRICT COURT

NORTHERN DISTRICT OF ILLINOIS

EASTERN DIVISION

LAWRENCE E. JAFFE PENSION PLAN, On Behalf of Itself and All Others Similarly Situated, Plaintiff, vs. HOUSEHOLD INTERNATIONAL, INC., et al., Defendants.	Lead Case No. 02-C-5893 (Consolidated) CLASS ACTION Judge Ronald A. Guzman Magistrate Judge Nan R. Nolan

REPORT OF DANIEL R. FISCHEL

Lawrence E. Jaffe Pension Plan vs. Household International, Inc., et al.

REPORT OF DANIEL R. FISCHEL

I. QUALIFICATIONS

1. I, Daniel R. Fischel, am President of Lexecon, a consulting firm that specializes in the application of economics to a variety of legal and regulatory issues. I am also Professor of Law and Business at Northwestern University School of Law and Kellogg School of Management and the Lee and Brena Freeman Professor of Law and Business Emeritus at The University of Chicago Law School. I have served previously as Dean of The University of Chicago Law School, Director of the Law and Economics Program at The University of Chicago Law School, and as Professor of Law and Business at The University of Chicago Graduate School of Business.

2. Both my research and my teaching have concerned the economics of corporate law and financial markets. I have published approximately fifty articles in leading legal and economics journals and am coauthor, with Judge Frank Easterbrook of the Seventh Circuit Court of Appeals, of the book *The Economic Structure of Corporate Law* (Harvard University Press). Courts of all levels, including the Supreme Court of the United States, have cited my articles as authoritative. *See, e.g.*, *Central Bank v. First Interstate Bank*, 511 U.S. 164 (1994); *Basic Inc. v. Levinson*, 485 U.S. 224, 246 n. 24 (1988); and *Edgar v. MITE Corp.*, 457 U.S. 624, 643 (1982). My curriculum vitae, which contains a list of my publications, is attached hereto as Exhibit 1.

3. I have served as a consultant or adviser on economic issues to, among others, the United States Securities and Exchange Commission, The National Association of Securities Dealers, the New York Stock Exchange, the Chicago Board of

Trade, the United States Department of Labor, the United States Department of Justice, the Federal Deposit Insurance Corporation, the Resolution Trust Corporation, and the Federal Trade Commission.

4. I am a member of the American Economic Association and the American Finance Association. I am also a member of the Board of Directors of the Center for the Study of the Economy and the State at The University of Chicago, and former Chairman of the American Association of Law Schools' Section on Law and Economics. I have testified as an expert witness in multiple proceedings in federal and state courts across the country, as detailed in Exhibit 1. My hourly billing rate is $1,000.

II. INTRODUCTION AND SUMMARY OF CONCLUSION

5. Household International, Inc. ("Household" or the "Company") was principally a non-operating company with subsidiaries that primarily provided middle-market customers with several types of loan products in the United States, the United Kingdom, Canada, the Czech Republic, and Hungary.[1] Household Form 10-K for the fiscal year ended December 31, 2002 ("2002 10-K") at 2. The Company's operations were divided into three reportable segments: consumer (which included consumer lending, mortgage services, retail services, and auto finance businesses); credit card services (which included domestic MasterCard and Visa credit card businesses); and international. *Id.* at 5. Across these segments, Household generally served nonconforming and nonprime ("subprime") customers, *i.e.*, those who have limited credit histories, modest income, high debt-to-income ratios, high loan-to-value ratios (for real estate secured portfolios) or have experienced credit problems caused by occasional

1. Household was acquired by HSBC Holdings plc ("HSBC") on March 28, 2003. *See* Household Form 8-K dated March 28, 2003.

delinquencies, prior chargeoffs, or credit-related actions. *Id.* Household's continued success and prospects for growth were dependent upon access to the global capital markets. *Id.* at 8. The Company funded its operations using a combination of capital market debt and equity, deposits, and securitizations. *Id.* at 9.

6. On August 14, 2002, Household announced that it had restated its consolidated financial statements, including for the years ended December 31, 1999, 2000, and 2001 and for the quarter ended March 31, 2002. *Id.* at 25 & Household Form 10-Q for the quarterly period ended June 30, 2002 at 5. The restatement related to MasterCard/Visa co-branding and affinity credit card relationships and a marketing agreement with a third party credit card marketing company; all were part of its credit card services segment. *Id.* Retained earnings at December 31, 2001 were restated to reflect a retroactive after-tax charge of $359.9 million. *Id.*

7. On October 11, 2002, Household announced that it had reached a preliminary agreement with a multi-state working group of state attorneys general and regulatory agencies to effect a nationwide resolution of alleged violations of federal and state consumer protection, consumer financing and banking laws and regulations with respect to secured real estate lending from its retail branch consumer lending operations. 2002 10-K at 3. The Company agreed to pay up to $484 million and adopt a series of business practices to benefit borrowers.[2] *See* Exhibit 2. Household management said it expected the changes in business practices to cut earnings by 10 cents a share in 2003, by 20 cents in 2004, and by 30 cents in 2005.[3] *Id.*

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2. In the third quarter of 2002, the Company recorded a pre-tax charge of $525 million ($333.2 million after-tax) to reflect the costs of the settlement agreement and related matters. 2002 10-K at 3.
3. Household management also disclosed that it thought Wall Street's 2003 forecast of

8. On March 18, 2003, Household consented to the entry by the Securities and Exchange Commission ("SEC") of an order (the "Consent Order") relating to the sufficiency of certain disclosures in reports the Company filed during 2002. 2002 10-K at 4-5. The SEC found that Household's disclosures regarding its restructuring (or "re-aging") policies failed to present an accurate description of the minimum payment requirements applicable under the various policies or to disclose its policy of automatically restructuring numerous loans and were therefore false and misleading. *Id.* The SEC also found misleading Household's failure to disclose its policy of excluding forbearance arrangements in certain of its businesses from its 60+ days contractual delinquency statistics. *Id.* The SEC noted that the 60+ days contractual delinquency rate and restructuring statistics were key measures of the Company's financial performance because they positively correlate to charge-off rates and loan loss reserves. *Id.* The SEC stated that the false and misleading disclosures violated Sections 10(b) and 13(a) of the Exchange Act, and Rules 10b-5, 12b-20, 13a-1 and 13a-13 under the Exchange Act. *Id.*

9. In light of the above, several institutions ("Plaintiffs") have filed a securities class action against Household's CEO & Chairman of the Board William F. Aldinger, President, COO & Vice-Chairman of the Board David A. Schoenholz, Vice-Chairman of Consumer Lending & Group Executive of U.S. Consumer Finance Gary Gilmer, Household Finance Corp. ("HFC") director J.A. Vozar, and the Company (collectively, "Defendants").[4] [Corrected] Amended Consolidated Class Action

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$5.09 was too high and that it now expected 2003 earnings to fall in the range of $4.65 to $4.90, and that it expected to take another charge of between $250 million and $300 million after tax related to the sale of its thrift. *See* Exhibit 2.

4. I understand that defendant Arthur Andersen LLP has settled with Plaintiffs and that claims against the other defendants named in the Complaint have been dismissed.

Complaint for Violation of the Federal Securities Laws ("Complaint") ¶¶ 1, 6, 36 & 47. Plaintiffs bring this action on behalf of all persons who purchased or otherwise acquired Household securities during the period from July 30, 1999 to October 11, 2002 (the "Class Period").[5] *Id.* ¶ 1. I understand that a class has been certified as to the claims Plaintiffs bring under §10(b) of the Securities Exchange Act of 1934 and Rule 10b-5 promulgated thereunder.

10. Plaintiffs allege that throughout the Class Period, Defendants engaged in a fraudulent scheme and wrongful course of business that rendered Household's financial statements materially false and misleading and caused the market prices of its securities to trade at artificially inflated levels. *Id.* ¶¶ 24 & 50. Plaintiffs principally allege that Defendants: 1) employed improper lending practices designed to maximize amounts lent to borrowers in the subprime market ("Predatory Lending") and denied that these practices were occurring; 2) misrepresented and manipulated defaults and delinquencies (metrics closely followed by analysts and investors) by artificially re-aging delinquent accounts ("Re-aging"); and 3) improperly accounted for expenses associated with certain of its credit card agreements, which led to a restatement going as far back as 1994 that lowered earnings throughout the Class Period (the "Restatement"). *Id.* ¶¶ 2, 50 & 83. Plaintiffs claim that the cumulative effect of the revelation of Defendants' alleged wrongful course of business caused the prices of Household's securities to plummet. *Id.* ¶¶ 6 & 29. Plaintiffs further claim that as a direct and proximate result of Defendants' allegedly wrongful conduct, they and other members of

5. The Class Period as pled began on October 23, 1997. Complaint ¶ 1. I understand that, as a matter of law, the Court dismissed claims on behalf of those who purchased or otherwise acquired Household securities prior to July 30, 1999.

the class suffered damages in connection with their purchases of Household securities during the Class Period. *Id.* ¶ 350.

11. I have been asked by counsel for Plaintiffs to analyze the economic evidence as it relates to their claims, determine whether it is consistent with these claims, and, if so, analyze the amount of alleged artificial inflation in Household's stock price during the Class Period attributable to such claims. I have been assisted by Lexecon's professional staff. The materials I relied upon in forming my opinions are included as exhibits or cited *infra*. Based on our review and analysis, I have concluded that the economic evidence is consistent with Plaintiffs' claim that the alleged wrongdoing caused investors in Household's common stock to incur losses.

III. THE RELATIONSHIP BETWEEN PLAINTIFFS' ALLEGATIONS AND INVESTORS' LOSSES

A. Predatory Lending

12. Beginning at least as early as November 15, 2001, Household's stock price was negatively impacted by concerns regarding the Company's alleged predatory lending practices. After the close of trading on November 14, 2001, *Bloomberg* reported that the California Department of Corporations ("CDC") filed suit for civil penalties in the amount of at least $8.5 million against Household's HFC and Beneficial subsidiaries as a result of their "engaging in joint, pervasive patterns of abusive lending practices consisting of routine, statewide imposition of excessive and improper fees, penalties, interest and charges" in violation of state consumer protection laws.[6] *See* Exhibit 3. A *Business Wire* article noted that the CDC "discovered 1,921

6. Household's residual stock price return on the next day, November 15, 2001, was -3.1%, which is statistically significant at conventional levels of significance. *See* Exhibit 49 *and infra* ¶¶ 31-3 for an explanation of residual stock price returns and

incidents of charging excessive administrative fees, the same category of violations that Household was required to correct in 1998." *See* Exhibit 4. On November 15, 2001, the Company issued a press release denying "any assertion that it has willfully violated the lending laws that regulate its business." *See* Exhibit 5. Analysts at Deutsche Banc Alex. Brown Inc. commented that although the amount of the civil penalties the CDC was seeking did not appear severe, "[t]he unanswered questions are 1) how much more in refunds might Household owe? 2) will the accusations escalate (within or beyond the state)? and 3) will there be any operational constraints?" and concluded that "there could be a cloud overhanging the stock in the short term." *See* Exhibit 6.

13. Household settled the CDC lawsuit in early January 2002, agreeing to pay $12 million of fines and refunds and be subject to "an unprecedented level of oversight from its California regulator." *See* Exhibit 7. The CDC stated that the settlement was "so tough" because Household was a "recidivist." *Id.* An industry consultant noted that "[t]his case is of particular interest because it marks what could be the start of increased oversight by state regulatory agencies of consumer finance companies" and that it could spark a trend in other states. *Id.*

14. On February 18, 2002, *National Mortgage News* provided detail on a class-action lawsuit alleging that Household's California subsidiaries "tricked" and "trap[ped]" customers into high-cost mortgages in amounts so large in relation to the value of their homes that the borrower could not refinance with a competitor. *See* Exhibit 8. The article quoted Defendant Schoenholz's reaction to the lawsuit: "Our first take on

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statistical significance.

this is that it is not a significant issue, not indicative of any widespread problem and certainly not a concern that will spread elsewhere." *Id.*

15. Defendant Schoenholz was wrong. Over the ensuing months, a number of newspaper articles appeared describing new accusations and lawsuits against Household over lending practices across the country. For example, on August 16, 2002, *The Boston Globe* reported that the Association of Community Organization for Reform Now ("ACORN") had filed a class-action lawsuit against Household in Massachusetts, and had previously filed class-action lawsuits in Illinois, California, and New York. *See* Exhibit 9. In addition, on June 2, 2002, the *Chicago Tribune* reported that the AARP "backs lawsuits against Household in New York and West Virginia that seek class-action status." *See* Exhibit 10.

16. Moreover, information leaked out about the contents of a report (the "WA Report") by Washington State's Department of Financial Institutions ("DFI") that detailed borrower complaints against Household and alleged the Company violated federal and state consumer protection laws by failing to make key disclosures and by using "sales tactics intended to mislead, misdirect, or confuse the borrower." *See* Exhibit 11. For example, on April 18, 2002, *The Seattle Post-Intelligencer* reported on the complaints and quoted the DFI's investigations supervisor as saying he believed that the Company's consumer finance subsidiaries "have the most complaints that we have on record." *See* Exhibit 12. In addition, *American Banker* reported on August 26, 2002 that the DFI had won permission to share the WA Report with other officials in Washington and in other states. *See* Exhibit 11. After identifying that Household had intentionally misused its good-faith estimate form in several branches in Washington and receiving reports from regulators in other states concerning this practice, the WA Report stated that

the DFI "does not believe the practice is isolated." *Id.* On August 27, 2002, *The Bellingham Herald* published an article calling the WA Report a "blistering assessment" of Household's mortgage loan practices in the state that "found evidence of 'a pattern of intentional deception' of homeowners." *See* Exhibit 13. The article also states that "in recent weeks, copies of the report have been leaked to every news organization that has been following the HFC story – including The New York Times, Forbes Magazine, American Banker magazine [sic] and The Bellingham Herald." *Id.*

17. As information was disseminated into the market about Household's lending practices, Defendants continued to deny the allegations of predatory lending. For example, the Company stated in its 2001 10-K filed on March 13, 2002: "Household has [] been named in purported class actions by consumer groups (such as AARP and ACORN) claiming that our loan products or our lending policies and practices are unfair or misleading to consumers. We do not believe that any of these legal actions has merit or will result in a material financial impact on Household." *See* 2001 10-K at 12. The 10-K further stated that "we do not believe, and we are not aware of, any unaddressed systemic issue affecting our compliance with any state or federal lending laws within any of our businesses." *Id.* Similarly, on May 3, 2002, a *Chicago Tribune* article stated that, in response to the lawsuit seeking class action status in Illinois, "Household quickly denied that it misleads customers." *See* Exhibit 14. In addition, on June 4, 2002, the *Chicago Defender* reported that Defendant Gilmer "described as unfounded the recent rash of lawsuits, advocacy organization complaints and accusations by politicians from Boston to California that accuse the company of predatory lending." *See* Exhibit 15. On February 27, 2002, Household announced an expansion of its "Best

Practice Initiatives" which "rais[ed] industry standards for responsibly serving middle-market borrowers."[7] *See* Exhibit 17.

18. But, as the year progressed, Defendants' denials became less credible.[8] Household fought the release of the WA Report, calling it "a draft" with "factual errors," and won a temporary injunction on May 30, 2002. *See* Exhibit 18. Upon learning of Household's temporary injunction, one market commentator indicated investors' concern regarding the allegations in the WA Report, stating: "I don't know what's in that report, but I bet it isn't complimentary to Household." *See* Exhibit 19. In Household's 2002 proxy filing, a shareholder proposal was initiated which requested that the board conduct a study on ways to link executive compensation to the prevention of predatory lending. *See* 2002 Company Proxy at 23-25. While Company management recommended shareholders vote "AGAINST" this proposal at the annual meeting because "the objectives of this Proposal have been implemented," Institutional Shareholder Services recommended that shareholders vote "FOR" this proposal. *Compare* 2002 Company Proxy at 25 *and* Exhibit 20. The proposal won support from 25% to 27% of shares voted, compared to only 5% support in the prior year. *See* Exhibit 21. Further, on May 23, 2002, the *Chicago Sun-Times* reported that Household "has hired a former Pennsylvania banking secretary to make sure the company doesn't take advantage of unsophisticated borrowers." *See* Exhibit 22. On July 26, 2002, *The*

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7. These initiatives were expanded further as part of the settlement announced on October 11, 2002. *See* Exhibit 2. On August 17, 2002, *The New York Times* reported that "Household said in February that it would begin adopting a fee cap and other changes immediately, but it said this week that the fee limit would be in place by the end of the year." *See* Exhibit 16.

8. The WA Report concluded that HFC's claims that no deception or misrepresentation had occurred "began to ring hollow as more and more consumers continued to complain." *See* Exhibit 11.

Bellingham Herald reported that "[f]or the first time, Household International has acknowledged that its employees may have misrepresented mortgage loan terms to some Whatcom County homeowners who refinanced their homes at the Bellingham office of Household Finance Co., a subsidiary." *See* Exhibit 23. The article stated that "[u]ntil now, company spokesmen have portrayed Household as an industry leader in consumer protection, with elaborate safeguards to make sure borrowers understand the deals they are signing" but "this week, [a company spokesperson] said an internal company probe of the complaints had uncovered some serious problems." *Id.* In addition, on August 17, 2002, *The New York Times* reported that two former Household loan officers who worked at a branch in the Northeast said that the Company's E-Z biweekly payment plan "was used to confuse borrowers into thinking that they would get a lower rate. 'It is the cornerstone of Household's sales pitch,' one said." *See* Exhibit 16. Moreover, in an article titled "Home Wrecker," *Forbes* reported that in July 2002, "authorities from more than a dozen states descended on Household to demand refunds and reforms." *See* Exhibit 24. The article quoted a Minnesota Commerce Commissioner as saying: "It's not just an occasional rogue loan officer or a rogue office. It has to do with the corporate culture." *Id.*

19. As information regarding Defendants' lending practices leaked out during the latter part of the Class Period, market participants reassessed the risks of investing in Household stock. For example, on May 7, 2002 *Newsday* reported that the New York State Comptroller was considering selling 2.5 million shares of Household stock held in a state pension fund due to his concerns about Household's lending practices. *See* Exhibit 25. The Comptroller stated: "Investors should be concerned about the real possibility of a negative impact on the company's performance in the future."

See Exhibit 26. On August 27, 2002, a Keefe Bruyette & Woods analyst initiated coverage on Household with a "neutral 'market perform' rating" and said that "its stock is in 'an uninvestable situation'" and that its earnings growth will likely be restrained by maturing debt and the potential cost of dealing with the lending allegations. *See* Exhibit 27.

20. In addition, analysts lowered their expectations of Household's future prospects. For example, on July 31, 2002 Morgan Stanley analysts wrote, "[t]o reflect predatory lending risks, we've reduced our 5-year EPS growth rate goes [sic] from 14% to 8% and cut our 2003 estimate from $5.26 to $5.02." *See* Exhibit 28. On August 12, 2002, Deutsche Bank analysts stated that "we are lowering our target price to $53 [from $63]" and "we are also lowering our long-term growth rate to 10%-12% from 14% … as we believe Household's loan growth will slow as lending restrictions gradually take hold." *See* Exhibit 29. On September 3, 2002, Bernstein Research analysts wrote, "we believe that as sales practice reform takes hold Household will need to reset its long-run EPS growth target of 13-15% to 10-12%." *See* Exhibit 30. On September 9, 2002, CSFB credit analysts explained that "the dollars committed to business practice control in the future will be significant." *See* Exhibit 31. On September 10, 2002, *American Banker* reported that Defendant Aldinger conceded that the Company's revenue growth had slowed as it instituted its Best Practices Initiatives. *See* Exhibit 32.

21. On October 4, 2002, the *Wall Street Journal* published a story that mentioned that Household was close to completing a $350-$500 million settlement with state attorneys general over its predatory lending practices. *See* Exhibit 33. On October 8, 2002, UBS Warburg analysts stated that "[w]e are cutting our 2003 estimate to reflect the impact of a regulatory fine on HI's earnings and capital base. … we estimate this fine

could exceed $500 million." *See* Exhibit 34. These analysts further noted that "the company would likely have difficulty paying a fine of this magnitude out of cash flow" and "[i]rrespective of the size and timing of a fine, we continue to believe HI's business model, in terms of its marketing and pricing practices, is likely to change, resulting in a longer term earnings growth rate which we estimate of 7%." *Id.* By no later than October 10, 2002, analysts believed the costs of a settlement had already been priced into the stock. *See, e.g.*, Exhibit 35.

B. Re-aging

22. Beginning at least as early as December 3, 2001, Household's stock price was negatively impacted by concerns regarding its accounting and re-aging practices. On December 1, 2001, *Barron's* published an article titled "Does It Add Up? A Look At Household's Accounting," which questioned these practices.[9] *See* Exhibit 36. Among other things, the article states that a securities analyst whose firm worked for Household "professes to be bothered by factors including the company's loan-loss reserve coverage, which seems somewhat skimpy, especially in light of the fact that non-performing (delinquent) assets grew by some $280 million in the last quarter." *Id.* According to the article, the analyst said: "Household's loss rate on subprime mortgages is close to that of the savings-and-loan industry, even though S&Ls generally have more affluent borrowers and issue fewer second mortgages which, by their nature, are shakier than first mortgages." *Id.*

9. Household's residual stock price return on December 3, 2001, the first trading day after the *Barron's* article was published, was -3.2%, which is statistically significant at conventional levels of significance. *See* Exhibit 49 *and infra* ¶¶ 31-2 for an explanation of residual stock price returns and statistical significance.

23. As reported on December 5, 2001, Defendant Aldinger rebutted and denied the criticisms in the *Barron's* article at an investor conference the day before. *See* Exhibit 37. However, market participants continued to question Household's accounting and re-aging practices. For example, on December 11, 2001, Legg Mason issued a report in which its analysts expressed their confusion regarding certain of the disclosures in the Company's reports concerning its accounting, in particular its re-aging policies. *See* Exhibit 38. After discussing these disclosures, the analysts listed numerous questions and concerns. *Id.* For instance, they found Household's "lenient reaging policy disturbing as it undermines the analytical value of the reported asset quality statistics" and asked the Company to "report asset quality problems more conventionally (a late is a late until repaid in full)." *Id.* The analysts stated that "[w]ithout this conventional disclosure, we are left with many unanswered questions." *Id.* After having suspended their investment rating on December 3, 2001, the analysts downgraded Household's stock two notches from SB (which they describe as "Strong Buy") to M (which they describe as "Market Performance") and increased their risk rating from 1 ("Low") to 2 ("Average"). *Compare id.* & Exhibit 39.

24. The Legg Mason analysts' confusion in December 2001 regarding Household's re-aging practices relates directly to the sufficiency of the Company's disclosures of its re-aging policies as of that time. So, although the SEC's Consent Order only covered reports filed by Household in 2002 (*see supra* ¶ 8), the reports available to the analysts on December 11, 2001 – *i.e.*, those reports filed by the Company prior to 2002 – also were deficient in disclosing its re-aging policies.

25. Even after Household disclosed more information regarding its re-aging practices in April 2002, market participants did not consider the disclosures to be

complete. At its annual investor conference on April 9, 2002 and in a Form 8-K filed with the SEC on the same day, Household provided more disclosure on its re-aging policies. *See* Exhibit 40 & Form 8-K filed on April 9, 2002 (the "4/9/02 8-K"). Following these disclosures, analysts at Prudential Securities commented that the "new info on account re-aging lacked historical and comparative context and could be a misleading indicator of HI's approach to managing credit losses." *See* Exhibit 40. An August 17, 2002 article in *The New York Times* stated that "Household has not supplied enough data on re-aged loans for a year earlier to show whether credit problems are rising sharply" and quoted a Credit Suisse First Boston analyst who said that "[i]t would be very helpful to have re-aging data disclosed on a regular basis." *See* Exhibit 16.

26. Further, in a report dated June 7, 2002, the Center for Financial Research and Analysis, Inc. ("CFRA") – the founder of which was described as "an important analyst for the buy-side community" – stated that Household's "reaging may obscure its credit quality picture" because "deferral of charge-offs occurs by definition upon reaging," therefore, "a company's true credit quality picture is obscured by reaging accounts." *See* Exhibit 41. After discussing the information disclosed in the 4/9/02 8-K, CFRA stated that "the Company's reaging policies cause these figures to understate HI's delinquency and charge-off experience." *Id.* In a report dated August 19, 2002, CFRA observed that "[i]n the June 2002 quarter, the Company changed the format for its disclosure of reaging." *See* Exhibit 42. CFRA noted that "whereas [Household] had previously broken out the percent of credits which had been reaged multiple times, the latest 10-Q details only whether the account has been reaged" and that the Company "refrained from disclosing the amount of recidivism, which reflect [sic] accounts that are delinquent or charged-off one year after having been reaged and (in retrospect, one could

argue) should have been charged-off at the time of reaging." *Id.* Again, the lack of disclosure regarding Household's re-aging practices was the basis for the Consent Order.

C. The Restatement

27. On August 14, 2002, Household announced that it was restating its prior reported financial results downward. *See supra* ¶ 6. Market participants were surprised by the announcement. *See, e.g.*, Exhibit 43. Analysts at Morgan Stanley commented that the restatement "suggests to us that returns in the credit card business are lower than we previously thought," which caused them to reassess the profitability of the credit card business and reduce their earnings forecasts and price target. *Id.* CIBC World Markets analysts also reduced their 2002 and 2003 earnings estimates and lowered their price target to $57 from $65. *See* Exhibit 44.

D. Investors' Losses

28. Beginning November 15, 2001 (the earliest date I found that Household's stock price was negatively affected by the alleged fraud (*see supra* ¶ 12)) through October 11, 2002, Household's stock price fell from $60.90 to $28.20, a decline of $32.70 or 53.2% adjusted for dividends. Market participants attributed the Company's stock price decline to concerns regarding the allegedly fraudulent practices. For example, on July 18, 2002, Stephens Inc. analysts noted the "collapse" in Household's stock price and stated that Household's stock "has been plagued by 'headline' risk over predatory lending practices." *See* Exhibit 45. Further, in a report dated September 22, 2002, CIBC analysts lowered their target price from $57 to $36 and commented that "building concerns regarding the company's lending practices, which have been accused of being predatory in nature and is [sic] currently the subject of an investigation by the Washington Department of Financial Institutions, have dampened price performance.

Moreover, skepticism regarding the company's rapid portfolio growth, particularly within the auto business, and mounting credit quality concerns related to Household's loan workout and re-aging practices have also been a drag on the stock." *See* Exhibit 46. Additionally, on September 12, 2002, Deutsche Bank analysts reported that "Household's stock has been under pressure due to concern about accusations of unfair and predatory lending practices." *See* Exhibit 47. The Deutsche Bank analysts added that "[p]redatory lending has not been Household's only cloud this year. It recently restated earnings for the way it accounts for certain marketing expenses, which reduced equity by $386 million. Household has pledged to the rating agencies to bring the capital ratio to 8.5% by year end compared to the previous target of 7.5% (it is in the market for preferred already). It will reduce asset growth, if necessary, to achieve that target. It would like to repurchase shares as soon as possible, but restoring capital in [sic] a priority." *Id.*

29. To further analyze Plaintiffs' claim that Household's stock price declined as investors learned of the Company's allegedly fraudulent practices and Defendants' denials became less credible in the latter part of the Class Period, I compared the stock's performance to an index of comparable stocks (the S&P Financials Index) and a market index (the S&P 500 Index) during the period from November 15, 2001 through October 11, 2002.[10] Exhibit 48 shows that the Company's stock underperformed the indexes during this period – Household's stock fell 53.2% while the comparable and market indexes declined by 20.7% and 25.8%, respectively, adjusted for dividends.

10. In the annual Proxy Statements it filed with the Securities and Exchange Commission ("SEC") during the Class Period, Household compared its stock price performance to Standard & Poor's Composite Financial Stock Price Index ("S&P Financials Index") and the Standard & Poor's 500 Composite Stock Price Index (the "S&P 500 Index"). *See, e.g.*, Household's Proxy Statement dated April 9, 2002 at 16. According to Bloomberg, there were 81 firms in the S&P Financials Index on October 11, 2002.

Under the facts and circumstances of this case, this long-term relative underperformance is consistent with Plaintiffs' claim.

IV. QUANTIFICATION OF ALLEGED ARTIFICIAL INFLATION

30. To quantify the alleged artificial inflation in Household's stock price during the Class Period, I measured the price reaction to several disclosures related to the alleged fraud using a well-known and established technique in financial economics known as an "event study." This quantification likely understates the amount of inflation because it does not take into account the stock price effect of all of the information related to the alleged fraud (including the information detailed above) that leaked into the market in the latter part of the Class Period. To quantify alleged artificial inflation including the effect of leakage that is supported by the facts and circumstances of this case, I use a published method referred to as the "event study approach."

A. Event Study Methodology

31. In an efficient market, the market price of an actively traded stock reflects all publicly available information about the firm and its future prospects and represents the financial community's best estimate of the present value of those prospects.[11] As new information becomes available that changes investors' assessment of the firm's prospects, traders buy and sell the stock until its price reaches a level that reflects the new consensus view of the firm's prospects. Therefore, the change in the price of a

11. During the Class Period: 1) Household's stock was actively traded on the New York Stock Exchange, with average weekly share turnover of 2.5%; 2) each month, between 20 and 27 analysts provided estimates of the Company's earnings to IBES, and Thomson Financial lists 483 analyst reports on the Company; 3) Household filed Forms S-3 and regular public filings with the SEC; and 4) as demonstrated *infra* ¶¶ 34-5, the Company's stock price reacted to unexpected new information. Therefore, it is reasonable to presume that the market for Household's stock was efficient.

stock when new information becomes available measures the value of the new information to investors. This type of analysis is known as an event study and is widely used in finance.[12]

32. It is standard practice in event studies to take into account the effect of market factors on stock price returns. This is typically done by using regression analysis to estimate the historical relationship between changes in a company's stock price and changes in the performance of a market index (and possibly an industry index), using the historical relationship and the actual performance of the index(es) on the day in question to calculate a "predicted return," and subtracting the predicted return from the actual return to derive a "residual return" (sometimes referred to as an "abnormal return" or "market-adjusted return"). In this case, we estimated the relationship between Household's return and returns on the S&P 500 and S&P Financials Indexes during the period from November 15, 2000 to November 14, 2001 (*i.e.*, the calendar year prior to the earliest date I found that Household's stock price was negatively affected by the alleged fraud (*see supra* ¶ 12)).

33. In event studies, the statistical significance of the residual returns is typically assessed by calculating a standardized measure of the size of the residual return known as a "t-statistic."[13] A t-statistic with an absolute value of 1.96 or greater denotes statistical significance at the 5 percent level of significance (a conventional level

12. *See*, *e.g.*, A.C. MacKinlay, "Event Studies in Economics and Finance," 35 *Journal of Economic Literature* (March 1997), 13-39.

13. *See*, *e.g.*, A.C. MacKinlay, "Event Studies in Economics and Finance," 35 *Journal of Economic Literature* (March 1997), 13-39; G.W. Schwert, "Using Financial Data to Measure Effects of Regulation," 24 *The Journal of Law and Economics* (1981), 121-57; D.R. Fischel, "Use of Modern Finance Theory in Securities Fraud Cases Involving Actively Traded Securities," 38 *The Business Lawyer* (1982), 1-20, at 18-19.

at which such assessments are made) in a "two-tailed" test of statistical significance (*i.e.*, testing for significance regardless of whether the residual return is positive or negative).[14] A t-statistic with an absolute value of 1.65 or greater denotes statistical significance at the 5 percent level of significance in a "one-tailed" test of statistical significance (*i.e.*, testing for significance where the residual return has a particular sign).[15] The data for and results of the event study, along with headlines from *Dow Jones News Service* and *Wall Street Journal* articles that mention Household, are presented in Exhibit 49.

B. Quantification Using Specific Disclosures

34. Beginning no later than November 15, 2001, Household's stock price declined significantly in response to disclosures related to the alleged fraud. For example, the stock price declined significantly following the November 14, 2001 disclosure of the CDC lawsuit, the December 1, 2001 *Barron's* article questioning Household's accounting and re-aging practices, the July 26, 2002 *Bellingham Herald* article reporting that the Company acknowledged its employees may have misrepresented mortgage loan terms to some homeowners, the announcement of the restatement, the publication of the *Forbes* "Home Wrecker" article after the market closed on August 15, 2002, and the October 4, 2002 *Wall Street Journal* article that leaked the news about Household's settlement with the state attorneys general.[16, 17, 18] *See supra* ¶¶ 6, 12, 18, 21

14. *See, e.g.*, W. Mendenhall, J.E. Reinmuth & R.J. Beaver, *Statistics for Management and Economics* (Duxbury Press, 1993), at 345-46 & 368-69.

15. *Id.*

16. The residual return on November 15, 2001, the first trade day after the press reported on the CDC lawsuit, was -3.1% and the t-statistic was -2.21; the residual price change was -$1.86. *See* Exhibit 49. The residual return on December 3, 2001, the first trade day after the *Barron's* article was published, was -3.2% and the t-statistic was -2.33; the residual price change was -$1.90. *Id.* The residual return on July 26, 2002, the date the *Bellingham Herald* article was published, was -5.7% and the t-statistic was -4.08; the residual price change was -$2.20. *Id.* The residual return on August 14,

& 27 *and* Exhibit 49. The stock price also declined significantly as analysts reassessed the risks of investing in the Company's stock due to the alleged fraud, including following the publication of the December 11, 2001 Legg Mason report regarding Household's re-aging policies, the August 27, 2002 Keefe, Bruyette & Woods report that described Household as "uninvestable," the September 3, 2002 Bernstein Research report that discussed the analysts' belief that Household will need to lower its EPS growth target, and the September 22, 2002 CIBC report in which the analysts lowered their target price to $36 from $57 and reduced their earnings estimate for 2003.[19] *See supra* ¶¶ 19, 20, 23 & 28 *and* Exhibit 49.

2002, the date the restatement was announced, was -2.5% and the t-statistic was -1.77; the residual price change was -$0.94. *Id.* The residual return on August 16, 2002, the first trade day after the *Forbes* article was available to the market (*see infra* Note 18), was -4.7% and the t-statistic was -3.37; the residual price change was -$1.84. *Id.* The residual return on October 4, 2002, the date the *Wall Street Journal* article was published, was -4.7% and the t-statistic was -3.41; the residual price change was -$1.26. *See* Exhibit 49.

17. Although Household's stock price increased significantly on August 15, 2002, the day after the restatement was announced, there is evidence that the restatement contributed to the cloud over the Company's stock after the announcement and to the subsequent decline in Household's stock price. *See, e.g., supra* ¶ 28 *and* Exhibit 50 ("The company's stock has been reeling while Household fights the [predatory lending] allegations and since it restated several years' worth of earnings in August.").
18. Although the *Forbes* article is dated September 2, 2002, an internal Household e-mail states that the article appeared on www.forbes.com on the evening of August 15, 2002. *See* Exhibit 24.
19. The residual return on December 12, 2001 was -4.2% and the t-statistic was -3.06; the residual price change was -$2.39. *See* Exhibit 49. The residual return on August 27, 2002 was -3.1% and the t-statistic was -2.21; the residual price change was -$1.19. *Id.* August 27, 2002 was also the date the *Bellingham Herald* reported on the contents of the WA Report. *See supra* ¶¶ 16. The residual return on September 3, 2002 was -3.4% and the t-statistic was -2.39; the residual price change was -$1.21. *Id.* The residual return on September 23, 2002 was -5.2% and the t-statistic was -3.77; the residual price change was -$1.52. *Id.*

35. Household's stock price also increased significantly due to disclosures related to the alleged fraud. The price increased significantly in response to Defendant Aldinger's rejoinder to the December 1, 2001 *Barron's* article, the Company's February 27, 2002 announcement that it would implement new "Best Practice Initiatives," and the settlement with the state attorneys general and regulatory agencies.[20, 21] *See supra* ¶¶ 7, 17 & 23 *and* Exhibit 49.

36. I quantify alleged artificial inflation related to the above disclosures based on the concomitant residual price changes reported *supra* Notes 16 & 19-21. The amount of artificial inflation on a particular day during the Class Period equals the sum of the subsequent residual price changes; therefore, as the price reacts to

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20. The residual return on December 5, 2001 was 3.2% and the t-statistic was 2.29; the residual price change was $1.85. *See* Exhibit 49. The residual return on February 27, 2002 was 3.3% and the t-statistic was 2.38; the residual price change was $1.64. *Id.*

21. As explained *supra* ¶ 7, Household's announcement on October 11, 2002 disclosed that the Company would pay hundreds of millions of dollars and change its business practices such that future earnings would be reduced. In response to the news, Standard & Poor's lowered its debt ratings, stating that "the charge, coming on the heels of the company's $386 million accounting adjustments, calls into question the managerial controls in place at the company as well as its appetite for risk taking," and Fitch placed its ratings on negative watch, stating: "... the bigger challenge for Household will be replenishing lost revenue resulting from the implementation of 'Best Practices.' An inability to offset these revenues streams could pressure future profitability, ..." *See* Exhibits 2 & 51. Because this news had substantial negative implications for Household's market value, one would expect that it would have caused the Company's stock price to decline significantly. However, the stock price increased $1.90 on October 11, 2002 after increasing $5.30 on the previous day. Market commentators attributed the price increase on October 10, 2002 to "market talk that [Household] could reach an agreement as soon as Friday that would settle investigations by state attorneys general into its subprime consumer lending business." *See, e.g.,* Exhibit 52. The residual return over this two-day period was 23.1% [= (1 + 0.1999) x (1 + 0.0258) – 1] with a cumulative t-statistic of 11.29 [= (14.13 + 1.83) / (the square root of 2)]; the cumulative residual price change was $4.88. *See* Exhibit 49. The fact that the stock increased in value upon disclosure of such negative information is evidence that it had declined earlier by at least as much in anticipation of a larger payment and/or changes in Household's business practices that would have had a worse impact on the Company's future prospects.

each disclosure, inflation increases or decreases by the amount of the residual price change on that date. For example, on November 14, 2001 (the day before the price reacted to the earliest of the above disclosures), the artificial inflation equals $7.97, the sum of the subsequent residual price changes. *See supra* Notes 16 & 19-21 *and* Exhibit 53. On November 15, 2001, the artificial inflation declines by $1.86 (the amount of the residual price change on that day) to $6.11. *See supra* Note 16 *and* Exhibit 53.

37. Exhibit 53 presents Household's stock price, the quantification of total alleged artificial inflation, and the resulting estimate of the stock's true value (*i.e.*, the price at which the stock would have traded but for the alleged fraud, calculated as the difference between the stock price and artificial inflation) on each day of the Class Period. Exhibit 54 is a graph of the stock price and estimated true value.

C. Quantification Including Leakage

38. In their article titled "Using Finance Theory to Measure Damages in Fraud on the Market Cases," Cornell and Morgan state that "[b]y the time a public announcement occurs, often the market price already reflects some of the information contained in the announcement."[22] They further state that in cases where a prior information leak occurs, a residual price change following a disclosure "does not properly measure the economic impact of the disclosure" and that, as a result, using

22. B. Cornell and R.G. Morgan, "Using Finance Theory to Measure Damages in Fraud on the Market Cases," 37 *UCLA L Rev.* (1990), 905. In support of their statement, the authors reference a study which "found that the price of target companies ran up almost 30% on average, relative to the predictions of the market model, before the first announcement of a merger or tender offer." *Id.* They also reference a study finding "there were almost no large residuals for a portfolio of bank stocks on days when information about the Latin American debt crisis was publicly announced" and conclude that "[t]his may be attributable to the characterization of the crisis by a slow accumulation of bad news and not by a few unexpected announcements." *Id.*

residual price changes in these cases "only on disclosure days will understate damages."[23] The authors also cite examples of securities cases in which fraud was revealed slowly over time, including one in which "a slow flow of increasingly negative news fueled a rising tide of doubts and rumors" with the result that "only a few dramatic announcements were associated with large residual returns."[24]

39. Similarly, in the Household case, a steady stream and extensive amount of incomplete information related to Defendants' alleged fraud was disclosed beginning at least as early as November 15, 2001 (including the information detailed *supra* § III), but only some of these disclosures were associated with statistically significant residual returns. *Compare supra* § III *with* Exhibit 49. However, Household's stock lost more than half of its value during this period, which market participants attributed to concerns regarding Defendants' allegedly fraudulent practices. *See, e.g., supra* ¶ 28. Moreover, as explained *supra* ¶ 29, the stock substantially underperformed the market and comparable indexes over this period, indicating that under the facts and circumstances of this case, its decline cannot be fully explained by adverse market events. The combination of the significant stock price decline, the concurrent leakage of fraud-related information, and market participants' attribution of the decline to this fraud-related information is strong economic evidence that in this case, the long-run relative underperformance in Household's stock beginning November 15, 2001 was caused by leakage of artificial inflation from the price.

40. As a result of this leakage, my quantification of inflation using the specific disclosures described *supra* ¶¶ 34-5 likely significantly understates the amount of

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23. *Id.*
24. *Id.* at 905-6.

artificial inflation in the stock price during the Class Period. Cornell and Morgan explain that one way to reduce the likely understatement in a case where fraud was revealed slowly over time is to extend the "observation window" (*i.e.*, the period over which a price reaction to an event is measured) surrounding the disclosure date and measure residual returns over time.[25] They explain that in such a case, "[t]he window begins far enough in advance of the disclosure for the analyst to be reasonably confident that no significant information leakage has occurred ... [and] ends at a date when the analyst feels confident that most of the information is publicly available."[26] The authors state that for a case in which there is a continuous leakage of information, it may be necessary to expand the observation window to cover the entire class period.[27]

41. Under the facts and circumstances of this case explained above, I quantified the amount of artificial inflation in Household's stock price including the leakage of information related to the alleged fraud using the "event study approach" described by Cornell and Morgan.[28] The first step in this approach is to determine the observation window. Because I found that fraud-related information leaked out beginning no later than November 15, 2001, the observation window begins on this date; it ends on October 11, 2002, the last day of the Class Period. The next step is to use actual stock returns and predicted returns to construct a time series of daily stock price returns ("Constructed Returns") during the Class Period: for each day during the

25. *Id.* at 906. Cornell and Morgan note that "[t]he length of the window depends on the facts of each specific case." *Id.*
26. *Id.*
27. *Id.* at 906-7.
28. *Id.* at 899-900.

observation window, the Constructed Return equals the predicted return;[29, 30] for all other days, the Constructed Return equals the actual return.

42. The next step is to calculate a "true value line," *i.e.*, a daily series of the stock's estimated true value. This line was generated by setting its value equal to Household's stock price on October 11, 2002 (the last day of the Class Period) and working backwards in time according to the following formula: $\text{Value}_{t-1} = (\text{Value}_t + \text{Dividend}_t) / (1 + \text{Constructed Return}_t)$. I then computed daily artificial inflation as the difference between the Company's stock price and the true value line. If the resulting inflation on any day was greater than the cumulative residual price decline during the observation window of $23.94, I limited the inflation to $23.94 and adjusted the true value line accordingly. Exhibit 56 lists Household's stock price, the true value line, and the artificial inflation on each day during the Class Period. Exhibit 57 is a graph of the stock price and estimated true value line. This analysis represents a quantification of alleged artificial inflation taking leakage into account.

29. As explained *supra* ¶ 32, predicted returns account for the effects of market and industry movements on Household's stock price.

30. Because a bias can occur for long observation windows in the standard market model that underlies our event study, we used predicted returns calculated using the capital asset pricing model ("CAPM") for the event study approach. *See, e.g.*, G.N. Pettengill & J.M. Clark, "Estimating Expected Returns in an Event Study Framework: Evidence from the Dartboard Column," 40 *Quarterly Journal of Business & Economics* (2001), 19 *and* Exhibit 55.

Daniel R. Fischel

August 15, 2007

Exhibit 53

Household International, Inc. Common Stock
Estimate of Alleged Artificial Inflation
For Quantification Using Specific Disclosures

Date	Stock Price	Artificial Inflation	True Value
07/30/99	$42.94	$7.97	$34.97
08/02/99	$41.88	$7.97	$33.91
08/03/99	$40.00	$7.97	$32.03
08/04/99	$40.31	$7.97	$32.35
08/05/99	$40.56	$7.97	$32.60
08/06/99	$40.25	$7.97	$32.28
08/09/99	$40.88	$7.97	$32.91
08/10/99	$39.50	$7.97	$31.53
08/11/99	$40.25	$7.97	$32.28
08/12/99	$40.19	$7.97	$32.22
08/13/99	$40.75	$7.97	$32.78
08/16/99	$39.75	$7.97	$31.78
08/17/99	$41.50	$7.97	$33.53
08/18/99	$42.00	$7.97	$34.03
08/19/99	$41.69	$7.97	$33.72
08/20/99	$41.88	$7.97	$33.91
08/23/99	$42.94	$7.97	$34.97
08/24/99	$42.44	$7.97	$34.47
08/25/99	$41.19	$7.97	$33.22
08/26/99	$39.81	$7.97	$31.85
08/27/99	$37.81	$7.97	$29.85
08/30/99	$37.44	$7.97	$29.47
08/31/99	$37.75	$7.97	$29.78
09/01/99	$39.56	$7.97	$31.60
09/02/99	$38.50	$7.97	$30.53
09/03/99	$39.94	$7.97	$31.97
09/07/99	$39.94	$7.97	$31.97
09/08/99	$39.56	$7.97	$31.60
09/09/99	$39.88	$7.97	$31.91
09/10/99	$40.63	$7.97	$32.66
09/13/99	$41.50	$7.97	$33.53
09/14/99	$41.13	$7.97	$33.16
09/15/99	$40.44	$7.97	$32.47
09/16/99	$40.25	$7.97	$32.28
09/17/99	$41.13	$7.97	$33.16
09/20/99	$41.75	$7.97	$33.78
09/21/99	$40.50	$7.97	$32.53
09/22/99	$41.44	$7.97	$33.47
09/23/99	$40.00	$7.97	$32.03
09/24/99	$39.44	$7.97	$31.47
09/27/99	$40.38	$7.97	$32.41
09/28/99	$39.69	$7.97	$31.72
09/29/99	$40.63	$7.97	$32.66
09/30/99	$40.13	$7.97	$32.16
10/01/99	$39.38	$7.97	$31.41
10/04/99	$40.44	$7.97	$32.47
10/05/99	$41.06	$7.97	$33.10

Household International, Inc. Common Stock
Estimate of Alleged Artificial Inflation
For Quantification Using Specific Disclosures

Date	Stock Price	Artificial Inflation	True Value
10/06/99	$42.88	$7.97	$34.91
10/07/99	$42.38	$7.97	$34.41
10/08/99	$44.31	$7.97	$36.35
10/11/99	$42.69	$7.97	$34.72
10/12/99	$41.69	$7.97	$33.72
10/13/99	$39.75	$7.97	$31.78
10/14/99	$38.94	$7.97	$30.97
10/15/99	$37.00	$7.97	$29.03
10/18/99	$37.88	$7.97	$29.91
10/19/99	$38.94	$7.97	$30.97
10/20/99	$39.56	$7.97	$31.60
10/21/99	$39.00	$7.97	$31.03
10/22/99	$39.75	$7.97	$31.78
10/25/99	$38.88	$7.97	$30.91
10/26/99	$39.06	$7.97	$31.10
10/27/99	$41.56	$7.97	$33.60
10/28/99	$45.69	$7.97	$37.72
10/29/99	$44.63	$7.97	$36.66
11/01/99	$45.00	$7.97	$37.03
11/02/99	$45.31	$7.97	$37.35
11/03/99	$44.56	$7.97	$36.60
11/04/99	$45.63	$7.97	$37.66
11/05/99	$46.06	$7.97	$38.10
11/08/99	$44.63	$7.97	$36.66
11/09/99	$43.06	$7.97	$35.10
11/10/99	$42.56	$7.97	$34.60
11/11/99	$41.31	$7.97	$33.35
11/12/99	$44.13	$7.97	$36.16
11/15/99	$44.13	$7.97	$36.16
11/16/99	$45.13	$7.97	$37.16
11/17/99	$43.25	$7.97	$35.28
11/18/99	$42.50	$7.97	$34.53
11/19/99	$41.88	$7.97	$33.91
11/22/99	$41.25	$7.97	$33.28
11/23/99	$40.94	$7.97	$32.97
11/24/99	$40.38	$7.97	$32.41
11/26/99	$40.25	$7.97	$32.28
11/29/99	$39.38	$7.97	$31.41
11/30/99	$39.56	$7.97	$31.60
12/01/99	$39.56	$7.97	$31.60
12/02/99	$40.31	$7.97	$32.35
12/03/99	$41.00	$7.97	$33.03
12/06/99	$39.50	$7.97	$31.53
12/07/99	$38.25	$7.97	$30.28
12/08/99	$38.69	$7.97	$30.72
12/09/99	$39.50	$7.97	$31.53
12/10/99	$39.06	$7.97	$31.10

Household International, Inc. Common Stock
Estimate of Alleged Artificial Inflation
For Quantification Using Specific Disclosures

Date	Stock Price	Artificial Inflation	True Value
12/13/99	$38.25	$7.97	$30.28
12/14/99	$37.94	$7.97	$29.97
12/15/99	$37.63	$7.97	$29.66
12/16/99	$38.31	$7.97	$30.35
12/17/99	$38.13	$7.97	$30.16
12/20/99	$37.94	$7.97	$29.97
12/21/99	$37.25	$7.97	$29.28
12/22/99	$36.63	$7.97	$28.66
12/23/99	$37.50	$7.97	$29.53
12/27/99	$36.88	$7.97	$28.91
12/28/99	$36.19	$7.97	$28.22
12/29/99	$35.94	$7.97	$27.97
12/30/99	$36.56	$7.97	$28.60
12/31/99	$37.25	$7.97	$29.28
01/03/00	$34.69	$7.97	$26.72
01/04/00	$35.00	$7.97	$27.03
01/05/00	$34.38	$7.97	$26.41
01/06/00	$36.00	$7.97	$28.03
01/07/00	$36.38	$7.97	$28.41
01/10/00	$36.50	$7.97	$28.53
01/11/00	$36.00	$7.97	$28.03
01/12/00	$36.75	$7.97	$28.78
01/13/00	$37.69	$7.97	$29.72
01/14/00	$37.31	$7.97	$29.35
01/18/00	$36.50	$7.97	$28.53
01/19/00	$36.81	$7.97	$28.85
01/20/00	$36.00	$7.97	$28.03
01/21/00	$35.63	$7.97	$27.66
01/24/00	$34.50	$7.97	$26.53
01/25/00	$33.94	$7.97	$25.97
01/26/00	$35.63	$7.97	$27.66
01/27/00	$35.69	$7.97	$27.72
01/28/00	$34.19	$7.97	$26.22
01/31/00	$35.25	$7.97	$27.28
02/01/00	$35.25	$7.97	$27.28
02/02/00	$36.13	$7.97	$28.16
02/03/00	$35.63	$7.97	$27.66
02/04/00	$35.38	$7.97	$27.41
02/07/00	$35.06	$7.97	$27.10
02/08/00	$35.75	$7.97	$27.78
02/09/00	$33.88	$7.97	$25.91
02/10/00	$33.88	$7.97	$25.91
02/11/00	$31.88	$7.97	$23.91
02/14/00	$31.31	$7.97	$23.35
02/15/00	$32.94	$7.97	$24.97
02/16/00	$30.88	$7.97	$22.91
02/17/00	$31.69	$7.97	$23.72

Household International, Inc. Common Stock
Estimate of Alleged Artificial Inflation
For Quantification Using Specific Disclosures

Date	Stock Price	Artificial Inflation	True Value
02/18/00	$30.88	$7.97	$22.91
02/22/00	$31.06	$7.97	$23.10
02/23/00	$30.69	$7.97	$22.72
02/24/00	$30.63	$7.97	$22.66
02/25/00	$30.88	$7.97	$22.91
02/28/00	$31.88	$7.97	$23.91
02/29/00	$31.94	$7.97	$23.97
03/01/00	$33.25	$7.97	$25.28
03/02/00	$35.13	$7.97	$27.16
03/03/00	$36.63	$7.97	$28.66
03/06/00	$34.81	$7.97	$26.85
03/07/00	$32.88	$7.97	$24.91
03/08/00	$31.81	$7.97	$23.85
03/09/00	$32.44	$7.97	$24.47
03/10/00	$32.75	$7.97	$24.78
03/13/00	$32.44	$7.97	$24.47
03/14/00	$32.13	$7.97	$24.16
03/15/00	$34.25	$7.97	$26.28
03/16/00	$36.81	$7.97	$28.85
03/17/00	$36.88	$7.97	$28.91
03/20/00	$35.56	$7.97	$27.60
03/21/00	$37.88	$7.97	$29.91
03/22/00	$37.75	$7.97	$29.78
03/23/00	$38.88	$7.97	$30.91
03/24/00	$37.94	$7.97	$29.97
03/27/00	$36.13	$7.97	$28.16
03/28/00	$36.69	$7.97	$28.72
03/29/00	$36.50	$7.97	$28.53
03/30/00	$36.38	$7.97	$28.41
03/31/00	$37.31	$7.97	$29.35
04/03/00	$39.13	$7.97	$31.16
04/04/00	$38.13	$7.97	$30.16
04/05/00	$39.06	$7.97	$31.10
04/06/00	$40.38	$7.97	$32.41
04/07/00	$38.88	$7.97	$30.91
04/10/00	$40.00	$7.97	$32.03
04/11/00	$40.63	$7.97	$32.66
04/12/00	$44.00	$7.97	$36.03
04/13/00	$42.06	$7.97	$34.10
04/14/00	$38.06	$7.97	$30.10
04/17/00	$39.63	$7.97	$31.66
04/18/00	$39.69	$7.97	$31.72
04/19/00	$39.94	$7.97	$31.97
04/20/00	$41.81	$7.97	$33.85
04/24/00	$43.38	$7.97	$35.41
04/25/00	$44.69	$7.97	$36.72
04/26/00	$43.63	$7.97	$35.66

Household International, Inc. Common Stock
Estimate of Alleged Artificial Inflation
For Quantification Using Specific Disclosures

Date	Stock Price	Artificial Inflation	True Value
04/27/00	$42.00	$7.97	$34.03
04/28/00	$41.75	$7.97	$33.78
05/01/00	$42.00	$7.97	$34.03
05/02/00	$42.06	$7.97	$34.10
05/03/00	$40.75	$7.97	$32.78
05/04/00	$39.13	$7.97	$31.16
05/05/00	$39.75	$7.97	$31.78
05/08/00	$41.13	$7.97	$33.16
05/09/00	$40.25	$7.97	$32.28
05/10/00	$39.38	$7.97	$31.41
05/11/00	$39.94	$7.97	$31.97
05/12/00	$40.38	$7.97	$32.41
05/15/00	$41.94	$7.97	$33.97
05/16/00	$42.81	$7.97	$34.85
05/17/00	$41.69	$7.97	$33.72
05/18/00	$42.81	$7.97	$34.85
05/19/00	$41.44	$7.97	$33.47
05/22/00	$41.88	$7.97	$33.91
05/23/00	$43.00	$7.97	$35.03
05/24/00	$45.75	$7.97	$37.78
05/25/00	$45.38	$7.97	$37.41
05/26/00	$45.38	$7.97	$37.41
05/30/00	$46.56	$7.97	$38.60
05/31/00	$47.00	$7.97	$39.03
06/01/00	$47.13	$7.97	$39.16
06/02/00	$47.00	$7.97	$39.03
06/05/00	$47.13	$7.97	$39.16
06/06/00	$46.38	$7.97	$38.41
06/07/00	$47.25	$7.97	$39.28
06/08/00	$46.19	$7.97	$38.22
06/09/00	$44.44	$7.97	$36.47
06/12/00	$43.56	$7.97	$35.60
06/13/00	$44.69	$7.97	$36.72
06/14/00	$45.38	$7.97	$37.41
06/15/00	$43.06	$7.97	$35.10
06/16/00	$42.44	$7.97	$34.47
06/19/00	$42.75	$7.97	$34.78
06/20/00	$43.94	$7.97	$35.97
06/21/00	$44.06	$7.97	$36.10
06/22/00	$43.19	$7.97	$35.22
06/23/00	$42.13	$7.97	$34.16
06/26/00	$42.13	$7.97	$34.16
06/27/00	$41.81	$7.97	$33.85
06/28/00	$42.81	$7.97	$34.85
06/29/00	$43.00	$7.97	$35.03
06/30/00	$41.56	$7.97	$33.60
07/03/00	$41.88	$7.97	$33.91

Household International, Inc. Common Stock
Estimate of Alleged Artificial Inflation
For Quantification Using Specific Disclosures

Date	Stock Price	Artificial Inflation	True Value
07/05/00	$42.00	$7.97	$34.03
07/06/00	$41.63	$7.97	$33.66
07/07/00	$42.75	$7.97	$34.78
07/10/00	$42.69	$7.97	$34.72
07/11/00	$43.50	$7.97	$35.53
07/12/00	$43.94	$7.97	$35.97
07/13/00	$44.00	$7.97	$36.03
07/14/00	$44.88	$7.97	$36.91
07/17/00	$42.81	$7.97	$34.85
07/18/00	$43.44	$7.97	$35.47
07/19/00	$45.25	$7.97	$37.28
07/20/00	$46.38	$7.97	$38.41
07/21/00	$45.81	$7.97	$37.85
07/24/00	$45.94	$7.97	$37.97
07/25/00	$45.50	$7.97	$37.53
07/26/00	$44.25	$7.97	$36.28
07/27/00	$44.69	$7.97	$36.72
07/28/00	$43.75	$7.97	$35.78
07/31/00	$44.56	$7.97	$36.60
08/01/00	$44.56	$7.97	$36.60
08/02/00	$44.44	$7.97	$36.47
08/03/00	$46.63	$7.97	$38.66
08/04/00	$49.63	$7.97	$41.66
08/07/00	$49.88	$7.97	$41.91
08/08/00	$50.00	$7.97	$42.03
08/09/00	$48.88	$7.97	$40.91
08/10/00	$48.19	$7.97	$40.22
08/11/00	$49.06	$7.97	$41.10
08/14/00	$49.19	$7.97	$41.22
08/15/00	$47.88	$7.97	$39.91
08/16/00	$46.75	$7.97	$38.78
08/17/00	$46.38	$7.97	$38.41
08/18/00	$46.94	$7.97	$38.97
08/21/00	$46.63	$7.97	$38.66
08/22/00	$47.31	$7.97	$39.35
08/23/00	$47.25	$7.97	$39.28
08/24/00	$47.44	$7.97	$39.47
08/25/00	$47.75	$7.97	$39.78
08/28/00	$48.25	$7.97	$40.28
08/29/00	$48.00	$7.97	$40.03
08/30/00	$48.00	$7.97	$40.03
08/31/00	$48.00	$7.97	$40.03
09/01/00	$47.38	$7.97	$39.41
09/05/00	$47.63	$7.97	$39.66
09/06/00	$50.19	$7.97	$42.22
09/07/00	$50.56	$7.97	$42.60
09/08/00	$52.44	$7.97	$44.47

Household International, Inc. Common Stock
Estimate of Alleged Artificial Inflation
For Quantification Using Specific Disclosures

Date	Stock Price	Artificial Inflation	True Value
09/11/00	$51.63	$7.97	$43.66
09/12/00	$51.13	$7.97	$43.16
09/13/00	$51.25	$7.97	$43.28
09/14/00	$51.00	$7.97	$43.03
09/15/00	$50.50	$7.97	$42.53
09/18/00	$50.75	$7.97	$42.78
09/19/00	$51.56	$7.97	$43.60
09/20/00	$52.31	$7.97	$44.35
09/21/00	$52.88	$7.97	$44.91
09/22/00	$52.00	$7.97	$44.03
09/25/00	$53.38	$7.97	$45.41
09/26/00	$54.13	$7.97	$46.16
09/27/00	$54.69	$7.97	$46.72
09/28/00	$56.44	$7.97	$48.47
09/29/00	$56.63	$7.97	$48.66
10/02/00	$55.19	$7.97	$47.22
10/03/00	$55.63	$7.97	$47.66
10/04/00	$54.88	$7.97	$46.91
10/05/00	$55.69	$7.97	$47.72
10/06/00	$52.63	$7.97	$44.66
10/09/00	$52.19	$7.97	$44.22
10/10/00	$49.50	$7.97	$41.53
10/11/00	$47.94	$7.97	$39.97
10/12/00	$46.25	$7.97	$38.28
10/13/00	$47.56	$7.97	$39.60
10/16/00	$49.13	$7.97	$41.16
10/17/00	$47.50	$7.97	$39.53
10/18/00	$48.75	$7.97	$40.78
10/19/00	$50.63	$7.97	$42.66
10/20/00	$50.44	$7.97	$42.47
10/23/00	$49.19	$7.97	$41.22
10/24/00	$50.25	$7.97	$42.28
10/25/00	$49.50	$7.97	$41.53
10/26/00	$47.44	$7.97	$39.47
10/27/00	$47.50	$7.97	$39.53
10/30/00	$49.38	$7.97	$41.41
10/31/00	$50.31	$7.97	$42.35
11/01/00	$49.63	$7.97	$41.66
11/02/00	$51.50	$7.97	$43.53
11/03/00	$51.50	$7.97	$43.53
11/06/00	$52.50	$7.97	$44.53
11/07/00	$51.88	$7.97	$43.91
11/08/00	$51.63	$7.97	$43.66
11/09/00	$50.50	$7.97	$42.53
11/10/00	$50.75	$7.97	$42.78
11/13/00	$49.13	$7.97	$41.16
11/14/00	$49.00	$7.97	$41.03

Household International, Inc. Common Stock
Estimate of Alleged Artificial Inflation
For Quantification Using Specific Disclosures

Date	Stock Price	Artificial Inflation	True Value
11/15/00	$49.31	$7.97	$41.35
11/16/00	$49.13	$7.97	$41.16
11/17/00	$48.19	$7.97	$40.22
11/20/00	$45.75	$7.97	$37.78
11/21/00	$46.25	$7.97	$38.28
11/22/00	$44.06	$7.97	$36.10
11/24/00	$45.31	$7.97	$37.35
11/27/00	$46.50	$7.97	$38.53
11/28/00	$48.38	$7.97	$40.41
11/29/00	$50.13	$7.97	$42.16
11/30/00	$49.88	$7.97	$41.91
12/01/00	$49.56	$7.97	$41.60
12/04/00	$48.38	$7.97	$40.41
12/05/00	$50.19	$7.97	$42.22
12/06/00	$50.75	$7.97	$42.78
12/07/00	$51.81	$7.97	$43.85
12/08/00	$53.06	$7.97	$45.10
12/11/00	$52.63	$7.97	$44.66
12/12/00	$51.94	$7.97	$43.97
12/13/00	$50.94	$7.97	$42.97
12/14/00	$50.94	$7.97	$42.97
12/15/00	$50.25	$7.97	$42.28
12/18/00	$52.00	$7.97	$44.03
12/19/00	$53.63	$7.97	$45.66
12/20/00	$51.94	$7.97	$43.97
12/21/00	$52.44	$7.97	$44.47
12/22/00	$52.44	$7.97	$44.47
12/26/00	$53.25	$7.97	$45.28
12/27/00	$54.31	$7.97	$46.35
12/28/00	$55.94	$7.97	$47.97
12/29/00	$55.00	$7.97	$47.03
01/02/01	$53.69	$7.97	$45.72
01/03/01	$58.00	$7.97	$50.03
01/04/01	$57.13	$7.97	$49.16
01/05/01	$54.88	$7.97	$46.91
01/08/01	$54.06	$7.97	$46.10
01/09/01	$52.88	$7.97	$44.91
01/10/01	$52.81	$7.97	$44.85
01/11/01	$53.44	$7.97	$45.47
01/12/01	$53.69	$7.97	$45.72
01/16/01	$55.19	$7.97	$47.22
01/17/01	$56.31	$7.97	$48.35
01/18/01	$54.88	$7.97	$46.91
01/19/01	$54.50	$7.97	$46.53
01/22/01	$53.75	$7.97	$45.78
01/23/01	$55.50	$7.97	$47.53
01/24/01	$56.63	$7.97	$48.66

Household International, Inc. Common Stock
Estimate of Alleged Artificial Inflation
For Quantification Using Specific Disclosures

Date	Stock Price	Artificial Inflation	True Value
01/25/01	$56.69	$7.97	$48.72
01/26/01	$57.50	$7.97	$49.53
01/29/01	$59.10	$7.97	$51.13
01/30/01	$58.59	$7.97	$50.62
01/31/01	$57.48	$7.97	$49.51
02/01/01	$58.92	$7.97	$50.95
02/02/01	$58.80	$7.97	$50.83
02/05/01	$58.98	$7.97	$51.01
02/06/01	$58.11	$7.97	$50.14
02/07/01	$59.20	$7.97	$51.23
02/08/01	$58.78	$7.97	$50.81
02/09/01	$59.20	$7.97	$51.23
02/12/01	$60.33	$7.97	$52.36
02/13/01	$60.25	$7.97	$52.28
02/14/01	$59.45	$7.97	$51.48
02/15/01	$58.26	$7.97	$50.29
02/16/01	$59.09	$7.97	$51.12
02/20/01	$57.53	$7.97	$49.56
02/21/01	$55.65	$7.97	$47.68
02/22/01	$55.76	$7.97	$47.79
02/23/01	$56.58	$7.97	$48.61
02/26/01	$58.00	$7.97	$50.03
02/27/01	$59.11	$7.97	$51.14
02/28/01	$57.92	$7.97	$49.95
03/01/01	$58.40	$7.97	$50.43
03/02/01	$59.41	$7.97	$51.44
03/05/01	$59.08	$7.97	$51.11
03/06/01	$59.87	$7.97	$51.90
03/07/01	$61.50	$7.97	$53.53
03/08/01	$61.11	$7.97	$53.14
03/09/01	$60.27	$7.97	$52.30
03/12/01	$58.43	$7.97	$50.46
03/13/01	$60.45	$7.97	$52.48
03/14/01	$59.69	$7.97	$51.72
03/15/01	$60.36	$7.97	$52.39
03/16/01	$60.01	$7.97	$52.04
03/19/01	$59.90	$7.97	$51.93
03/20/01	$57.88	$7.97	$49.91
03/21/01	$55.85	$7.97	$47.88
03/22/01	$54.72	$7.97	$46.75
03/23/01	$58.12	$7.97	$50.15
03/26/01	$57.94	$7.97	$49.97
03/27/01	$59.85	$7.97	$51.88
03/28/01	$59.35	$7.97	$51.38
03/29/01	$58.15	$7.97	$50.18
03/30/01	$59.24	$7.97	$51.27
04/02/01	$59.50	$7.97	$51.53

Household International, Inc. Common Stock
Estimate of Alleged Artificial Inflation
For Quantification Using Specific Disclosures

Date	Stock Price	Artificial Inflation	True Value
04/03/01	$58.92	$7.97	$50.95
04/04/01	$58.45	$7.97	$50.48
04/05/01	$59.73	$7.97	$51.76
04/06/01	$58.54	$7.97	$50.57
04/09/01	$59.45	$7.97	$51.48
04/10/01	$61.12	$7.97	$53.15
04/11/01	$60.54	$7.97	$52.57
04/12/01	$61.40	$7.97	$53.43
04/16/01	$60.33	$7.97	$52.36
04/17/01	$60.91	$7.97	$52.94
04/18/01	$63.38	$7.97	$55.41
04/19/01	$63.05	$7.97	$55.08
04/20/01	$62.45	$7.97	$54.48
04/23/01	$62.23	$7.97	$54.26
04/24/01	$63.10	$7.97	$55.13
04/25/01	$64.75	$7.97	$56.78
04/26/01	$63.40	$7.97	$55.43
04/27/01	$64.38	$7.97	$56.41
04/30/01	$64.02	$7.97	$56.05
05/01/01	$64.46	$7.97	$56.49
05/02/01	$65.46	$7.97	$57.49
05/03/01	$65.29	$7.97	$57.32
05/04/01	$65.70	$7.97	$57.73
05/07/01	$65.50	$7.97	$57.53
05/08/01	$65.42	$7.97	$57.45
05/09/01	$66.05	$7.97	$58.08
05/10/01	$65.08	$7.97	$57.11
05/11/01	$64.91	$7.97	$56.94
05/14/01	$65.22	$7.97	$57.25
05/15/01	$66.94	$7.97	$58.97
05/16/01	$68.64	$7.97	$60.67
05/17/01	$68.20	$7.97	$60.23
05/18/01	$67.57	$7.97	$59.60
05/21/01	$67.67	$7.97	$59.70
05/22/01	$67.71	$7.97	$59.74
05/23/01	$66.48	$7.97	$58.51
05/24/01	$66.44	$7.97	$58.47
05/25/01	$66.27	$7.97	$58.30
05/29/01	$66.00	$7.97	$58.03
05/30/01	$65.80	$7.97	$57.83
05/31/01	$65.66	$7.97	$57.69
06/01/01	$65.74	$7.97	$57.77
06/04/01	$66.43	$7.97	$58.46
06/05/01	$66.98	$7.97	$59.01
06/06/01	$65.96	$7.97	$57.99
06/07/01	$65.82	$7.97	$57.85
06/08/01	$65.80	$7.97	$57.83

Household International, Inc. Common Stock
Estimate of Alleged Artificial Inflation
For Quantification Using Specific Disclosures

Date	Stock Price	Artificial Inflation	True Value
06/11/01	$65.78	$7.97	$57.81
06/12/01	$65.30	$7.97	$57.33
06/13/01	$65.25	$7.97	$57.28
06/14/01	$64.71	$7.97	$56.74
06/15/01	$63.80	$7.97	$55.83
06/18/01	$63.65	$7.97	$55.68
06/19/01	$63.82	$7.97	$55.85
06/20/01	$64.61	$7.97	$56.64
06/21/01	$66.71	$7.97	$58.74
06/22/01	$67.01	$7.97	$59.04
06/25/01	$65.95	$7.97	$57.98
06/26/01	$65.14	$7.97	$57.17
06/27/01	$65.70	$7.97	$57.73
06/28/01	$65.98	$7.97	$58.01
06/29/01	$66.70	$7.97	$58.73
07/02/01	$66.60	$7.97	$58.63
07/03/01	$66.23	$7.97	$58.26
07/05/01	$66.95	$7.97	$58.98
07/06/01	$66.54	$7.97	$58.57
07/09/01	$66.48	$7.97	$58.51
07/10/01	$65.55	$7.97	$57.58
07/11/01	$65.24	$7.97	$57.27
07/12/01	$66.40	$7.97	$58.43
07/13/01	$67.16	$7.97	$59.19
07/16/01	$68.11	$7.97	$60.14
07/17/01	$68.95	$7.97	$60.98
07/18/01	$69.48	$7.97	$61.51
07/19/01	$66.50	$7.97	$58.53
07/20/01	$67.28	$7.97	$59.31
07/23/01	$67.50	$7.97	$59.53
07/24/01	$67.01	$7.97	$59.04
07/25/01	$66.76	$7.97	$58.79
07/26/01	$65.38	$7.97	$57.41
07/27/01	$66.18	$7.97	$58.21
07/30/01	$66.09	$7.97	$58.12
07/31/01	$66.29	$7.97	$58.32
08/01/01	$65.75	$7.97	$57.78
08/02/01	$66.00	$7.97	$58.03
08/03/01	$65.99	$7.97	$58.02
08/06/01	$65.71	$7.97	$57.74
08/07/01	$66.44	$7.97	$58.47
08/08/01	$65.86	$7.97	$57.89
08/09/01	$66.24	$7.97	$58.27
08/10/01	$67.13	$7.97	$59.16
08/13/01	$68.01	$7.97	$60.04
08/14/01	$68.00	$7.97	$60.03
08/15/01	$67.95	$7.97	$59.98

Household International, Inc. Common Stock
Estimate of Alleged Artificial Inflation
For Quantification Using Specific Disclosures

Date	Stock Price	Artificial Inflation	True Value
08/16/01	$66.87	$7.97	$58.90
08/17/01	$65.99	$7.97	$58.02
08/20/01	$65.50	$7.97	$57.53
08/21/01	$64.86	$7.97	$56.89
08/22/01	$65.48	$7.97	$57.51
08/23/01	$64.72	$7.97	$56.75
08/24/01	$62.35	$7.97	$54.38
08/27/01	$61.96	$7.97	$53.99
08/28/01	$61.34	$7.97	$53.37
08/29/01	$60.70	$7.97	$52.73
08/30/01	$59.31	$7.97	$51.34
08/31/01	$59.10	$7.97	$51.13
09/04/01	$57.06	$7.97	$49.09
09/05/01	$57.22	$7.97	$49.25
09/06/01	$57.00	$7.97	$49.03
09/07/01	$55.04	$7.97	$47.07
09/10/01	$56.31	$7.97	$48.34
09/17/01	$52.83	$7.97	$44.86
09/18/01	$52.64	$7.97	$44.67
09/19/01	$52.30	$7.97	$44.33
09/20/01	$51.46	$7.97	$43.49
09/21/01	$50.34	$7.97	$42.37
09/24/01	$52.85	$7.97	$44.88
09/25/01	$52.08	$7.97	$44.11
09/26/01	$53.60	$7.97	$45.63
09/27/01	$54.49	$7.97	$46.52
09/28/01	$56.38	$7.97	$48.41
10/01/01	$57.50	$7.97	$49.53
10/02/01	$57.83	$7.97	$49.86
10/03/01	$58.20	$7.97	$50.23
10/04/01	$59.63	$7.97	$51.66
10/05/01	$58.35	$7.97	$50.38
10/08/01	$56.50	$7.97	$48.53
10/09/01	$56.59	$7.97	$48.62
10/10/01	$58.22	$7.97	$50.25
10/11/01	$56.95	$7.97	$48.98
10/12/01	$54.89	$7.97	$46.92
10/15/01	$55.91	$7.97	$47.94
10/16/01	$56.00	$7.97	$48.03
10/17/01	$57.16	$7.97	$49.19
10/18/01	$57.53	$7.97	$49.56
10/19/01	$56.91	$7.97	$48.94
10/22/01	$56.92	$7.97	$48.95
10/23/01	$57.25	$7.97	$49.28
10/24/01	$55.44	$7.97	$47.47
10/25/01	$57.19	$7.97	$49.22
10/26/01	$57.48	$7.97	$49.51

Household International, Inc. Common Stock
Estimate of Alleged Artificial Inflation
For Quantification Using Specific Disclosures

Date	Stock Price	Artificial Inflation	True Value
10/29/01	$54.49	$7.97	$46.52
10/30/01	$53.52	$7.97	$45.55
10/31/01	$52.30	$7.97	$44.33
11/01/01	$52.90	$7.97	$44.93
11/02/01	$52.76	$7.97	$44.79
11/05/01	$53.75	$7.97	$45.78
11/06/01	$56.53	$7.97	$48.56
11/07/01	$58.72	$7.97	$50.75
11/08/01	$57.79	$7.97	$49.82
11/09/01	$57.98	$7.97	$50.01
11/12/01	$58.21	$7.97	$50.24
11/13/01	$60.00	$7.97	$52.03
11/14/01	$60.90	$7.97	$52.93
11/15/01	$58.90	$6.11	$52.79
11/16/01	$57.80	$6.11	$51.69
11/19/01	$58.75	$6.11	$52.64
11/20/01	$58.37	$6.11	$52.26
11/21/01	$58.56	$6.11	$52.45
11/23/01	$59.62	$6.11	$53.51
11/26/01	$60.18	$6.11	$54.07
11/27/01	$60.76	$6.11	$54.65
11/28/01	$60.34	$6.11	$54.23
11/29/01	$59.80	$6.11	$53.69
11/30/01	$58.99	$6.11	$52.88
12/03/01	$56.29	$4.20	$52.09
12/04/01	$58.23	$4.20	$54.03
12/05/01	$61.00	$6.05	$54.95
12/06/01	$60.66	$6.05	$54.61
12/07/01	$59.66	$6.05	$53.61
12/10/01	$57.60	$6.05	$51.55
12/11/01	$56.66	$6.05	$50.61
12/12/01	$54.15	$3.66	$50.49
12/13/01	$54.23	$3.66	$50.57
12/14/01	$53.35	$3.66	$49.69
12/17/01	$54.57	$3.66	$50.91
12/18/01	$56.12	$3.66	$52.46
12/19/01	$56.87	$3.66	$53.21
12/20/01	$56.50	$3.66	$52.84
12/21/01	$55.90	$3.66	$52.24
12/24/01	$56.09	$3.66	$52.43
12/26/01	$56.38	$3.66	$52.72
12/27/01	$57.83	$3.66	$54.17
12/28/01	$58.88	$3.66	$55.22
12/31/01	$57.94	$3.66	$54.28
01/02/02	$57.09	$3.66	$53.43
01/03/02	$57.05	$3.66	$53.39
01/04/02	$59.19	$3.66	$55.53

Household International, Inc. Common Stock
Estimate of Alleged Artificial Inflation
For Quantification Using Specific Disclosures

Date	Stock Price	Artificial Inflation	True Value
01/07/02	$58.10	$3.66	$54.44
01/08/02	$56.74	$3.66	$53.08
01/09/02	$57.10	$3.66	$53.44
01/10/02	$56.54	$3.66	$52.88
01/11/02	$54.38	$3.66	$50.72
01/14/02	$52.78	$3.66	$49.12
01/15/02	$55.20	$3.66	$51.54
01/16/02	$54.45	$3.66	$50.79
01/17/02	$53.76	$3.66	$50.10
01/18/02	$54.85	$3.66	$51.19
01/22/02	$54.05	$3.66	$50.39
01/23/02	$53.35	$3.66	$49.69
01/24/02	$53.75	$3.66	$50.09
01/25/02	$54.71	$3.66	$51.05
01/28/02	$52.85	$3.66	$49.19
01/29/02	$49.85	$3.66	$46.19
01/30/02	$49.35	$3.66	$45.69
01/31/02	$51.24	$3.66	$47.58
02/01/02	$51.10	$3.66	$47.44
02/04/02	$48.80	$3.66	$45.14
02/05/02	$47.53	$3.66	$43.87
02/06/02	$44.71	$3.66	$41.05
02/07/02	$48.01	$3.66	$44.35
02/08/02	$52.00	$3.66	$48.34
02/11/02	$51.45	$3.66	$47.79
02/12/02	$50.80	$3.66	$47.14
02/13/02	$52.15	$3.66	$48.49
02/14/02	$51.92	$3.66	$48.26
02/15/02	$50.89	$3.66	$47.23
02/19/02	$50.35	$3.66	$46.69
02/20/02	$50.65	$3.66	$46.99
02/21/02	$48.50	$3.66	$44.84
02/22/02	$48.65	$3.66	$44.99
02/25/02	$49.58	$3.66	$45.92
02/26/02	$49.98	$3.66	$46.32
02/27/02	$52.08	$5.30	$46.78
02/28/02	$51.50	$5.30	$46.20
03/01/02	$53.00	$5.30	$47.70
03/04/02	$57.25	$5.30	$51.95
03/05/02	$56.28	$5.30	$50.98
03/06/02	$57.77	$5.30	$52.47
03/07/02	$58.36	$5.30	$53.06
03/08/02	$59.90	$5.30	$54.60
03/11/02	$59.73	$5.30	$54.43
03/12/02	$59.16	$5.30	$53.86
03/13/02	$58.40	$5.30	$53.10
03/14/02	$57.48	$5.30	$52.18

Household International, Inc. Common Stock
Estimate of Alleged Artificial Inflation
For Quantification Using Specific Disclosures

Date	Stock Price	Artificial Inflation	True Value
03/15/02	$58.95	$5.30	$53.65
03/18/02	$58.98	$5.30	$53.68
03/19/02	$58.98	$5.30	$53.68
03/20/02	$57.61	$5.30	$52.31
03/21/02	$57.90	$5.30	$52.60
03/22/02	$58.14	$5.30	$52.84
03/25/02	$56.30	$5.30	$51.00
03/26/02	$57.00	$5.30	$51.70
03/27/02	$57.50	$5.30	$52.20
03/28/02	$56.80	$5.30	$51.50
04/01/02	$57.03	$5.30	$51.73
04/02/02	$57.05	$5.30	$51.75
04/03/02	$55.75	$5.30	$50.45
04/04/02	$56.83	$5.30	$51.53
04/05/02	$57.98	$5.30	$52.68
04/08/02	$59.06	$5.30	$53.76
04/09/02	$59.25	$5.30	$53.95
04/10/02	$59.35	$5.30	$54.05
04/11/02	$57.05	$5.30	$51.75
04/12/02	$58.10	$5.30	$52.80
04/15/02	$57.48	$5.30	$52.18
04/16/02	$59.52	$5.30	$54.22
04/17/02	$60.70	$5.30	$55.40
04/18/02	$61.20	$5.30	$55.90
04/19/02	$62.44	$5.30	$57.14
04/22/02	$60.90	$5.30	$55.60
04/23/02	$61.80	$5.30	$56.50
04/24/02	$61.36	$5.30	$56.06
04/25/02	$59.18	$5.30	$53.88
04/26/02	$59.60	$5.30	$54.30
04/29/02	$57.25	$5.30	$51.95
04/30/02	$58.29	$5.30	$52.99
05/01/02	$57.70	$5.30	$52.40
05/02/02	$57.43	$5.30	$52.13
05/03/02	$57.00	$5.30	$51.70
05/06/02	$55.68	$5.30	$50.38
05/07/02	$54.75	$5.30	$49.45
05/08/02	$57.11	$5.30	$51.81
05/09/02	$56.29	$5.30	$50.99
05/10/02	$54.25	$5.30	$48.95
05/13/02	$55.82	$5.30	$50.52
05/14/02	$56.85	$5.30	$51.55
05/15/02	$55.47	$5.30	$50.17
05/16/02	$55.00	$5.30	$49.70
05/17/02	$54.31	$5.30	$49.01
05/20/02	$53.51	$5.30	$48.21
05/21/02	$52.69	$5.30	$47.39

Household International, Inc. Common Stock
Estimate of Alleged Artificial Inflation
For Quantification Using Specific Disclosures

Date	Stock Price	Artificial Inflation	True Value
05/22/02	$52.85	$5.30	$47.55
05/23/02	$53.27	$5.30	$47.97
05/24/02	$53.07	$5.30	$47.77
05/28/02	$52.85	$5.30	$47.55
05/29/02	$52.80	$5.30	$47.50
05/30/02	$51.65	$5.30	$46.35
05/31/02	$51.15	$5.30	$45.85
06/03/02	$50.94	$5.30	$45.64
06/04/02	$50.69	$5.30	$45.39
06/05/02	$52.19	$5.30	$46.89
06/06/02	$53.60	$5.30	$48.30
06/07/02	$52.87	$5.30	$47.57
06/10/02	$52.59	$5.30	$47.29
06/11/02	$52.99	$5.30	$47.69
06/12/02	$52.48	$5.30	$47.18
06/13/02	$50.30	$5.30	$45.00
06/14/02	$50.80	$5.30	$45.50
06/17/02	$52.74	$5.30	$47.44
06/18/02	$52.75	$5.30	$47.45
06/19/02	$51.55	$5.30	$46.25
06/20/02	$49.80	$5.30	$44.50
06/21/02	$49.68	$5.30	$44.38
06/24/02	$50.00	$5.30	$44.70
06/25/02	$49.00	$5.30	$43.70
06/26/02	$48.65	$5.30	$43.35
06/27/02	$49.90	$5.30	$44.60
06/28/02	$49.70	$5.30	$44.40
07/01/02	$47.93	$5.30	$42.63
07/02/02	$47.60	$5.30	$42.30
07/03/02	$48.05	$5.30	$42.75
07/05/02	$50.00	$5.30	$44.70
07/08/02	$49.54	$5.30	$44.24
07/09/02	$47.05	$5.30	$41.75
07/10/02	$44.07	$5.30	$38.77
07/11/02	$45.00	$5.30	$39.70
07/12/02	$46.30	$5.30	$41.00
07/15/02	$45.67	$5.30	$40.37
07/16/02	$46.10	$5.30	$40.80
07/17/02	$42.37	$5.30	$37.07
07/18/02	$42.41	$5.30	$37.11
07/19/02	$40.72	$5.30	$35.42
07/22/02	$38.84	$5.30	$33.54
07/23/02	$36.29	$5.30	$30.99
07/24/02	$39.97	$5.30	$34.67
07/25/02	$38.80	$5.30	$33.50
07/26/02	$37.66	$3.10	$34.56
07/29/02	$39.85	$3.10	$36.75

Household International, Inc. Common Stock
Estimate of Alleged Artificial Inflation
For Quantification Using Specific Disclosures

Date	Stock Price	Artificial Inflation	True Value
07/30/02	$40.30	$3.10	$37.20
07/31/02	$42.67	$3.10	$39.57
08/01/02	$41.26	$3.10	$38.16
08/02/02	$39.45	$3.10	$36.35
08/05/02	$36.98	$3.10	$33.88
08/06/02	$39.72	$3.10	$36.62
08/07/02	$38.28	$3.10	$35.18
08/08/02	$40.96	$3.10	$37.86
08/09/02	$40.45	$3.10	$37.35
08/12/02	$39.70	$3.10	$36.60
08/13/02	$37.80	$3.10	$34.70
08/14/02	$38.09	$2.16	$35.93
08/15/02	$39.60	$2.16	$37.44
08/16/02	$37.54	$0.32	$37.22
08/19/02	$37.75	$0.32	$37.43
08/20/02	$36.75	$0.32	$36.43
08/21/02	$37.15	$0.32	$36.83
08/22/02	$40.65	$0.32	$40.33
08/23/02	$37.80	$0.32	$37.48
08/26/02	$39.08	$0.32	$38.76
08/27/02	$37.70	-$0.88	$38.58
08/28/02	$36.80	-$0.88	$37.68
08/29/02	$36.38	-$0.88	$37.26
08/30/02	$36.11	-$0.88	$36.99
09/03/02	$33.36	-$2.09	$35.45
09/04/02	$34.40	-$2.09	$36.49
09/05/02	$33.36	-$2.09	$35.45
09/06/02	$33.95	-$2.09	$36.04
09/09/02	$36.33	-$2.09	$38.42
09/10/02	$35.15	-$2.09	$37.24
09/11/02	$35.43	-$2.09	$37.52
09/12/02	$33.85	-$2.09	$35.94
09/13/02	$34.67	-$2.09	$36.76
09/16/02	$33.59	-$2.09	$35.68
09/17/02	$29.52	-$2.09	$31.61
09/18/02	$29.85	-$2.09	$31.94
09/19/02	$29.25	-$2.09	$31.34
09/20/02	$29.05	-$2.09	$31.14
09/23/02	$27.61	-$3.62	$31.23
09/24/02	$27.55	-$3.62	$31.17
09/25/02	$28.15	-$3.62	$31.77
09/26/02	$29.28	-$3.62	$32.90
09/27/02	$27.64	-$3.62	$31.26
09/30/02	$28.31	-$3.62	$31.93
10/01/02	$28.40	-$3.62	$32.02
10/02/02	$27.32	-$3.62	$30.94
10/03/02	$26.60	-$3.62	$30.22

Household International, Inc. Common Stock
Estimate of Alleged Artificial Inflation
For Quantification Using Specific Disclosures

Date	Stock Price	Artificial Inflation	True Value
10/04/02	$24.66	-$4.88	$29.54
10/07/02	$23.25	-$4.88	$28.13
10/08/02	$23.58	-$4.88	$28.46
10/09/02	$21.00	-$4.88	$25.88
10/10/02	$26.30	-$0.68	$26.98
10/11/02	$28.20	$0.00	$28.20

Exhibit 56

Household International, Inc. Common Stock
Estimate of Alleged Artificial Inflation
For Quantification Including Leakage

Date	Stock Price	True Value	Artificial Inflation
07/30/99	$42.94	$25.13	$17.81
08/02/99	$41.88	$24.51	$17.37
08/03/99	$40.00	$23.41	$16.59
08/04/99	$40.31	$23.59	$16.72
08/05/99	$40.56	$23.74	$16.82
08/06/99	$40.25	$23.56	$16.69
08/09/99	$40.88	$23.92	$16.95
08/10/99	$39.50	$23.12	$16.38
08/11/99	$40.25	$23.56	$16.69
08/12/99	$40.19	$23.52	$16.67
08/13/99	$40.75	$23.85	$16.90
08/16/99	$39.75	$23.27	$16.48
08/17/99	$41.50	$24.29	$17.21
08/18/99	$42.00	$24.58	$17.42
08/19/99	$41.69	$24.40	$17.29
08/20/99	$41.88	$24.51	$17.37
08/23/99	$42.94	$25.13	$17.81
08/24/99	$42.44	$24.84	$17.60
08/25/99	$41.19	$24.11	$17.08
08/26/99	$39.81	$23.30	$16.51
08/27/99	$37.81	$22.13	$15.68
08/30/99	$37.44	$21.91	$15.53
08/31/99	$37.75	$22.10	$15.65
09/01/99	$39.56	$23.16	$16.41
09/02/99	$38.50	$22.53	$15.97
09/03/99	$39.94	$23.38	$16.56
09/07/99	$39.94	$23.38	$16.56
09/08/99	$39.56	$23.16	$16.41
09/09/99	$39.88	$23.34	$16.54
09/10/99	$40.63	$23.78	$16.85
09/13/99	$41.50	$24.29	$17.21
09/14/99	$41.13	$24.07	$17.05
09/15/99	$40.44	$23.67	$16.77
09/16/99	$40.25	$23.56	$16.69
09/17/99	$41.13	$24.07	$17.05
09/20/99	$41.75	$24.44	$17.31
09/21/99	$40.50	$23.70	$16.80
09/22/99	$41.44	$24.25	$17.18
09/23/99	$40.00	$23.41	$16.59
09/24/99	$39.44	$23.08	$16.35
09/27/99	$40.38	$23.63	$16.74
09/28/99	$39.69	$23.16	$16.53
09/29/99	$40.63	$23.71	$16.92
09/30/99	$40.13	$23.41	$16.71
10/01/99	$39.38	$22.98	$16.40
10/04/99	$40.44	$23.60	$16.84
10/05/99	$41.06	$23.96	$17.10

Household International, Inc. Common Stock
Estimate of Alleged Artificial Inflation
For Quantification Including Leakage

Date	Stock Price	True Value	Artificial Inflation
10/06/99	$42.88	$25.02	$17.86
10/07/99	$42.38	$24.73	$17.65
10/08/99	$44.31	$25.86	$18.46
10/11/99	$42.69	$24.91	$17.78
10/12/99	$41.69	$24.33	$17.36
10/13/99	$39.75	$23.19	$16.56
10/14/99	$38.94	$22.72	$16.22
10/15/99	$37.00	$21.59	$15.41
10/18/99	$37.88	$22.10	$15.77
10/19/99	$38.94	$22.72	$16.22
10/20/99	$39.56	$23.09	$16.48
10/21/99	$39.00	$22.76	$16.24
10/22/99	$39.75	$23.19	$16.56
10/25/99	$38.88	$22.68	$16.19
10/26/99	$39.06	$22.79	$16.27
10/27/99	$41.56	$24.25	$17.31
10/28/99	$45.69	$26.66	$19.03
10/29/99	$44.63	$26.04	$18.59
11/01/99	$45.00	$26.26	$18.74
11/02/99	$45.31	$26.44	$18.87
11/03/99	$44.56	$26.00	$18.56
11/04/99	$45.63	$26.62	$19.00
11/05/99	$46.06	$26.88	$19.18
11/08/99	$44.63	$26.04	$18.59
11/09/99	$43.06	$25.13	$17.94
11/10/99	$42.56	$24.84	$17.73
11/11/99	$41.31	$24.11	$17.21
11/12/99	$44.13	$25.75	$18.38
11/15/99	$44.13	$25.75	$18.38
11/16/99	$45.13	$26.33	$18.79
11/17/99	$43.25	$25.24	$18.01
11/18/99	$42.50	$24.80	$17.70
11/19/99	$41.88	$24.43	$17.44
11/22/99	$41.25	$24.07	$17.18
11/23/99	$40.94	$23.89	$17.05
11/24/99	$40.38	$23.56	$16.82
11/26/99	$40.25	$23.49	$16.76
11/29/99	$39.38	$22.98	$16.40
11/30/99	$39.56	$23.08	$16.48
12/01/99	$39.56	$23.08	$16.48
12/02/99	$40.31	$23.52	$16.79
12/03/99	$41.00	$23.92	$17.08
12/06/99	$39.50	$23.05	$16.45
12/07/99	$38.25	$22.32	$15.93
12/08/99	$38.69	$22.57	$16.11
12/09/99	$39.50	$23.05	$16.45
12/10/99	$39.06	$22.79	$16.27

Household International, Inc. Common Stock
Estimate of Alleged Artificial Inflation
For Quantification Including Leakage

Date	Stock Price	True Value	Artificial Inflation
12/13/99	$38.25	$22.32	$15.93
12/14/99	$37.94	$22.14	$15.80
12/15/99	$37.63	$21.95	$15.67
12/16/99	$38.31	$22.35	$15.96
12/17/99	$38.13	$22.25	$15.88
12/20/99	$37.94	$22.14	$15.80
12/21/99	$37.25	$21.73	$15.52
12/22/99	$36.63	$21.37	$15.25
12/23/99	$37.50	$21.88	$15.62
12/27/99	$36.88	$21.52	$15.36
12/28/99	$36.19	$21.11	$15.07
12/29/99	$35.94	$20.90	$15.04
12/30/99	$36.56	$21.26	$15.30
12/31/99	$37.25	$21.66	$15.59
01/03/00	$34.69	$20.17	$14.52
01/04/00	$35.00	$20.35	$14.65
01/05/00	$34.38	$19.99	$14.39
01/06/00	$36.00	$20.93	$15.07
01/07/00	$36.38	$21.15	$15.22
01/10/00	$36.50	$21.23	$15.27
01/11/00	$36.00	$20.93	$15.07
01/12/00	$36.75	$21.37	$15.38
01/13/00	$37.69	$21.92	$15.77
01/14/00	$37.31	$21.70	$15.61
01/18/00	$36.50	$21.23	$15.27
01/19/00	$36.81	$21.41	$15.41
01/20/00	$36.00	$20.93	$15.07
01/21/00	$35.63	$20.72	$14.91
01/24/00	$34.50	$20.06	$14.44
01/25/00	$33.94	$19.73	$14.20
01/26/00	$35.63	$20.72	$14.91
01/27/00	$35.69	$20.75	$14.94
01/28/00	$34.19	$19.88	$14.31
01/31/00	$35.25	$20.50	$14.75
02/01/00	$35.25	$20.50	$14.75
02/02/00	$36.13	$21.01	$15.12
02/03/00	$35.63	$20.72	$14.91
02/04/00	$35.38	$20.57	$14.80
02/07/00	$35.06	$20.39	$14.67
02/08/00	$35.75	$20.79	$14.96
02/09/00	$33.88	$19.70	$14.18
02/10/00	$33.88	$19.70	$14.18
02/11/00	$31.88	$18.54	$13.34
02/14/00	$31.31	$18.21	$13.10
02/15/00	$32.94	$19.15	$13.78
02/16/00	$30.88	$17.95	$12.92
02/17/00	$31.69	$18.43	$13.26

Household International, Inc. Common Stock
Estimate of Alleged Artificial Inflation
For Quantification Including Leakage

Date	Stock Price	True Value	Artificial Inflation
02/18/00	$30.88	$17.95	$12.92
02/22/00	$31.06	$18.06	$13.00
02/23/00	$30.69	$17.85	$12.84
02/24/00	$30.63	$17.81	$12.82
02/25/00	$30.88	$17.95	$12.92
02/28/00	$31.88	$18.54	$13.34
02/29/00	$31.94	$18.57	$13.37
03/01/00	$33.25	$19.34	$13.91
03/02/00	$35.13	$20.43	$14.70
03/03/00	$36.63	$21.30	$15.33
03/06/00	$34.81	$20.24	$14.57
03/07/00	$32.88	$19.12	$13.76
03/08/00	$31.81	$18.50	$13.31
03/09/00	$32.44	$18.86	$13.57
03/10/00	$32.75	$19.04	$13.71
03/13/00	$32.44	$18.86	$13.57
03/14/00	$32.13	$18.68	$13.44
03/15/00	$34.25	$19.92	$14.33
03/16/00	$36.81	$21.41	$15.41
03/17/00	$36.88	$21.44	$15.43
03/20/00	$35.56	$20.68	$14.88
03/21/00	$37.88	$22.02	$15.85
03/22/00	$37.75	$21.95	$15.80
03/23/00	$38.88	$22.61	$16.27
03/24/00	$37.94	$22.06	$15.88
03/27/00	$36.13	$21.01	$15.12
03/28/00	$36.69	$21.33	$15.35
03/29/00	$36.50	$21.15	$15.35
03/30/00	$36.38	$21.08	$15.29
03/31/00	$37.31	$21.62	$15.69
04/03/00	$39.13	$22.68	$16.45
04/04/00	$38.13	$22.10	$16.03
04/05/00	$39.06	$22.64	$16.42
04/06/00	$40.38	$23.40	$16.98
04/07/00	$38.88	$22.53	$16.34
04/10/00	$40.00	$23.18	$16.82
04/11/00	$40.63	$23.54	$17.08
04/12/00	$44.00	$25.50	$18.50
04/13/00	$42.06	$24.38	$17.68
04/14/00	$38.06	$22.06	$16.00
04/17/00	$39.63	$22.97	$16.66
04/18/00	$39.69	$23.00	$16.69
04/19/00	$39.94	$23.15	$16.79
04/20/00	$41.81	$24.23	$17.58
04/24/00	$43.38	$25.14	$18.24
04/25/00	$44.69	$25.90	$18.79
04/26/00	$43.63	$25.28	$18.34

Household International, Inc. Common Stock
Estimate of Alleged Artificial Inflation
For Quantification Including Leakage

Date	Stock Price	True Value	Artificial Inflation
04/27/00	$42.00	$24.34	$17.66
04/28/00	$41.75	$24.20	$17.55
05/01/00	$42.00	$24.34	$17.66
05/02/00	$42.06	$24.38	$17.68
05/03/00	$40.75	$23.62	$17.13
05/04/00	$39.13	$22.68	$16.45
05/05/00	$39.75	$23.04	$16.71
05/08/00	$41.13	$23.83	$17.29
05/09/00	$40.25	$23.33	$16.92
05/10/00	$39.38	$22.82	$16.55
05/11/00	$39.94	$23.15	$16.79
05/12/00	$40.38	$23.40	$16.98
05/15/00	$41.94	$24.31	$17.63
05/16/00	$42.81	$24.81	$18.00
05/17/00	$41.69	$24.16	$17.53
05/18/00	$42.81	$24.81	$18.00
05/19/00	$41.44	$24.02	$17.42
05/22/00	$41.88	$24.27	$17.61
05/23/00	$43.00	$24.92	$18.08
05/24/00	$45.75	$26.52	$19.23
05/25/00	$45.38	$26.30	$19.08
05/26/00	$45.38	$26.30	$19.08
05/30/00	$46.56	$26.99	$19.58
05/31/00	$47.00	$27.24	$19.76
06/01/00	$47.13	$27.31	$19.81
06/02/00	$47.00	$27.24	$19.76
06/05/00	$47.13	$27.31	$19.81
06/06/00	$46.38	$26.88	$19.50
06/07/00	$47.25	$27.38	$19.87
06/08/00	$46.19	$26.77	$19.42
06/09/00	$44.44	$25.75	$18.68
06/12/00	$43.56	$25.25	$18.32
06/13/00	$44.69	$25.90	$18.79
06/14/00	$45.38	$26.30	$19.08
06/15/00	$43.06	$24.96	$18.10
06/16/00	$42.44	$24.60	$17.84
06/19/00	$42.75	$24.78	$17.97
06/20/00	$43.94	$25.46	$18.47
06/21/00	$44.06	$25.54	$18.53
06/22/00	$43.19	$25.03	$18.16
06/23/00	$42.13	$24.41	$17.71
06/26/00	$42.13	$24.41	$17.71
06/27/00	$41.81	$24.23	$17.58
06/28/00	$42.81	$24.73	$18.08
06/29/00	$43.00	$24.84	$18.16
06/30/00	$41.56	$24.01	$17.55
07/03/00	$41.88	$24.19	$17.68

Household International, Inc. Common Stock
Estimate of Alleged Artificial Inflation
For Quantification Including Leakage

Date	Stock Price	True Value	Artificial Inflation
07/05/00	$42.00	$24.26	$17.74
07/06/00	$41.63	$24.05	$17.58
07/07/00	$42.75	$24.70	$18.05
07/10/00	$42.69	$24.66	$18.03
07/11/00	$43.50	$25.13	$18.37
07/12/00	$43.94	$25.38	$18.55
07/13/00	$44.00	$25.42	$18.58
07/14/00	$44.88	$25.92	$18.95
07/17/00	$42.81	$24.73	$18.08
07/18/00	$43.44	$25.09	$18.34
07/19/00	$45.25	$26.14	$19.11
07/20/00	$46.38	$26.79	$19.58
07/21/00	$45.81	$26.47	$19.35
07/24/00	$45.94	$26.54	$19.40
07/25/00	$45.50	$26.29	$19.21
07/26/00	$44.25	$25.56	$18.69
07/27/00	$44.69	$25.82	$18.87
07/28/00	$43.75	$25.28	$18.47
07/31/00	$44.56	$25.74	$18.82
08/01/00	$44.56	$25.74	$18.82
08/02/00	$44.44	$25.67	$18.77
08/03/00	$46.63	$26.94	$19.69
08/04/00	$49.63	$28.67	$20.96
08/07/00	$49.88	$28.81	$21.06
08/08/00	$50.00	$28.89	$21.11
08/09/00	$48.88	$28.24	$20.64
08/10/00	$48.19	$27.84	$20.35
08/11/00	$49.06	$28.34	$20.72
08/14/00	$49.19	$28.42	$20.77
08/15/00	$47.88	$27.66	$20.22
08/16/00	$46.75	$27.01	$19.74
08/17/00	$46.38	$26.79	$19.58
08/18/00	$46.94	$27.12	$19.82
08/21/00	$46.63	$26.94	$19.69
08/22/00	$47.31	$27.33	$19.98
08/23/00	$47.25	$27.30	$19.95
08/24/00	$47.44	$27.41	$20.03
08/25/00	$47.75	$27.59	$20.16
08/28/00	$48.25	$27.88	$20.37
08/29/00	$48.00	$27.73	$20.27
08/30/00	$48.00	$27.73	$20.27
08/31/00	$48.00	$27.73	$20.27
09/01/00	$47.38	$27.37	$20.01
09/05/00	$47.63	$27.51	$20.11
09/06/00	$50.19	$28.99	$21.19
09/07/00	$50.56	$29.21	$21.35
09/08/00	$52.44	$30.29	$22.14

Household International, Inc. Common Stock
Estimate of Alleged Artificial Inflation
For Quantification Including Leakage

Date	Stock Price	True Value	Artificial Inflation
09/11/00	$51.63	$29.83	$21.80
09/12/00	$51.13	$29.54	$21.59
09/13/00	$51.25	$29.61	$21.64
09/14/00	$51.00	$29.46	$21.54
09/15/00	$50.50	$29.18	$21.32
09/18/00	$50.75	$29.32	$21.43
09/19/00	$51.56	$29.79	$21.77
09/20/00	$52.31	$30.22	$22.09
09/21/00	$52.88	$30.55	$22.33
09/22/00	$52.00	$30.04	$21.96
09/25/00	$53.38	$30.84	$22.54
09/26/00	$54.13	$31.27	$22.86
09/27/00	$54.69	$31.51	$23.17
09/28/00	$56.44	$32.52	$23.91
09/29/00	$56.63	$32.69	$23.94
10/02/00	$55.19	$31.80	$23.39
10/03/00	$55.63	$32.05	$23.57
10/04/00	$54.88	$31.62	$23.25
10/05/00	$55.69	$32.09	$23.60
10/06/00	$52.63	$30.33	$22.30
10/09/00	$52.19	$30.07	$22.11
10/10/00	$49.50	$28.52	$20.98
10/11/00	$47.94	$27.62	$20.31
10/12/00	$46.25	$26.65	$19.60
10/13/00	$47.56	$27.41	$20.15
10/16/00	$49.13	$28.31	$20.82
10/17/00	$47.50	$27.37	$20.13
10/18/00	$48.75	$28.09	$20.66
10/19/00	$50.63	$29.17	$21.45
10/20/00	$50.44	$29.07	$21.37
10/23/00	$49.19	$28.35	$20.84
10/24/00	$50.25	$28.96	$21.29
10/25/00	$49.50	$28.52	$20.98
10/26/00	$47.44	$27.34	$20.10
10/27/00	$47.50	$27.37	$20.13
10/30/00	$49.38	$28.45	$20.92
10/31/00	$50.31	$28.99	$21.32
11/01/00	$49.63	$28.60	$21.03
11/02/00	$51.50	$29.68	$21.82
11/03/00	$51.50	$29.68	$21.82
11/06/00	$52.50	$30.25	$22.25
11/07/00	$51.88	$29.89	$21.98
11/08/00	$51.63	$29.75	$21.88
11/09/00	$50.50	$29.10	$21.40
11/10/00	$50.75	$29.24	$21.51
11/13/00	$49.13	$28.31	$20.82
11/14/00	$49.00	$28.24	$20.76

Household International, Inc. Common Stock
Estimate of Alleged Artificial Inflation
For Quantification Including Leakage

Date	Stock Price	True Value	Artificial Inflation
11/15/00	$49.31	$28.42	$20.90
11/16/00	$49.13	$28.31	$20.82
11/17/00	$48.19	$27.77	$20.42
11/20/00	$45.75	$26.36	$19.39
11/21/00	$46.25	$26.65	$19.60
11/22/00	$44.06	$25.39	$18.67
11/24/00	$45.31	$26.11	$19.20
11/27/00	$46.50	$26.80	$19.70
11/28/00	$48.38	$27.88	$20.50
11/29/00	$50.13	$28.89	$21.24
11/30/00	$49.88	$28.74	$21.13
12/01/00	$49.56	$28.56	$21.00
12/04/00	$48.38	$27.88	$20.50
12/05/00	$50.19	$28.92	$21.27
12/06/00	$50.75	$29.25	$21.50
12/07/00	$51.81	$29.86	$21.95
12/08/00	$53.06	$30.58	$22.48
12/11/00	$52.63	$30.33	$22.30
12/12/00	$51.94	$29.93	$22.01
12/13/00	$50.94	$29.35	$21.58
12/14/00	$50.94	$29.35	$21.58
12/15/00	$50.25	$28.96	$21.29
12/18/00	$52.00	$29.97	$22.03
12/19/00	$53.63	$30.90	$22.72
12/20/00	$51.94	$29.93	$22.01
12/21/00	$52.44	$30.22	$22.22
12/22/00	$52.44	$30.22	$22.22
12/26/00	$53.25	$30.69	$22.56
12/27/00	$54.31	$31.22	$23.09
12/28/00	$55.94	$32.15	$23.79
12/29/00	$55.00	$31.61	$23.39
01/02/01	$53.69	$30.86	$22.83
01/03/01	$58.00	$34.06	$23.94
01/04/01	$57.13	$33.19	$23.94
01/05/01	$54.88	$31.54	$23.33
01/08/01	$54.06	$31.07	$22.99
01/09/01	$52.88	$30.39	$22.48
01/10/01	$52.81	$30.36	$22.46
01/11/01	$53.44	$30.71	$22.72
01/12/01	$53.69	$30.86	$22.83
01/16/01	$55.19	$31.72	$23.47
01/17/01	$56.31	$32.37	$23.94
01/18/01	$54.88	$31.54	$23.33
01/19/01	$54.50	$31.33	$23.17
01/22/01	$53.75	$30.89	$22.86
01/23/01	$55.50	$31.90	$23.60
01/24/01	$56.63	$32.69	$23.94

Household International, Inc. Common Stock
Estimate of Alleged Artificial Inflation
For Quantification Including Leakage

Date	Stock Price	True Value	Artificial Inflation
01/25/01	$56.69	$32.75	$23.94
01/26/01	$57.50	$33.56	$23.94
01/29/01	$59.10	$35.16	$23.94
01/30/01	$58.59	$34.65	$23.94
01/31/01	$57.48	$33.54	$23.94
02/01/01	$58.92	$34.98	$23.94
02/02/01	$58.80	$34.86	$23.94
02/05/01	$58.98	$35.04	$23.94
02/06/01	$58.11	$34.17	$23.94
02/07/01	$59.20	$35.26	$23.94
02/08/01	$58.78	$34.84	$23.94
02/09/01	$59.20	$35.26	$23.94
02/12/01	$60.33	$36.39	$23.94
02/13/01	$60.25	$36.31	$23.94
02/14/01	$59.45	$35.51	$23.94
02/15/01	$58.26	$34.32	$23.94
02/16/01	$59.09	$35.15	$23.94
02/20/01	$57.53	$33.59	$23.94
02/21/01	$55.65	$31.99	$23.66
02/22/01	$55.76	$32.05	$23.71
02/23/01	$56.58	$32.64	$23.94
02/26/01	$58.00	$34.06	$23.94
02/27/01	$59.11	$35.17	$23.94
02/28/01	$57.92	$33.98	$23.94
03/01/01	$58.40	$34.46	$23.94
03/02/01	$59.41	$35.47	$23.94
03/05/01	$59.08	$35.14	$23.94
03/06/01	$59.87	$35.93	$23.94
03/07/01	$61.50	$37.56	$23.94
03/08/01	$61.11	$37.17	$23.94
03/09/01	$60.27	$36.33	$23.94
03/12/01	$58.43	$34.49	$23.94
03/13/01	$60.45	$36.51	$23.94
03/14/01	$59.69	$35.75	$23.94
03/15/01	$60.36	$36.42	$23.94
03/16/01	$60.01	$36.07	$23.94
03/19/01	$59.90	$35.96	$23.94
03/20/01	$57.88	$33.94	$23.94
03/21/01	$55.85	$32.10	$23.75
03/22/01	$54.72	$31.45	$23.27
03/23/01	$58.12	$34.18	$23.94
03/26/01	$57.94	$34.00	$23.94
03/27/01	$59.85	$35.91	$23.94
03/28/01	$59.35	$35.41	$23.94
03/29/01	$58.15	$34.21	$23.94
03/30/01	$59.24	$35.30	$23.94
04/02/01	$59.50	$35.56	$23.94

Household International, Inc. Common Stock
Estimate of Alleged Artificial Inflation
For Quantification Including Leakage

Date	Stock Price	True Value	Artificial Inflation
04/03/01	$58.92	$34.98	$23.94
04/04/01	$58.45	$34.51	$23.94
04/05/01	$59.73	$35.79	$23.94
04/06/01	$58.54	$34.60	$23.94
04/09/01	$59.45	$35.51	$23.94
04/10/01	$61.12	$37.18	$23.94
04/11/01	$60.54	$36.60	$23.94
04/12/01	$61.40	$37.46	$23.94
04/16/01	$60.33	$36.39	$23.94
04/17/01	$60.91	$36.97	$23.94
04/18/01	$63.38	$39.44	$23.94
04/19/01	$63.05	$39.11	$23.94
04/20/01	$62.45	$38.51	$23.94
04/23/01	$62.23	$38.29	$23.94
04/24/01	$63.10	$39.16	$23.94
04/25/01	$64.75	$40.81	$23.94
04/26/01	$63.40	$39.46	$23.94
04/27/01	$64.38	$40.44	$23.94
04/30/01	$64.02	$40.08	$23.94
05/01/01	$64.46	$40.52	$23.94
05/02/01	$65.46	$41.52	$23.94
05/03/01	$65.29	$41.35	$23.94
05/04/01	$65.70	$41.76	$23.94
05/07/01	$65.50	$41.56	$23.94
05/08/01	$65.42	$41.48	$23.94
05/09/01	$66.05	$42.11	$23.94
05/10/01	$65.08	$41.14	$23.94
05/11/01	$64.91	$40.97	$23.94
05/14/01	$65.22	$41.28	$23.94
05/15/01	$66.94	$43.00	$23.94
05/16/01	$68.64	$44.70	$23.94
05/17/01	$68.20	$44.26	$23.94
05/18/01	$67.57	$43.63	$23.94
05/21/01	$67.67	$43.73	$23.94
05/22/01	$67.71	$43.77	$23.94
05/23/01	$66.48	$42.54	$23.94
05/24/01	$66.44	$42.50	$23.94
05/25/01	$66.27	$42.33	$23.94
05/29/01	$66.00	$42.06	$23.94
05/30/01	$65.80	$41.86	$23.94
05/31/01	$65.66	$41.72	$23.94
06/01/01	$65.74	$41.80	$23.94
06/04/01	$66.43	$42.49	$23.94
06/05/01	$66.98	$43.04	$23.94
06/06/01	$65.96	$42.02	$23.94
06/07/01	$65.82	$41.88	$23.94
06/08/01	$65.80	$41.86	$23.94

Household International, Inc. Common Stock
Estimate of Alleged Artificial Inflation
For Quantification Including Leakage

Date	Stock Price	True Value	Artificial Inflation
06/11/01	$65.78	$41.84	$23.94
06/12/01	$65.30	$41.36	$23.94
06/13/01	$65.25	$41.31	$23.94
06/14/01	$64.71	$40.77	$23.94
06/15/01	$63.80	$39.86	$23.94
06/18/01	$63.65	$39.71	$23.94
06/19/01	$63.82	$39.88	$23.94
06/20/01	$64.61	$40.67	$23.94
06/21/01	$66.71	$42.77	$23.94
06/22/01	$67.01	$43.07	$23.94
06/25/01	$65.95	$42.01	$23.94
06/26/01	$65.14	$41.20	$23.94
06/27/01	$65.70	$41.76	$23.94
06/28/01	$65.98	$42.04	$23.94
06/29/01	$66.70	$42.76	$23.94
07/02/01	$66.60	$42.66	$23.94
07/03/01	$66.23	$42.29	$23.94
07/05/01	$66.95	$43.01	$23.94
07/06/01	$66.54	$42.60	$23.94
07/09/01	$66.48	$42.54	$23.94
07/10/01	$65.55	$41.61	$23.94
07/11/01	$65.24	$41.30	$23.94
07/12/01	$66.40	$42.46	$23.94
07/13/01	$67.16	$43.22	$23.94
07/16/01	$68.11	$44.17	$23.94
07/17/01	$68.95	$45.01	$23.94
07/18/01	$69.48	$45.54	$23.94
07/19/01	$66.50	$42.56	$23.94
07/20/01	$67.28	$43.34	$23.94
07/23/01	$67.50	$43.56	$23.94
07/24/01	$67.01	$43.07	$23.94
07/25/01	$66.76	$42.82	$23.94
07/26/01	$65.38	$41.44	$23.94
07/27/01	$66.18	$42.24	$23.94
07/30/01	$66.09	$42.15	$23.94
07/31/01	$66.29	$42.35	$23.94
08/01/01	$65.75	$41.81	$23.94
08/02/01	$66.00	$42.06	$23.94
08/03/01	$65.99	$42.05	$23.94
08/06/01	$65.71	$41.77	$23.94
08/07/01	$66.44	$42.50	$23.94
08/08/01	$65.86	$41.92	$23.94
08/09/01	$66.24	$42.30	$23.94
08/10/01	$67.13	$43.19	$23.94
08/13/01	$68.01	$44.07	$23.94
08/14/01	$68.00	$44.06	$23.94
08/15/01	$67.95	$44.01	$23.94

Household International, Inc. Common Stock
Estimate of Alleged Artificial Inflation
For Quantification Including Leakage

Date	Stock Price	True Value	Artificial Inflation
08/16/01	$66.87	$42.93	$23.94
08/17/01	$65.99	$42.05	$23.94
08/20/01	$65.50	$41.56	$23.94
08/21/01	$64.86	$40.92	$23.94
08/22/01	$65.48	$41.54	$23.94
08/23/01	$64.72	$40.78	$23.94
08/24/01	$62.35	$38.41	$23.94
08/27/01	$61.96	$38.02	$23.94
08/28/01	$61.34	$37.40	$23.94
08/29/01	$60.70	$36.76	$23.94
08/30/01	$59.31	$35.37	$23.94
08/31/01	$59.10	$35.16	$23.94
09/04/01	$57.06	$33.12	$23.94
09/05/01	$57.22	$33.28	$23.94
09/06/01	$57.00	$33.06	$23.94
09/07/01	$55.04	$31.48	$23.56
09/10/01	$56.31	$32.37	$23.94
09/17/01	$52.83	$30.22	$22.61
09/18/01	$52.64	$30.11	$22.53
09/19/01	$52.30	$29.92	$22.38
09/20/01	$51.46	$29.44	$22.02
09/21/01	$50.34	$28.80	$21.54
09/24/01	$52.85	$30.23	$22.62
09/25/01	$52.08	$29.79	$22.29
09/26/01	$53.60	$30.57	$23.03
09/27/01	$54.49	$31.07	$23.42
09/28/01	$56.38	$32.44	$23.94
10/01/01	$57.50	$33.56	$23.94
10/02/01	$57.83	$33.89	$23.94
10/03/01	$58.20	$34.26	$23.94
10/04/01	$59.63	$35.69	$23.94
10/05/01	$58.35	$34.41	$23.94
10/08/01	$56.50	$32.56	$23.94
10/09/01	$56.59	$32.65	$23.94
10/10/01	$58.22	$34.28	$23.94
10/11/01	$56.95	$33.01	$23.94
10/12/01	$54.89	$31.30	$23.59
10/15/01	$55.91	$31.97	$23.94
10/16/01	$56.00	$32.06	$23.94
10/17/01	$57.16	$33.22	$23.94
10/18/01	$57.53	$33.59	$23.94
10/19/01	$56.91	$32.97	$23.94
10/22/01	$56.92	$32.98	$23.94
10/23/01	$57.25	$33.31	$23.94
10/24/01	$55.44	$31.61	$23.83
10/25/01	$57.19	$33.25	$23.94
10/26/01	$57.48	$33.54	$23.94

Household International, Inc. Common Stock
Estimate of Alleged Artificial Inflation
For Quantification Including Leakage

Date	Stock Price	True Value	Artificial Inflation
10/29/01	$54.49	$31.07	$23.42
10/30/01	$53.52	$30.52	$23.00
10/31/01	$52.30	$29.82	$22.48
11/01/01	$52.90	$30.17	$22.73
11/02/01	$52.76	$30.09	$22.67
11/05/01	$53.75	$30.65	$23.10
11/06/01	$56.53	$32.59	$23.94
11/07/01	$58.72	$34.78	$23.94
11/08/01	$57.79	$33.85	$23.94
11/09/01	$57.98	$34.04	$23.94
11/12/01	$58.21	$34.27	$23.94
11/13/01	$60.00	$36.06	$23.94
11/14/01	$60.90	$36.96	$23.94
11/15/01	$58.90	$34.96	$23.94
11/16/01	$57.80	$34.20	$23.60
11/19/01	$58.75	$34.81	$23.94
11/20/01	$58.37	$34.52	$23.85
11/21/01	$58.56	$34.62	$23.94
11/23/01	$59.62	$35.68	$23.94
11/26/01	$60.18	$36.24	$23.94
11/27/01	$60.76	$36.82	$23.94
11/28/01	$60.34	$36.40	$23.94
11/29/01	$59.80	$35.86	$23.94
11/30/01	$58.99	$35.05	$23.94
12/03/01	$56.29	$33.70	$22.59
12/04/01	$58.23	$34.29	$23.94
12/05/01	$61.00	$37.06	$23.94
12/06/01	$60.66	$36.72	$23.94
12/07/01	$59.66	$35.72	$23.94
12/10/01	$57.60	$34.30	$23.30
12/11/01	$56.66	$34.46	$22.20
12/12/01	$54.15	$34.35	$19.80
12/13/01	$54.23	$33.94	$20.29
12/14/01	$53.35	$33.71	$19.64
12/17/01	$54.57	$33.96	$20.61
12/18/01	$56.12	$34.28	$21.84
12/19/01	$56.87	$34.83	$22.04
12/20/01	$56.50	$34.75	$21.75
12/21/01	$55.90	$34.53	$21.37
12/24/01	$56.09	$34.49	$21.60
12/26/01	$56.38	$34.56	$21.82
12/27/01	$57.83	$34.53	$23.30
12/28/01	$58.88	$34.94	$23.94
12/31/01	$57.94	$34.66	$23.28
01/02/02	$57.09	$34.51	$22.58
01/03/02	$57.05	$34.64	$22.41
01/04/02	$59.19	$35.25	$23.94

Household International, Inc. Common Stock
Estimate of Alleged Artificial Inflation
For Quantification Including Leakage

Date	Stock Price	True Value	Artificial Inflation
01/07/02	$58.10	$34.91	$23.19
01/08/02	$56.74	$34.45	$22.29
01/09/02	$57.10	$34.68	$22.42
01/10/02	$56.54	$34.84	$21.70
01/11/02	$54.38	$34.53	$19.85
01/14/02	$52.78	$34.25	$18.53
01/15/02	$55.20	$34.92	$20.28
01/16/02	$54.45	$34.58	$19.87
01/17/02	$53.76	$34.86	$18.90
01/18/02	$54.85	$34.82	$20.03
01/22/02	$54.05	$34.81	$19.24
01/23/02	$53.35	$34.76	$18.59
01/24/02	$53.75	$34.89	$18.86
01/25/02	$54.71	$35.01	$19.70
01/28/02	$52.85	$34.75	$18.10
01/29/02	$49.85	$33.27	$16.58
01/30/02	$49.35	$33.59	$15.76
01/31/02	$51.24	$34.12	$17.12
02/01/02	$51.10	$33.76	$17.34
02/04/02	$48.80	$32.74	$16.06
02/05/02	$47.53	$32.54	$14.99
02/06/02	$44.71	$32.24	$12.47
02/07/02	$48.01	$32.45	$15.56
02/08/02	$52.00	$33.29	$18.71
02/11/02	$51.45	$33.51	$17.94
02/12/02	$50.80	$33.31	$17.49
02/13/02	$52.15	$33.79	$18.36
02/14/02	$51.92	$33.88	$18.04
02/15/02	$50.89	$32.89	$18.00
02/19/02	$50.35	$32.51	$17.84
02/20/02	$50.65	$32.93	$17.72
02/21/02	$48.50	$32.50	$16.00
02/22/02	$48.65	$32.41	$16.24
02/25/02	$49.58	$33.13	$16.45
02/26/02	$49.98	$33.26	$16.72
02/27/02	$52.08	$33.53	$18.55
02/28/02	$51.50	$33.69	$17.81
03/01/02	$53.00	$33.98	$19.02
03/04/02	$57.25	$35.04	$22.21
03/05/02	$56.28	$35.11	$21.17
03/06/02	$57.77	$35.60	$22.17
03/07/02	$58.36	$35.36	$23.00
03/08/02	$59.90	$35.96	$23.94
03/11/02	$59.73	$35.79	$23.94
03/12/02	$59.16	$35.79	$23.37
03/13/02	$58.40	$35.54	$22.86
03/14/02	$57.48	$35.61	$21.87

Household International, Inc. Common Stock
Estimate of Alleged Artificial Inflation
For Quantification Including Leakage

Date	Stock Price	True Value	Artificial Inflation
03/15/02	$58.95	$36.26	$22.69
03/18/02	$58.98	$36.05	$22.93
03/19/02	$58.98	$36.21	$22.77
03/20/02	$57.61	$35.68	$21.93
03/21/02	$57.90	$35.67	$22.23
03/22/02	$58.14	$35.75	$22.39
03/25/02	$56.30	$35.24	$21.06
03/26/02	$57.00	$35.34	$21.66
03/27/02	$57.50	$35.70	$21.80
03/28/02	$56.80	$35.55	$21.25
04/01/02	$57.03	$35.35	$21.68
04/02/02	$57.05	$35.53	$21.52
04/03/02	$55.75	$35.22	$20.53
04/04/02	$56.83	$35.44	$21.39
04/05/02	$57.98	$35.70	$22.28
04/08/02	$59.06	$35.82	$23.24
04/09/02	$59.25	$36.09	$23.16
04/10/02	$59.35	$36.12	$23.23
04/11/02	$57.05	$35.32	$21.73
04/12/02	$58.10	$35.70	$22.40
04/15/02	$57.48	$35.24	$22.24
04/16/02	$59.52	$35.87	$23.65
04/17/02	$60.70	$36.76	$23.94
04/18/02	$61.20	$37.26	$23.94
04/19/02	$62.44	$38.50	$23.94
04/22/02	$60.90	$36.96	$23.94
04/23/02	$61.80	$37.86	$23.94
04/24/02	$61.36	$37.42	$23.94
04/25/02	$59.18	$35.24	$23.94
04/26/02	$59.60	$35.66	$23.94
04/29/02	$57.25	$34.55	$22.70
04/30/02	$58.29	$34.95	$23.34
05/01/02	$57.70	$35.09	$22.61
05/02/02	$57.43	$35.51	$21.92
05/03/02	$57.00	$35.36	$21.64
05/06/02	$55.68	$34.68	$21.00
05/07/02	$54.75	$34.50	$20.25
05/08/02	$57.11	$35.28	$21.83
05/09/02	$56.29	$35.03	$21.26
05/10/02	$54.25	$34.61	$19.64
05/13/02	$55.82	$35.10	$20.72
05/14/02	$56.85	$35.54	$21.31
05/15/02	$55.47	$35.44	$20.03
05/16/02	$55.00	$35.76	$19.24
05/17/02	$54.31	$35.91	$18.40
05/20/02	$53.51	$35.32	$18.19
05/21/02	$52.69	$35.15	$17.54

Household International, Inc. Common Stock
Estimate of Alleged Artificial Inflation
For Quantification Including Leakage

Date	Stock Price	True Value	Artificial Inflation
05/22/02	$52.85	$35.11	$17.74
05/23/02	$53.27	$35.40	$17.87
05/24/02	$53.07	$35.22	$17.85
05/28/02	$52.85	$34.87	$17.98
05/29/02	$52.80	$34.91	$17.89
05/30/02	$51.65	$34.77	$16.88
05/31/02	$51.15	$34.89	$16.26
06/03/02	$50.94	$34.27	$16.67
06/04/02	$50.69	$34.03	$16.66
06/05/02	$52.19	$34.28	$17.91
06/06/02	$53.60	$33.77	$19.83
06/07/02	$52.87	$33.81	$19.06
06/10/02	$52.59	$34.01	$18.58
06/11/02	$52.99	$33.45	$19.54
06/12/02	$52.48	$33.56	$18.92
06/13/02	$50.30	$32.86	$17.44
06/14/02	$50.80	$33.18	$17.62
06/17/02	$52.74	$34.54	$18.20
06/18/02	$52.75	$34.67	$18.08
06/19/02	$51.55	$34.31	$17.24
06/20/02	$49.80	$33.78	$16.02
06/21/02	$49.68	$33.52	$16.16
06/24/02	$50.00	$33.50	$16.50
06/25/02	$49.00	$33.32	$15.68
06/26/02	$48.65	$32.40	$16.25
06/27/02	$49.90	$33.12	$16.78
06/28/02	$49.70	$33.51	$16.19
07/01/02	$47.93	$33.09	$14.84
07/02/02	$47.60	$32.66	$14.94
07/03/02	$48.05	$32.29	$15.76
07/05/02	$50.00	$33.31	$16.69
07/08/02	$49.54	$33.26	$16.28
07/09/02	$47.05	$32.47	$14.58
07/10/02	$44.07	$31.59	$12.48
07/11/02	$45.00	$31.86	$13.14
07/12/02	$46.30	$31.61	$14.69
07/15/02	$45.67	$31.50	$14.17
07/16/02	$46.10	$31.09	$15.01
07/17/02	$42.37	$30.78	$11.59
07/18/02	$42.41	$29.85	$12.56
07/19/02	$40.72	$29.39	$11.33
07/22/02	$38.84	$28.46	$10.38
07/23/02	$36.29	$26.99	$9.30
07/24/02	$39.97	$28.29	$11.68
07/25/02	$38.80	$28.23	$10.57
07/26/02	$37.66	$28.98	$8.68
07/29/02	$39.85	$30.66	$9.19

Household International, Inc. Common Stock
Estimate of Alleged Artificial Inflation
For Quantification Including Leakage

Date	Stock Price	True Value	Artificial Inflation
07/30/02	$40.30	$30.75	$9.55
07/31/02	$42.67	$31.18	$11.49
08/01/02	$41.26	$30.63	$10.63
08/02/02	$39.45	$29.86	$9.59
08/05/02	$36.98	$28.87	$8.11
08/06/02	$39.72	$29.66	$10.06
08/07/02	$38.28	$30.00	$8.28
08/08/02	$40.96	$31.36	$9.60
08/09/02	$40.45	$31.72	$8.73
08/12/02	$39.70	$31.41	$8.29
08/13/02	$37.80	$30.74	$7.06
08/14/02	$38.09	$31.70	$6.39
08/15/02	$39.60	$31.99	$7.61
08/16/02	$37.54	$31.78	$5.76
08/19/02	$37.75	$32.53	$5.22
08/20/02	$36.75	$32.10	$4.65
08/21/02	$37.15	$32.17	$4.98
08/22/02	$40.65	$32.51	$8.14
08/23/02	$37.80	$31.95	$5.85
08/26/02	$39.08	$32.31	$6.77
08/27/02	$37.70	$32.12	$5.58
08/28/02	$36.80	$31.58	$5.22
08/29/02	$36.38	$31.69	$4.69
08/30/02	$36.11	$31.78	$4.33
09/03/02	$33.36	$30.40	$2.96
09/04/02	$34.40	$30.87	$3.53
09/05/02	$33.36	$30.49	$2.87
09/06/02	$33.95	$30.85	$3.10
09/09/02	$36.33	$31.31	$5.02
09/10/02	$35.15	$30.99	$4.16
09/11/02	$35.43	$30.86	$4.57
09/12/02	$33.85	$30.12	$3.73
09/13/02	$34.67	$30.32	$4.35
09/16/02	$33.59	$30.24	$3.35
09/17/02	$29.52	$29.69	-$0.17
09/18/02	$29.85	$29.44	$0.41
09/19/02	$29.25	$28.52	$0.73
09/20/02	$29.05	$28.41	$0.64
09/23/02	$27.61	$28.46	-$0.85
09/24/02	$27.55	$27.90	-$0.35
09/25/02	$28.15	$28.39	-$0.24
09/26/02	$29.28	$28.94	$0.34
09/27/02	$27.64	$28.20	-$0.56
09/30/02	$28.31	$28.41	-$0.10
10/01/02	$28.40	$29.52	-$1.12
10/02/02	$27.32	$28.45	-$1.13
10/03/02	$26.60	$27.26	-$0.66

Household International, Inc. Common Stock
Estimate of Alleged Artificial Inflation
For Quantification Including Leakage

Date	Stock Price	True Value	Artificial Inflation
10/04/02	$24.66	$26.53	-$1.87
10/07/02	$23.25	$25.70	-$2.45
10/08/02	$23.58	$26.75	-$3.17
10/09/02	$21.00	$25.66	-$4.66
10/10/02	$26.30	$26.98	-$0.68
10/11/02	$28.20	$28.20	$0.00

EXHIBIT 2

UNITED STATES DISTRICT COURT

NORTHERN DISTRICT OF ILLINOIS

EASTERN DIVISION

LAWRENCE E. JAFFE PENSION PLAN, On Behalf of Itself and All Others Similarly Situated,	)	Lead Case No. 02-C-5893 (Consolidated)
Plaintiff,	)	CLASS ACTION
vs.	)	Judge Ronald A. Guzman Magistrate Judge Nan R. Nolan
HOUSEHOLD INTERNATIONAL, INC., et al.,	)	
Defendants.	)	

REBUTTAL REPORT OF DANIEL R. FISCHEL

Lawrence E. Jaffe Pension Plan vs. Household International, Inc., et al.

REBUTTAL REPORT OF DANIEL R. FISCHEL

I. INTRODUCTION

1. I submitted a report dated August 15, 2007 (the "Fischel Report") in the above-captioned litigation.[1] In that report, I set forth and provided the bases for my principal conclusion that the economic evidence is consistent with Plaintiffs' claim that the alleged wrongdoing caused investors in Household's common stock to incur losses. Fischel Report ¶ 11. I also provided two alternative quantifications of the amount of alleged artificial inflation in Household's stock price during the Class Period, one based on the price reactions to specific fraud-related disclosures ("Quantification Using Specific Disclosures") and one that accounts for the stock price effect of fraud-related information that leaked into the market during the latter part of the Class Period ("Quantification Including Leakage"). *Id.* ¶ 30.

2. Defendants have submitted the Expert Report of Mukesh Bajaj dated December 10, 2007 (the "Bajaj Report"). In his report, Dr. Bajaj claims that "Professor Fischel's Analysis Suffers From Several Fundamental Flaws And Results In Incorrect And Unsupportable Conclusions." Bajaj Report at 8. He also provides multiple criticisms of my analysis and conclusions.

3. I have been asked by counsel for Plaintiffs to review and respond to Dr. Bajaj's criticisms as described in the Bajaj Report. I have been assisted by Lexecon's staff. Exhibit A describes the materials I have relied upon in forming my

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1. The Fischel Report provides information on my qualifications and defines capitalized terms.

opinions contained in this report. Based on my review of these materials and our analysis, I have concluded that Dr. Bajaj's criticisms are incorrect and therefore do not affect my conclusion.

II. DR. BAJAJ'S CRITICISMS OF MY CONCLUSION ARE INCORRECT

A. Dr. Bajaj's Claim that I "Provided No Economic Evidence" to Support My Conclusion Is Incorrect

4. As I explained in the Fischel Report, Plaintiffs allege that the Defendants engaged in a fraudulent scheme and wrongful course of business, the components of which I refer to as Predatory Lending, Re-aging, and the Restatement. Fischel Report ¶ 10. Plaintiffs further claim that the cumulative effect of the revelation of Defendants' alleged wrongful course of business caused Household's stock price to decline. *Id.* Dr. Bajaj opines that "Professor Fischel Has Provided No Economic Evidence That Would Warrant His Conclusions That Economic Evidence Is Consistent With Plaintiffs' Claim." Bajaj Report at 11. Dr. Bajaj is incorrect because he ignores the extensive economic evidence in the Fischel Report that is consistent with Plaintiffs' allegations.

5. In my report, I used a well-known and established technique in financial economics known as an "event study" to establish that Household's stock price reacted significantly to disclosures related to the alleged fraud. Fischel Report ¶¶ 30 & 34-5. Using my event study, I accounted for the effect of market factors on the Company's stock price following each of these disclosures and demonstrated that net of market factors, the cumulative impact of the disclosures caused the stock price to decline. *Id.* ¶ 36. In addition, I provided numerous examples of news articles and commentary by

market participants which demonstrate that a steady stream and extensive amount of incomplete information related to Defendants' alleged fraud was disclosed beginning at least as early as November 15, 2001. *Id.* § III & ¶ 39. I also established that, although only some of these disclosures were associated with significant changes in Household's stock price, the stock lost more than half of its value beginning November 15, 2001 through the end of the Class Period and that market participants attributed this decline to concerns regarding Defendants' allegedly fraudulent practices. *Id.* ¶¶ 28 & 39. Moreover, I showed how the stock substantially underperformed the market and comparable indexes over this period, indicating that under the facts and circumstances of this case, Household's stock price decline cannot be fully explained by adverse market events and is on the contrary consistent with Plaintiffs' claim that the decline occurred as investors learned of the Company's allegedly fraudulent practices and Defendants' denials became less credible. *Id.* ¶¶ 29 & 39. I concluded that the combination of the significant stock price decline, the concurrent leakage of fraud-related information, and market participants' attribution of the decline to this fraud-related information is strong economic evidence that in this case, the long-run relative underperformance of Household's stock price beginning November 15, 2001 through the end of the Class Period was caused by leakage of artificial inflation from the price. *Id.*

6. Dr. Bajaj ignores this economic evidence and offers no compelling argument to otherwise explain Household's stock price underperformance in the latter part of the Class Period.[2] Instead, he mischaracterizes the Fischel Report[3, 4] and my

2. In fact, using his estimation period, Dr. Bajaj calculated substantial artificial inflation in Household's stock price during the Class Period. Bajaj Report at 83 & Exhibit 6.
3. Dr. Bajaj claims that "Professor Fischel anecdotally discusses events that occurred on 41 dates during the Class Period when the markets purportedly received information

report in another case,[5] falsely claims that my quantifications are internally inconsistent,[6] and presents a fundamentally flawed "illustration" that, contrary to his claim, does not

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related to the Plaintiffs' theories of alleged fraud" and that "such information did not collectively have a significant impact on HI's stock price on a market-adjusted basis." Bajaj Report at 17. But, he ignores that I acknowledged in my report that not all of the 41 "events" – some of which were newspaper articles describing past events (*see, e.g.*, Fischel Report ¶ 15) – were associated with statistically significant market-adjusted price changes and that I provided strong economic evidence to support my conclusion. *Id.* ¶ 39. This evidence included that analysts reacted negatively to the incomplete disclosures related to the alleged fraud on different dates. *Id.* ¶ 20. Based on all of the economic evidence, the fact that the market did not react significantly on every day that incomplete information related to Plaintiffs' allegations was disclosed is consistent with my conclusion that artificial inflation leaked out of Household's stock price in the latter part of the Class Period.

4. Dr. Bajaj claims that "Professor Fischel describes his Leakage model as an 'event study approach' when it is not." Bajaj Report at 16. However, as I explained in the Fischel Report, my Quantification Using Leakage uses "the 'event study approach' described by Cornell and Morgan." Fischel Report ¶ 41. According to these authors: "The event study approach assumes that the price and value of the security move in tandem except on days when fraud-related information is disclosed. ... [I]f no fraud-related information is disclosed, set the [Constructed Return (*i.e.*, the stock price return underlying the estimate of the stock's value absent the fraud)] for that day equal to the actual return on the security; if fraud-related information is disclosed, or there is evidence that such information is leaking into the market, set the [Constructed Return] for that day equal to the return on the security predicted by the market model." B. Cornell and R.G. Morgan, "Using Finance Theory to Measure Damages in Fraud on the Market Cases," 37 *UCLA L Rev.* (1990) at 899. This is exactly what I did. Fischel Report ¶ 41. Dr. Bajaj also criticizes the event study approach by misquoting Cornell and Morgan's discussion of a limitation in an alternative approach – which I did not use – that they call the "comparable index approach." Compare, Bajaj Report at 72 *with* Cornell and Morgan (1990) at 903.
5. Based on his mischaracterization of my report in another case (*In re Blech Securities Litigation*, which he incorrectly refers to as *In re Bizch Securities*), Dr. Bajaj claims that "Professor Fischel now makes the same mistake for which he has criticized others in the past." Bajaj Report at 74. On the contrary, my reports in the two cases are entirely consistent. In *Blech*, I stated that it is a mistake to assume without more economic evidence that underperformance relative to an index constitutes inflation. Here, I explain why underperformance, in combination with the statistically significant stock price declines in response to specific disclosures and analyst and other commentary, all are consistent with Plaintiffs' claims.
6. Dr. Bajaj claims that "The Two Alternative Quantifications of Alleged Artificial Inflation That Professor Fischel Proposes Are Internally Inconsistent" and that this purported "internal inconsistency ... demonstrates that his quantification of alleged inflation is fundamentally flawed and unreliable." Bajaj Report at 75-6. His claim is

show the purported "fallacy" in my analysis.[7] Consequently, Dr. Bajaj's arguments do not affect my conclusion.

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based on two declines in artificial inflation in my Quantification Using Specific Disclosures (on November 15, 2001 and December 5, 2001) that are not reflected in my Quantification Including Leakage. *Id.* However, in making this criticism, he ignores that I state in the Fischel Report that in the latter quantification "[i]f the resulting inflation on any day was greater than the cumulative residual price decline during the observation window of $23.94, I limited the inflation to $23.94 and adjusted the true value line accordingly." Fischel Report ¶ 42. To demonstrate that my quantifications of artificial inflation are consistent, Exhibit B presents my daily quantifications but without applying the limitation on the Quantification Including Leakage. As shown on page 14 of this exhibit, prior to employing the constraint, the artificial inflation in both quantifications declines on November 15, 2001 and December 5, 2001. Thus, the differences he notes are artifacts of the constraint, not an internal inconsistency in my calculations. Dr. Bajaj's claim is particularly disingenuous because he employs the limitation when he replicates my Quantification Including Leakage using his estimation period. Bajaj Report Exhibit 6.

7. Dr. Bajaj's misunderstanding of the Fischel Report and the event study approach leads him to create a fundamentally flawed "illustration" using stock price information for "all 30 members ... of the Dow Jones Industrial Average ('DJIA')" during the Class Period to create "Pseudo-Damages" that purportedly show the "fallacy" in my analysis. Bajaj Report at 76. This illustration is flawed for at least three reasons. First, the illustration is based on the "comparable index approach" which assumes that "the observation window [where the leakage could have occurred] is expanded to cover the entire class period" (Cornell and Morgan (1990) at 906), not on the event study approach that I used in the Fischel Report. Second, unlike his analysis which he admits was performed "without any further factual analysis" other than the use of stock price data (Bajaj Report at 76), my Quantification Including Leakage was based on the analysis of the economic evidence presented in the Fischel Report. Third, because he did not conduct any factual analysis and thus has no reason to believe that the DJIA members' stock prices were inflated, had he used the event study approach that I used, Dr. Bajaj would have found zero "Pseudo-Damages." To see why, note that in his illustration, Dr. Bajaj "assumes that the difference between a DJIA Member's actual stock price and its True Value represents daily 'inflation.'" *Id.* As explained *supra* n. 4, the event study approach requires that if no fraud-related information is disclosed, the stock price return underlying the estimate of True Value for that day is set equal to the actual return on the security. Therefore, because he has no reason to believe that any fraud-related information was disclosed on any day during the Class Period for the DJIA members, he should have set their True Value returns equal to the actual returns on every day during this period. Had he done so, the True Value would have equaled the actual stock price for each DJIA member and thus he would have found zero daily inflation in these companies' stock prices and zero "Pseudo-Damages."

B. <u>Dr. Bajaj's Analysis of Dates "Most Relevant to Plaintiffs' Three Distinct Theories of Alleged Fraud" Is Incorrect</u>

7. Dr. Bajaj also claims that my "conclusion is factually incorrect" because "on the three days when new information most relevant to Plaintiffs' three distinct theories of alleged fraud was revealed, HI's stock price actually increased." Bajaj Report at 8. These "three days" are August 14, 2002, April 9, 2002, October 10, 2002, and October 11, 2002. *Id.* at 8-10. Once again, Dr. Bajaj is incorrect because, as explained above, he ignores the extensive economic evidence in my report concerning disclosures on days other than these "three" that is consistent with Plaintiffs' allegations. As I explain below, Dr. Bajaj is also incorrect because he ignores the economic evidence related to these "three days."

i. August 14, 2002

8. Dr. Bajaj states that "[o]n August 14, 2002, HI announced that it would restate its earnings back to 1994" and that "HI's price increased by 29 cents (or 0.77%) following this Restatement." *Id.* at 8-9. However, as I explained in the Fischel Report, after accounting for the effect of market factors on Household's stock price on August 14, 2002, I found that it declined by $0.94 (or 2.5%); I also found that this decline was statistically significant. Fischel Report n. 16. In addition, I explained that market participants were surprised by the announcement. *Id.* ¶ 27. Dr. Bajaj recognizes that "unless the market received new information about the alleged fraud, and the stock's market-adjusted price change following such news was statistically significant, there is no economic basis to claim that the observed price change should be attributed to a 'disclosure' related to the alleged fraud, nor to measure the Plaintiffs' harm based on such a price change." Bajaj Report at 7. But, he admits that the market received new

information about the alleged fraud on August 14, 2002 and recognizes that I found the market-adjusted price change to be statistically significant (*id.* at 14 & n. 15), yet he ignores this economic evidence. Dr. Bajaj's criticism is particularly disingenuous because his own analysis of Household's stock price movements demonstrates that on a market-adjusted basis, the stock price declined significantly on August 14, 2002. *Id.* at 82 & Exhibit 8 at 1055.

9. Moreover, market commentators attributed the Company's stock price decline early on August 14, 2002 to the Restatement, which was announced before trading began on August 14, 2002. *Reuters News* reported that "Household International tumbled after the consumer finance company said it would downwardly revise its net income due to accounting changes." *See* Exhibit C. Similarly, in an article dated August 14, 2002 at 11:22 AM, *Dow Jones Business News* reported that "Household International Inc.'s (HI) shares fell after the consumer-finance company announced that it restated profits downward by $386 million – for the period spanning from 1994 to the second-quarter of this year – to reflect a change in accounting tied to certain contracts within credit-card business." *See* Exhibit D.

10. In addition, Dr. Bajaj asserts that "[a]ccording to a large body of academic research, accounting changes that do not significantly affect investors' expectations about future cash flows or the risk associated with such cash flows, do not impact the stock price." *Id.* at 9. While generally true, this assertion is irrelevant in this case because there is evidence that the Restatement significantly affected investors' expectations about future cash flows. As I explained in the Fischel Report, analysts at Morgan Stanley commented that the restatement "suggests to us that returns in the credit card business are lower than we previously thought" and reduced their earnings forecasts

and price target while CIBC World Markets analysts also reduced their 2002 and 2003 earnings estimates and lowered their price target. Fischel Report ¶ 27.

11. Dr. Bajaj further asserts that I "fail[] to note that despite modest reductions in forecast earnings in the short term, these analysts continued to be very bullish on HI's stock, forecasting significant increases in HI's stock price." Bajaj Report at 25. This assertion is also irrelevant because, as I explained above, the analysts lowered their earnings forecasts and price targets. The fact that they did not change their recommendations or lower their price targets below the current price does not mean that investors did not lower their expectations about future cash flows or that the stock price did not decline on August 14, 2002 after accounting for market-related factors.

12. Dr. Bajaj also asserts that another Morgan Stanley report stated that "'Household's restatement does not materially affect future earnings, and the company has not changed guidance'" and that "'[a]ll three rating agencies affirmed Household's ratings on the news, reiterating that the restatement does not affect Household's future business, and included their expectations for capital levels to increase.'" Bajaj Report at 26. However, this report was issued by a fixed income analyst, not a stock analyst. *Id.* n. 92. Holders of fixed income (*i.e.*, debt) securities (which are the securities rated by the rating agencies) have claims on a company's assets that are senior to those of equity security holders and are thus less sensitive to changes in expectations about future cash flows. Therefore, the fact that fixed income analysts and ratings agencies did not consider the Restatement to materially affect Household's future earnings from the perspective of fixed income security holders does not mean that equity security holders did not lower their expectations about future cash flows or that the stock price did not decline on August 14, 2002 after accounting for market-related factors.

ii. April 9, 2002

13. Dr. Bajaj states that "Plaintiffs allege that the Company first 'broke out its reaging statistics' on April 9, 2002" and that "HI's stock price, however, increased insignificantly by 19 cents (or 0.32%) on that day, once again indicating that an event which Plaintiffs (and Professor Fischel) claim represented a 'disclosure,' was value-irrelevant."[8] *Id.* at 9. But, he ignores the economic evidence I presented in the Fischel Report that information related to Plaintiffs' Re-aging claim was disclosed on other dates (including earlier dates) and that several of these disclosures were associated with statistically significant price declines. Fischel Report ¶¶ 22-6, 34-5, n. 16, 19 & 20. In addition, Dr. Bajaj ignores that the stock price may not have reacted significantly on April 9, 2002 because investors had already adjusted the price to reflect information disclosed earlier that was related to Plaintiffs' Re-aging claim, thereby making the news on April 9, 2002 "value-irrelevant."

14. Dr. Bajaj also states that I "mention[] the SEC Cease-and-Desist Order ('SEC Order') dated March 18, 2003" and claims that I "fail[] to examine HI's stock price reaction to the SEC Order" as "[o]n March 19, 2003 (the date of the SEC Order Press Release) ... increased insignificantly by 25 cents (or 0.89% from $28.20 to close at $28.45)." Bajaj Report at 39-40. However, contrary to Dr. Bajaj's claim, I did examine this reaction and found it to be inconclusive. On November 14, 2002, several months prior to the SEC Order announcement, Household and HSBC Holdings plc

8. I understand that Plaintiffs contend that Household's April 9, 2002 disclosure of its re-aging statistics is a false and misleading statement, not a corrective disclosure. Indeed, I noted in the Fischel Report that analysts at Prudential Securities commented that the "new info on account re-aging lacked historical and comparative context and could be a misleading indicator of HI's approach to managing credit losses." Fischel Report ¶ 25.

("HSBC") jointly announced that they entered into an agreement pursuant to which HSBC would acquire the Company; the merger was expected to be completed during the first quarter of 2003. *See* Household Finance Corporation SEC Form 8-K dated November 14, 2002. Under the terms of the agreement, a fixed ratio was established in which each Household share would be converted into the right to receive 2.675 HSBC ordinary shares or 0.535 HSBC American depositary shares.[9] *See id.* The merger was consummated on March 28, 2003. Fischel Report n. 1. Following announcements of acquisitions where the consideration is based on the acquirer's stock price, the stock prices of the target company typically are determined by the prices of the acquirer.[10] In these types of mergers, the target's price generally would deviate significantly from the acquirer's price only if there is a reason to believe that the acquisition would not be completed at the agreed-upon terms. In Household's instance, there was no reason to believe that following the announcement of the SEC Order the acquisition would not be completed at the agreed-upon terms. In fact, HSBC's March 19, 2003 press release

9. In terms of market capitalization, HSBC was almost eight times larger than Household on March 18, 2003. According to their respective SEC filings, Household had 474.6 million common shares outstanding and HSBC had 9.5 billion ordinary shares outstanding as of December 31, 2002. According to *Bloomberg*, Household's stock price and HSBC's American depositary share ("ADS") price closed at $28.20 and $54.51 on March 18, 2003, respectively. Therefore, Household's market capitalization on March 18, 2003 was $13.4 billion. Because each HSBC ADS represents the right to receive five HSBC ordinary shares (*see* Household Finance Corporation SEC Form 8-K dated November 14, 2002), HSBC had 1.9 billion ADS-equivalent shares outstanding as of December 31, 2002 and its market capitalization on March 18, 2003 was thus $103.4 billion.

10. *See, e.g.*, E. Hutson and C. Kearney, "Merger arbitrage and the interaction between target and bidder stocks during takeover bids," 19 *Research in International Business and Finance* (2005) at 1 & 21 ("Interaction between bidder and target stocks is strong for stock-swap and mixed cases, where the bid price is transferred from bidder to target. … The interaction term in the target mean equations … shows considerable price transfer from bidder to target.").

regarding the SEC Order stated that "HSBC remains fully committed to completing the merger with Household subject to the terms and conditions contained in the merger agreement." *See* Exhibit E. Consequently, the fact that Household's stock price did not change significantly following the SEC Order announcement establishes nothing and does not affect my conclusions.

iii. October 10, 2002 and October 11, 2002

15. Dr. Bajaj states that "Professor Fischel attributes HI's price reaction on October 10, 2002 and October 11, 2002 to 'market talk' and the announcement of the terms of HI's nationwide settlement of investigations by various 'state attorneys general into its subprime consumer lending business' (the 'AG Settlement') on these two dates, respectively," and that "HI's stock price, however, increased significantly by $5.30 (or 25.24%) on October 10, 2002 and further by $1.90 (or by 7.22%) on October 11, 2002." Bajaj Report at 10-1. He notes that the Company "announced it would pay 'up to $484 million' to settle the investigations, and that it 'expected the changes in business practices to cut earnings by 10 cents a share in 2003, by 20 cents in 2004, and by 30 cents in 2005'" and that "[r]atings agencies lowered HI's debt ratings upon this news." *Id.* at 10. He also notes that I explained in the Fischel Report that the fact that the stock increased in value upon disclosure of this negative information is evidence that it had declined earlier by at least as much in anticipation of a larger payment and/or changes in Household's business practices that would have had a worse impact on the Company's future prospects. *Id.* at 66. Dr. Bajaj claims that my explanation contradicts "the facts surrounding the AG Settlement" and "Professor Fischel's theory that HI's stock price declined on the Alleged P[redatory] L[ending]

Disclosures because of curative disclosures that revealed a fraud related to the Plaintiffs' theory of 'Predatory Lending.'"[11] *Id.* Dr. Bajaj's claims are incorrect.

16. Dr. Bajaj claims that my explanation "is inconsistent with the facts" because "the announced settlement amount ($484 million) was within the range that investors and analysts had been expecting for several months." *Id.* at 68. But, he ignores the fact that if the announced settlement amount was within the expected range of the market consensus, there would have been no reason for Household's stock price to react positively or negatively to the settlement announcement. Instead, as I explained in the Fischel Report, analysts were concerned the fine could be higher; for example, analysts at UBS stated that "we estimate this fine could exceed $500 million." Fischel Report ¶ 21. In addition, Professor Bajaj ignores the fact that market participants were highly concerned that no settlement would be reached at all. For example, Howard Mason of Sanford Bernstein commented on October 3, 2002: "A more serious risk is that Household cannot reach agreement with the AGs and the rating agencies, unnerved by chronic regulatory problems, downgrade the outlook or rating on Household's senior debt. The impact could go beyond raising the cost of debt funding toward restricting access and creating liquidity challenges." *See* Exhibit F. Therefore, it is not surprising that when a settlement was reached, Household's stock price reacted positively.

17. Dr. Bajaj claims that if "price declines on the Alleged P[redatory] L[ending] Disclosures dates were in part caused by investors' expectations about larger

11. Dr. Bajaj further claims that I "fail[] to consider whether HI's price reaction is explained by non-fraud related factors" and that in particular I "fail[] to exclude the possibility that HI's stock price had been depressed by headline risk regarding alleged 'predatory lending' …." Bajaj Report at 67. As I explain *infra* ¶¶ 26-9, his claim that Household stock price declines related to "headline risk" cannot be attributable to the alleged fraud is incorrect.

negative impacts of the impending AG Settlement than were subsequently announced, then such price declines cannot be entirely attributed to the 'alleged artificial inflation related to the above disclosures' as Professor Fischel claims in his event study methodology." Bajaj Report at 69. But, he ignores that by including the price increases on October 10, 2002 and October 11, 2002 in my Quantification Using Specific Disclosures, I net them against prior price declines caused by prior disclosures.[12] Fischel Report ¶ 36. Dr. Bajaj incorrectly assumes either that I do not net the price increases against the price decreases I measure or that the net effect on Household's stock price from the announcement that the Company would pay hundreds of millions of dollars and change its business practices such that future earnings would be reduced, which caused rating agencies to lower their ratings on Household's fixed income securities, was zero.

C. Dr. Bajaj's Analysis of Other Relevant Dates Is Incorrect

18. Dr. Bajaj also criticizes other dates relevant to the alleged fraud on which I base my Quantification Using Specific Disclosures. Bajaj Report at 30-7 & 40-65. His criticisms can be summarized as falling into five basic categories: 1) I "cherry-picked" these dates; 2) I did not adequately consider other non-fraud related reasons that could explain Household's stock price changes on some of these dates; 3) the information disclosed on some of these dates was "stale," *i.e.*, already publicly known; 4) stock price declines related to "headline risk" purportedly "cannot be attributable to the alleged fraud;" and 5) the stock price changes on some of these dates were not statistically

12. This also holds true for my Quantification Including Leakage in which I net the price increases on October 10, 2002 and October 11, 2002 against prior price declines caused by prior disclosures and leakage.

significant because my regression model is "flawed" and "mis-specified." I address each of these categories below.[13]

i. Dr. Bajaj's claim that I "cherry-picked" the Specific Disclosure dates is incorrect

19. Dr. Bajaj claims that "Professor Fischel has [] 'cherry-picked' his Specific Disclosures because he has ignored many dates (including dates that he himself has cited in his report, as well as numerous other dates that he has entirely ignored) when the markets did receive news related to Plaintiffs' theories of alleged fraud, but HI's stock price change was not significant, which indicates that such news was not value-relevant." Bajaj Report at 15-6. Once again, he mischaracterizes my report. The analysis used to identify the Specific Disclosures was comprehensive and consistent, not "cherry-picking."[14] In addition, the other dates in § III of my report, combined with the other economic evidence contained in my report, provided the basis for my conclusions that there was a significant relationship between Plaintiffs' allegations and investors' losses during the latter part of the Class Period, and that leakage of artificial inflation from the price caused Household's long-run relative stock price underperformance during this period. Fischel Report ¶¶ 28-9 & 39. As such, Fischel Report § III documented numerous instances where market participants explained how news related to Plaintiffs' allegations led them to revise downward their valuation of the Company's stock. For

13. In the attached Appendix, I provide additional examples of Professor Bajaj's flawed criticisms.

14. Specifically, we first identified dates on which news related to Plaintiffs' allegations became available to the market. We then examined each of these dates to determine whether the news related to Plaintiffs' allegations led the market to significantly alter its valuation of Household's stock. We only included in the Quantification Using Specific Disclosures those dates on which news related to Plaintiffs' allegations had a statistically significant effect on the Company's stock price.

example, it documented that on May 7, 2002, *Newsday* reported that as news of Household's lending practices came out, the New York State Comptroller became so concerned that he considered selling his 2.5 million shares of the Company's stock. *Id.* ¶ 19. The Comptroller's concerns did not provide the market with new information related to Plaintiffs' allegations that caused it to significantly change the stock's value and so this date was not included in the Quantification Using Specific Disclosures. However, the concerns demonstrate how the revelations of improper lending practices led market participants to revise their valuations of the stock.

ii. Dr. Bajaj's claim that the price changes on some Specific Disclosure dates may be due to other non-fraud related reasons is flawed

20. Dr. Bajaj argues that the price changes on some Specific Disclosure dates may be explained by non-fraud related events which affected Household's industry. For example, he claims that news of a decline in the 10-year Treasury note yield "may have adversely impacted HI's stock price" on September 23, 2002. Bajaj Report at 62. But, he ignores that, as I explained in my report, I controlled for such industry effects in my event study. Fischel Report ¶ 32. Dr. Bajaj criticizes my event study because the underlying regression model did not include the index of consumer finance company stocks he created. *See infra* ¶ 32. But, even if I include this index in my regression model, I still find that all of the market-adjusted stock price changes on the Specific Disclosure dates I identified are statistically significant. *See id.* & Exhibit G.

21. The specific non-fraud related events Dr. Bajaj offers to explain the changes in Household's stock price on Specific Disclosure Dates are implausible.[15] For example, he claims that the Company's stock price decline on November 15, 2001 (the date Household responded to the CDC lawsuit (Fischel Report ¶ 12)) may have been due to "Providian's statement that its default rates had increased," which he notes occurred after the market closed on November 14, 2001, the prior day. Bajaj Report at 50-1. But, Providian's stock opened down substantially on November 15, 2001 while Household's stock price was largely unchanged until the Company responded to the lawsuit at 1:40 PM.[16, 17] *See* Fischel Report Exhibit 5.

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15. In a number of instances, Dr. Bajaj's assertions regarding non-fraud related explanations of Household's performance involve mischaracterizations of the facts. For example, Dr. Bajaj criticizes the Fischel Report for attributing Household's price decline on September 23, 2002 to news regarding Household's alleged predatory lending in a report by analysts at CIBC. Bajaj Report at 62 & Fischel Report ¶ 34. Dr. Bajaj argues that the CIBC analysts "Downgraded HI's Stock Based On The Possible Adverse Impacts Of Macro-Economic Factors That Were Unrelated To The Alleged Fraud" and that "the CIBC report did not reveal any news related to the Plaintiff's claim of 'Predatory Lending.'" Bajaj Report at 61-2. But the analysts did not downgrade Household's rating (the title of the report is "Household International Lowering Price Target On Persistent Headline Risk, But Maintaining SP Rating") and their only reaction to macro-economic factors was to trim their 2003 earnings estimates by about one percent (from $5.18 to $5.12 per share). Fischel Report Exhibit 46. Dr. Bajaj ignores that the CIBC analysts reduced their price target by over thirty-five percent (from $57 to $36) due to concerns related to predatory lending. *Id.* ¶ 28. The analysts commented that "[i]n particular, building concerns regarding the company's lending practices, which have been accused of being predatory in nature and is currently the subject of an investigation by the Washington Department of Financial Institutions, have dampened price performance" and then stated that "we have reduced our price target on the stock given the lack of visibility as to a resolution of the highlighted investigations and pending lawsuits." *Id.* & Exhibit 46.
16. Providian closed at $3.68 on November 14, 2001, opened at $3.02 on November 15, 2001, and closed at $2.87 on this day. In contrast, Household closed at $60.90 on November 14, 2001, opened at $60.60 on November 15, 2001, traded at $60.39 at 1:40 PM, and closed at $58.90 on this day.
17. Dr. Bajaj also claims that the CDC lawsuit was "stale" information because it was filed on November 9, 2001 and reported in the press on the same day. Bajaj Report at

22. Moreover, the Salomon Smith Barney analysts Dr. Bajaj cites attributed Household's price decline on November 15, 2001 to concerns regarding the CDC's allegations, stating that "HI shares sold off almost 4% intra-day on news that the California Department of Corporations has filed an $8.5 million lawsuit against HI for lending law violations (i.e., predatory lending)."[18] *See* Exhibit H. These analysts' concerns included that "[t]he greater potential risk, in our view, is that this lawsuit turns into a larger development. ... to the extent that there were further findings from another audit, or another regulatory body was interested in pursuing the matter, there could be further chapters in the story." *See id.* Further, as discussed in the Fischel Report, the Deutsche Bank Alex Brown Inc. report Dr. Bajaj cites stated that the CDC lawsuit raised the questions of "1) how much more in refunds might Household owe? 2) will the accusations escalate (within or beyond the state)? and 3) will there be any operational constraints?" Fischel Report ¶ 12.

23. In another example, Dr. Bajaj criticizes the Fischel Report for attributing the decline in Household's stock price on December 3, 2001 to questions about the Company's accounting raised by a *Barron's* article published on Saturday, December 1, 2001. Bajaj Report at 31 & Fischel Report ¶ 22. He suggests that the stock price may have fallen because the *Barron's* article "adversely affected investors' expectations in a post-Enron world for non-fraud related reasons."[19] Bajaj Report at 34.

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48. But, he ignores that, as I explained in my report, Household did not publicly respond to the lawsuit until November 15, 2001. Fischel Report ¶ 12. The decline in the Company's stock price following its press release (*see supra* n. 16) indicates that the market was reacting not only to the CDC's complaint but also to Household's response.

18. In fact, neither of the analyst reports Dr. Bajaj cites that were released on November 15, 2002 even mention Providian. *See* Exhibit H & Fischel Report Exhibit 6.

19. Dr. Bajaj also claims that "the *Barron's* article did not provide any new information

But the closest Dr. Bajaj comes to identifying these "non-fraud related reasons" is his assertion that "[i]n the post-Enron world the 'market … [became] extremely emotional and sensitive' to any allegations of questionable accounting."[20, 21] *Id.* The only support he provides for his assertion is a Deutsche Banc Alex. Brown Inc. report which was issued over two months later and does not even mention the *Barron's* article or December 3, 2001. *See* Exhibit I & *id.* n. 136.

24. In contrast to the tenuous support for Dr. Bajaj's non-fraud related explanation for Household's stock price decline on December 3, 2001, market commentators provided clear, unequivocal support that the stock price fell because the *Barron's* article raised concerns about the Company's accounting. For example, on the morning of December 3, 2001, *Reuters News* reported that "[s]hares of loan and credit card firm Household International Inc. fell 5 percent on Monday, amid heavy trade, following an article in business weekly *Barron's* which cited analysts' views that the firm

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to the market" because it was based on an analyst report by William Ryan which was published more than six weeks earlier. Bajaj Report at 32. But, he ignores that, as I explained in my report, the article also discusses the concerns of a securities analyst whose firm worked for Household. Fischel Report ¶ 22. According to the article, the analyst was "puzzled by Household's statement that it had net chargeoffs of just 0.52%" in the last quarter on its home equity loans when "other subprime mortgage lenders have experienced losses at twice that level." *Id.* Exhibit 36. The analyst went on to say that "Household's loss rate on subprime mortgages is close to that of the savings-and-loan industry, even though S&Ls generally have more affluent borrowers and issue fewer second mortgages which, by their nature, are shakier than first mortgages." *Id.* ¶ 22.

20. Dr. Bajaj also notes that Enron filed for Chapter 11 bankruptcy protection (Bajaj Report at 33) but does not explain why this coincidence matters to Household's stock price.

21. Dr. Bajaj's assertion is consistent with Plaintiffs' allegations that investors' expectations of Household's prospects were adversely affected by concerns of accounting fraud.

was underestimating bad loans." *See* Exhibit J. The following day, analysts at Sanford Bernstein wrote:

> [Household's] stock is reacting to concerns about management credibility. Specifically, is management using the latitude provided by its loss recognition policies to enhance economic returns by adopting a more flexible stance towards customers, or abusing this latitude to distort reported payment behavior by postponing the recognition of losses?

See Exhibit K.

iii. Dr. Bajaj's criticisms regarding the purportedly "stale" information are unfounded

25. Dr. Bajaj's criticisms regarding the purportedly "stale" information are unfounded because he ignores information related to the alleged fraud that was first disclosed on each Specific Disclosure date. For example, he claims that the July 26, 2002 *Bellingham Herald* article "Only Provided Stale Information" because "complaints regarding Household's lending practices in Whatcom County, Washington had emerged almost four months earlier!" Bajaj Report at 52. But, he ignores the first sentence of the article, quoted in the Fischel Report, which states: "For the first time, Household International has acknowledged that its employees may have misrepresented mortgage loan terms to some Whatcom County homeowners who refinanced their homes at the Bellingham office of Household Finance Co., a subsidiary." Fischel Report ¶ 18. This was particularly significant since, as noted in the Fischel Report, the article went on to report that: "'[U]ntil now, company spokesmen have portrayed Household as an industry leader in consumer protection, with elaborate safeguards to make sure borrowers understand the deals they are signing' but 'this week, [a company spokesperson] said an internal company probe of the complaints had uncovered some serious problems.'" *Id.* Dr. Bajaj also ignores that the article provided new information suggesting that the

problems were not limited to the Company's Bellingham office. It reported that the former Bellingham office manager "said the sales pitches she used on potential borrowers came from the company." *Id.* Exhibit 23.

iv. Dr. Bajaj's claim that Household stock price declines related to "headline risk" cannot be attributable to the alleged fraud is incorrect

26. Dr. Bajaj claims that I "fail[] to recognize that the purported 'disclosures' [I] identified could have adversely affected investors' beliefs about HI's 'headline risk' exposure, *i.e.*, increased the market's assessment of the unknown future costs of settling allegations of 'predatory lending' or complying with future regulations" and further claims that "[a]ny price decline caused by news that changed HI's headline risk exposure cannot be attributable to the alleged fraud." Bajaj Report at 47. His claim is incorrect for several reasons.

27. First, Dr. Bajaj fails to explain why "headline risk" is inconsistent with Plaintiffs' predatory lending allegations. Rather, Household's "headline risk" during the Class Period was directly related to the alleged wrongdoing. For example, as I noted in my report, Stephens Inc. analysts stated that the Company's stock "has been plagued by 'headline' risk over predatory lending practices." Fischel Report ¶ 28.

28. Second, Plaintiffs allege that Household was not complying with existing regulations, not the undefined future ones that Dr. Bajaj alludes to in his description of the Company's "headline risk" exposure. As I noted in my report, on July 26, 2002, *The Bellingham Herald* reported that "Household International has acknowledged that its employees may have misrepresented mortgage loan terms to some Whatcom County homeowners" after "an internal company probe of [] complaints had uncovered some serious problems." *Id.* ¶ 18.

29. Third, Dr. Bajaj ignores the fact that market participants revised their valuations to take into account Household's likely lower profits as it brought its lending practices into compliance. For example, on September 3, 2002, Sanford Bernstein wrote:

> The report of the Washington State Department of Financial Institutions (DFI) – made public by the media on Wednesday last week – indicates that confusing sales practices in the Household branch system are more widespread than a few renegade loan officers, and quite possibly systemic. The effect on earnings growth as Household responds to regulatory pressure for sales practice reform will be commensurate. Specifically, we believe that as sales practice reform takes hold Household will need to reset its long run EPS growth target of 13-15% to 10-12%. ... Driving factors are lower up-front points, reform of practices involving misrepresentation of loan rates, and the elimination of single-premium credit life insurance. Sales practice reform will also tend to slow growth in the branch real estate portfolio [...] for two reasons: First, the practice of up-selling – restructuring the entire mortgage debt of a customer looking only for a "top-up" home loan to refinance credit card and other unsecured debt – will become more difficult under tougher regulatory scrutiny and higher company hurdles for customer net tangible benefit. Second, it is impractical for Household to offer loans at the 7% rates that representatives promise to induce refinancing by borrowers with prime bank mortgages, and this business will be forgone."

See Exhibit L.

v. Dr. Bajaj's criticisms of my regression analysis are fundamentally flawed

30. Dr. Bajaj claims that my estimation period (*i.e.*, the period over which I estimated the relationship between Household's return and the returns on the S&P 500 and S&P Financials Indexes underlying my event study analysis) is "[a]rbitrary" and "[i]ncorrect," because there "is no basis to arbitrarily select a segment of the Class Period to determine the 'historical relationship between changes in a company's stock price and changes in the performance of a market index (and possibly an industry index).'" Bajaj Report at 82 & n. 319. Dr. Bajaj is incorrect. As I explained in my

report, I used the period from November 15, 2000 to November 14, 2001 as my estimation period, which is "the calendar year prior to the earliest date I found that Household's stock price was negatively affected by the fraud." Fischel Report ¶ 32. My choice of estimation period is supported by the academic literature. For example, Tabak and Dunbar note: "[O]ne would typically like to use an estimation window close to the event because the relation between the company's stock and an index changes over time. Therefore, the closer the estimation window is to the event, the more relevant the estimated relation will be … The most common choice places the estimation window before the event."[22] In addition, MacKinlay states: "Given the selection of a normal performance model, the estimation window needs to be defined. The most common choice, when feasible, is using the period prior to the event window for the estimation window."[23]

31. Dr. Bajaj claims that I "provide[] no explanation for using the S&P 500 and the S&P Financials indices as the market and industry benchmarks in [my] regression model."[24] Bajaj Report at 79. But, he ignores that, as I explained in my report, Household compared its stock price performance to the S&P 500 Index and S&P Financials Index in its annual Proxy Statements filed with the SEC during the Class Period. Fischel Report n. 10.

32. Dr. Bajaj also claims that my model suffers from the "Omitted Variable" problem, where "a mis-specified regression model which excludes an

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22. D.I. Tabak and F.C. Dunbar, "Materiality and Magnitude: Event Studies in the Courtroom," in R.L. Weil, M.J. Wagner, and P.B. Frank (eds), *Litigation Services Handbook* (Wiley, 2001) at 19.5.
23. The event window in this case is November 15, 2001 through October 11, 2002.
24. A.C. MacKinlay, "Event Studies in Economics and Finance," 35 *Journal of Economic Literature* (March 1997) at 15.

important explanatory variable can result in the results of a regression being spurious."[25] Bajaj Report at 80. He purportedly solves this problem by constructing a "daily value-weighted index of consumer finance companies" (the "Consumer Finance Index") and including this index in his regression analysis. *Id.* n. 316. I added this variable to my regression analysis and found that all of the price changes in my Quantification Using Specific Disclosures remained statistically significant at the 5 percent level of significance in a "one-tailed" test and that the true value lines in both of my quantifications were still below Household's stock price.[26] *See* Exhibits G & M. Therefore, Dr. Bajaj's claim that my model is "mis-specified" because it suffers from the "Omitted Variable" problem does not affect my conclusions. Moreover, he ignores the fact that Household's stock underperformed his Consumer Finance Index during the

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25. Because Household is part of both the S&P 500 Index and S&P Financials Index, Dr. Bajaj claims that "it is incorrect as a matter of statistical principles, to attempt to explain HI's stock returns by variables that are in part influenced by the same returns." Bajaj Report n. 317. However, as Dr. Bajaj notes, Household's stock only comprised "0.83% of the S&P Financials Index" as of October 11, 2002. *Id.* n. 315. Moreover, according to *Bloomberg,* the stock only comprised 0.17% of the S&P 500 Index on the same date. Because these weights are so small, there is no reason to believe that Household's stock substantially "influenced" the indices or that there would be significant changes to my results. Indeed, Dr. Bajaj does not claim that there would be significant changes if I had excluded the stock from the indices.
26. In testing for statistical significance, I note that the ten percent level of significance (*i.e.*, a t-statistic of 1.65 or greater in a "two-tailed" test of significance) is also commonly considered statistically significant. *See, e.g.*, M.L. Mitchell and J.M. Netter, "The Role of Financial Economics in Securities Fraud Cases: Applications at the Securities and Exchange Commission," 49 *Business Lawyer* (1994) at 564 ("A third commonly used decision rule is ten percent – here, the probability is ten percent that a randomly selected value will lie 1.65 standard deviations or more from the mean value.") *and* N.I. Crew, K.L. Gold and M.A. Moore, "Federal Securities Acts and Areas of Expert Analysis," in R.L. Weil, P.B. Frank, C.W. Hughes and M.J. Wagner (eds), *Litigation Services Handbook* (Wiley, 2007) at 18.11 ("Courts have not specified the level of statistical significance that corresponds to a legal definition of materiality. As with much academic research, they commonly use the 95 percent confidence level but also recognize the 90 percent and 99 percent levels as thresholds for statistical significance.").

period from November 15, 2001 to October 11, 2002 – the stock fell 53.2% while his index declined 29.6%, adjusted for dividends.

33. Dr. Bajaj also criticizes my estimation period because it includes September 11, 2001. He claims that the inclusion of September 11, 2001 in my estimation period "could result in an unreliable predictor for HI's future returns in the longer run." Bajaj Report at 83. But, he fails to provide any evidence to support this speculation or demonstrate that it affected my conclusions. Moreover, his estimation period also includes September 11, 2001. *Id.* at 81. Dr. Bajaj also claims that my use of a "narrow one-year horizon" is an additional reason why September 11, 2001 should not be included in the estimation period. *Id.* at 83. However, use of a one-year estimation period is common in the academic literature on event studies.[27]

34. Dr. Bajaj further criticizes my regression model because it yields a negative coefficient for the S&P 500 Index. *Id.* at 79. But this is simply an artifact of my two-factor model. My regression model as a whole has substantial explanatory power. *Id.* To show that the returns on Household's stock and the S&P 500 Index were positively correlated during my estimation period, we ran a one-factor regression model

27. *See, e.g.,* MacKinlay (March 1997) at 17 ("For each announcement the 250 trading day period prior to the event window is used as the estimation window."). A calendar year has approximately 250 trading days. Dr. Bajaj "consider[s] the entire Class Period as the relevant estimation period because … it is inappropriate to measure the relationship between HI's stock return and that of various indices based on an arbitrarily-selected and truncated Estimation Period (November 15, 2000 – November 14, 2001) as Professor Fischel has done." *Id.* n. 318. However, Dr. Bajaj's estimation period is objectionable because it unnecessarily includes the period of price movements he is analyzing. As MacKinlay points out: "Generally the event period itself is not included in the estimation period to prevent the event from influencing the normal performance model parameter estimates." MacKinlay (March 1997) at 15.

with this index as the sole explanatory variable and found that the coefficient for the S&P 500 Index was positive at 0.81.[28]

III. DR. BAJAJ MISCHARACTERIZES PLAINTIFFS' ALLEGATIONS AND MY USE OF REGRESSION ANALYSIS TO QUANTIFY ALLEGED ARTIFICIAL INFLATION IN THIS CASE

35. I understand that in an order dated November 20, 2007, the Court stated: "Defendants [] claim that their expert requires more information as to the source of the pre-Class Period inflation Professor Fischel claims is present in the price of Household stock on the first day of the Class Period. The court expects that Professor Fischel will provide a regression analysis showing the date on which there was zero inflation in the stock price …." My response is below.

36. At the outset before discussing my analysis of the economic evidence, some background is necessary. I understand that the original class period as pled in the Complaint began on October 23, 1997 when Household issued a press release announcing its financial results for the third quarter of 1997 and Plaintiffs allege Household's stock price became artificially inflated because Defendants concealed adverse information related to the Company's business practices. I further understand that the Class Period was shortened to begin on July 30, 1999, making this date the first day that Plaintiffs allege the stock price was artificially inflated because they allege that Defendants failed to reveal the adverse information on July 22, 1999 when the Company announced its second quarter financial results. I also understand that Plaintiffs further allege that Defendants failed to reveal the adverse information in the Company's Form

28. We also re-ran our results using Dr. Bajaj's method (Bajaj Report Exhibit 8 at 1222) and found that it made no difference.

10-Q for the quarterly period ended June 30, 1999 filed on or about August 16, 1999. This is because, according to Plaintiffs, each time Household issued public statements regarding its business (such as its quarterly financial results) during the Class Period, it failed to disclose material facts. Thus, any shortening of the Class Period at the beginning would not change Plaintiffs' allegation that Household's stock price was inflated on later dates. My analysis is premised on my assumption that artificial inflation in Household's stock price began on July 30, 1999 or no later than August 16, 1999.

37. With this background, I now turn to my analysis of the economic evidence and specifically Dr. Bajaj's mischaracterizations. He claims that "in both his Specific Disclosures model as well as his Leakage model, Professor Fischel explicitly assumes that no inflationary events occurred prior to November 15, 2001 (and after July 30, 1999, the first day of the Class Period)" and further claims that "[t]his assumption contradicts the Plaintiffs' claim that HI's stock became inflated through various alleged misrepresentations and/or omissions ('inflationary events') during the Class Period prior to November 15, 2001." Bajaj Report at 12-3. He also claims that "it is crucial under [my Quantification Including Leakage] to at least demonstrate that inflation was introduced into HI's stock price as a result of specific misstatements and omissions at some point in time before information about such alleged inflation purportedly began to 'leak' into the market."[29] *Id.* at 85-6. Dr. Bajaj's claims are incorrect and misleading

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29. Dr. Bajaj further claims that "[Plaintiffs] also include as damages any difference between the stock price and the True Value when the stock price drops below the True Value; a difference which cannot be attributed to the fraud, according to the Plaintiffs' theories of alleged fraud." Bajaj Report at 89. But the evidence that Household's stock price had dropped below its true value as a result of the alleged fraud was the stock's reaction to the Specific Disclosures on October 10, 2002 and October 11, 2002. Fischel Report Note 21. As explained in the Fischel Report, this interpretation of the stock's return on these dates is fully consistent with Plaintiff's

because he mischaracterizes Plaintiffs' allegations and the use of regression analysis to quantify alleged artificial inflation.

38. Plaintiffs claim that the alleged omissions were inflationary events because they prevented the price from falling to its true, uninflated value. Under this theory, the Company's stock price did not have to increase upon Defendants allegedly false statements (*e.g.*, quarterly financial results) in order to become inflated.[30] Consequently, the fact that I did not identify statistically significant price increases that resulted in the inflation increasing between the beginning of the Class Period and November 15, 2001 does not contradict Plaintiffs' allegations. Moreover, event studies (which are based on regression analysis) are intended to measure stock price movements upon disclosure of new information, not the non-disclosure of information. Therefore, no regression analysis can be used to identify the day on which the stock price became inflated in this case.

39. Regression analysis, however, can be used in this case to calculate the amount of artificial inflation resulting from an alleged omission on any day during the Class Period. Because Plaintiffs allege that Defendants failed to disclose new adverse information concerning Household's business practices until later in the Class Period,

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claims. *Id.* n. 21.

30. As Cornell and Morgan show in their Figure 1, the observed market price can become inflated even if it remains basically constant because, had adverse information been disclosed, the market price would have declined. Figure 1 of Cornell and Morgan (1990) at 887. Cornell and Morgan explain: "The price line and the value line coincide before a fraud or misrepresentation begins. Failure to disseminate information, or the dissemination of false or misleading information, then leads to an artificial inflation in the price of the security. Because the efficient market hypothesis states that the price of a security reflects publicly available information quickly and without bias, the price and value lines converge on the date that the fraud or misrepresentation is disclosed or corrected." *Id.* at 886.

investors in the Company's stock did not learn and therefore could not react to this information until then. Consequently, I used regression and event study analysis in this case to estimate the effect of corrective disclosures and leakage that dissipated the artificial inflation existing from the time of the first actionable non-disclosure.

Daniel R. Fischel

February 6, 2008

EXHIBIT 3

Page 1

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

LAWRENCE E. JAFFE PENSION PLAN,)
on behalf of Itself and All)
Others Similarly Situated,)
Plaintiffs,)
vs.) No. 02 C 5893
HOUSEHOLD INTERNATIONAL, INC.,)
et al.,)
Defendants.)

The videotape deposition of DANIEL R. FISCHEL, taken before Richard H. Dagdigian, Illinois CSR No. 084-000035, Notary Public, Cook County, Illinois, pursuant to the Federal Rules of Civil Procedure for the United States District Courts pertaining to the taking of depositions, at 115 South LaSalle Street, Suite 2910, Chicago, illinois, commencing at 8:56 a.m. on the 21st day March 2008.

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I N D E X

March 21, 2008

THE WITNESS	EXAMINATION BY COUNSEL FOR PLAINTIFFS	DEFENDANTS
DANIEL FISCHEL		
(By Mr. Owen)		6

FISCHEL DEPOSITION EXHIBITS

NUMBER	DESCRIPTION	PAGE
Exhibit 1	Report of Daniel R. Fischel	10
Exhibit 2	Rebuttal report of Daniel R. Fischel	10
Exhibit 3	Document titled "Efficient Capital Markets, the Crash, and the Fraud on the Market Theory", by Daniel R. Fischel	21
Exhibit 4	Document titled "Appendix 1, Household's Prospectus Disclosures"	89
Exhibit 5	Document dated Oct. 18, 2001 from Ventana Capital, titled "Household International (HI-$58-Sell)"	94
Exhibit 6	Document titled "Lead Plaintiffs' Opposition to Household Defendants' Motion to Compel", etc.	105
Exhibit 7	Document titled "VHS, Monitoring Report", Bates Nos. HHS 02948918 through 02948926	170

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A The footnote says that those two things are different pieces of information. That's correct.

Q When you are conducting the analysis that you do in your report, do you have to identify all the different pieces of information in order to reach conclusions about material changes in the stock prices?

A Now, you are shifting to my report?

Q It's a more abstract question, but it's about the methodology that you are following.

You have to identify the key pieces of information in order to analyze the changes in stock price?

A I'm not sure what you mean by "identify the keys pieces of information".

I did an events study analyzing the relationship between the stock price movements to all disclosures on every day during the class period; and for that matter, a stock price reaction today where I couldn't identify any disclosures.

Q Well, my question is, in footnote six of your article, you talk about and identify two distinct pieces of information that could relate to the claim of fraud in that hypothetical case.

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Generally speaking, do you have to know what the relevant pieces of information are when you are analyzing a plaintiff's claim of fraud?

A I think what the footnote suggests is you have to interpret stock price movements in a particular context, and that's the purpose of the footnote.

I think that's always true, if that's the question.

Q How can you tell if a particular piece of information relates to an alleged fraud or not?

A Again, generally, hypothetically, under any conceivable circumstances?

Q Uh hum. What would be the way you would analyze it?

A Again, it's very difficult to answer questions at this level of generality because every situation has to be analyzed based on the relevant facts and circumstances.

But, generally speaking, I would say you would look at the allegations in the case, the relevant public disclosures.

The stock price reaction to those disclosures likely perform an events study or

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regression analysis to make sure that the stock price reactions that you were interpreting are not attributable to market or industry or some other factors.

You look at all the other relevant economic evidence that might or might not be relevant depending on the facts and circumstances, and make a judgment, as well as look looking at all the other relevant publicly available information.

Q Your opinion says that the economic evidence that you reviewed is "consistent with the plaintiffs claims in this case".

A Are you referring to a particular statement in the report?

Q It's on page six, the last paragraph before Roman numeral III, the last sentence before Roman numeral III.

A I see that.

Q "I have concluded that the economic evidence is consistent with plaintiffs' claim that the alleged wrongdoing caused investors in Household's common stock to incur losses".

What do you mean by the words "consistent with"?

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A What I mean is, in the context of this case, that there are allegations about particular nondisclosures and misrepresentations.

I don't have an opinion on whether there were in fact misrepresentations or nondisclosures.

But in looking at the economic evidence, if there were in fact material omissions or nondisclosures as alleged, I would expect to see certain behavior of stock price movements as well as a certain pattern of reaction by market participants.

And when I looked at the economic evidence, it was consistent, as I said in the report, with the claims that are being made by the plaintiffs in this case for the reasons described in my reports.

Q Let me give you a hypothetical just to see if I understand what you just said.

Take two hypothetical companies; each of them is accused of the same undisclosed misconduct, and one of them is accused falsely, and the other is accused accurately.

The stock prices of both the companies decline significantly on the accusation.

Both of the companies deny the allegations, and both of the companies settle the claims for

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undisclosed reasons while continuing to profess innocence. Both are then sued for securities fraud.

Your methods, as they have been applied here, would identify the presence of inflation for both companies, is that correct?

A I just don't know if that's correct. I think I would have to look at all the relevant facts and circumstances and -- and if this were a real world situation.

But I do want to emphasize what might be the premise of your question, which is that I'm not expressing an opinion on whether there were in fact misrepresentations or omissions.

The economic evidence that I've looked at does not allow me to express an opinion on that subject.

I can express an opinion as to whether the economic evidence is consistent with those allegations, but does not establish that the allegations themselves are true.

Q Let me just see if I understood that.

The economic evidence could be consistent with the claims, but the claims themselves could be false?

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A The claim that there is legal liability for misrepresentations or omissions -- that may or may not be correct.

I don't have an opinion one way or the other on whether the claims that there were disclosure defects that were actionable under the securities laws -- I don't have an opinion on that.

I have an opinion as to whether the economic evidence is consistent with those allegations in the way that I described; that if those allegations were accurate, I would expect to see a certain pattern of stock price behavior as well as a certain pattern to my analysis of publicly available information.

I was able to test those things by looking at relevant disclosures, publicly available information, stock price movements, controlling for market and industry movements.

I looked at all of Doctor Bajaj's criticisms, responded to those, and I reached the opinions that I reached.

But that's why the last sentence of paragraph 11 says that, "the economic evidence is consistent with plaintiffs' claim" as opposed to

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establishes plaintiffs' claim.

Q You are aware that Household settled a bunch of different matters of litigation against it, disputes of regulators in this case?

A I am.

Q Are you offering any opinion as to the reasons Household settled any of those matters or litigations?

A No, I am not.

Q Now, you conduct a regression analysis in connection with your first report?

A Correct.

Q And that regression analysis tries to identify statistically significant changes in stock price after controlling for market and industry factors?

A That's correct.

Q What standard is being applied for statistical significance in your report?

A You mean what is -- I'm not sure what you mean by "what standard".

Q Well, supposedly the regression will say this movement is significant, and this other movement is not significant.

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And I want to know what the standard is to decide which is which.

A I used, as I typically do, as is conventional, a standard of any stock price movement that had a t-statistic of greater than 1.65, I consider to be statistically significant.

And any stock price movement that had a t-statistic less than 1.65, I did not consider to be statistically significant under the specification that's described in my report.

Q You talk about another standard involving a t-statistic of 1.96, I think?

A Correct.

Q What -- why do you talk about that standard?

A Just for purposes of providing background about the difference between a 1-tail test and a 2-tail test.

Q So the other standard doesn't have anything to do with the actual analysis that you do?

A I'm not sure what you mean by "doesn't have anything to do with" it. I think anybody could look at the results that are reported and conclude that the results are significant in either a 1-tail test

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or a 2-tail test, or neither.

But in terms of the standard that I used, I used a t-statistic of 1.65 which is the conventional level of statistically significance in a 1-tail test.

Q Speaking generally -- let me start again.

Did you apply a 2-tail test to any of the dates that you analyzed in your regression analysis?

A Well, the results lend themselves to applying any level of statistical significance.

You could apply statistical significance at the ten percent level, which would be the lowest t-statistic; you could apply statistical significance at the one percent level which would be a higher t-statistic.

But in terms of what I consider to be statistically significant, I used a 1-tail test and, therefore, a t-statistic of 1.65.

But the results allow you to use any level of statistical significance that anyone wants to do for any purpose.

But if you are asking me what I did, for the most part, I used a 1-tail test and a -- a t-statistic of 1.65.

Q So you talked about the 2-tail test in your

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report but you didn't actually use it?

A Again, I'm not sure what you mean by "use it". By reporting it, again, this is conventional, anybody can decide whether a particular event is statistical -- excuse me, statistically significant at the five percent level under either a 1-tail test or a 2-tail test.

But if you are asking me what I consider to be statistically significant, I used a 1-tail test at the five percent level, as opposed to a 1-tail test at the ten percent level, a 1-tail test at the one percent level, a 2-tail test at the ten percent level, a 2-tail test at the one percent level, or any other possible combination.

Q Does the 2-tail test provide a stronger indication of statistical significance than the 1-tail test?

A I'm not sure what you mean by a stronger indication. It requires a higher level of -- a higher t-statistic.

So, therefore, fewer events would be statistically significant at any given level of statistical significance in a 2-tail test than a 1-tail test.

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Q So fewer events are going to meet the 2-tail criteria than the 1-tail criteria?

A Holding everything else constant, correct.

Q Speaking generally, what does a significant -- statistically significant price change indicate to you?

A Generally it means that there is -- a residual of this size will be attributable to chance alone less than five percent of the time.

Q Do you use that inference to support a conclusion that some new piece of information has entered the marketplace that is affecting the stock in a way that can't be explained by market or industry factors?

A Sometimes. It depends on the relevant facts and circumstances.

Q Are there any statistically significant stock price movements of Household for which you have drawn that conclusion?

A Well, yes, I think there are -- in the context of my report, I think I identified 14 events where I drew that conclusion.

But if I looked at the full events study, there would be a lot more than 14. I just didn't

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consider other statistically significant stock price movements attributable to fraud related disclosures.

Q I'm looking at days where there was no statistically significant movement controlling the industry and market factors.

Whatever new information might have been available on those days wasn't sufficient to cause the stock price to change?

A In a statistically significant way, correct.

MR. OWEN: Do you want to take a break?

A Sure.

THE VIDEOGRAPHER: Going off the record at 10:17 a.m.

(Whereupon, a short recess was taken.)

THE VIDEOGRAPHER: This marks the beginning of tape two in the deposition of Daniel Fischel.

Going on the record, the time is now 10:26 a.m. Please proceed.

MR. BURKHOLZ: Excuse me, Mr. Owen, I think there was a discrepancy in his second to last answer regarding whether he said fraud or non-fraud related disclosures that I think he wants to clarify.

He thinks he said one thing and the record came out differently.

A I don't have it in front of me, but I think -- he pointed out to me that the transcript didn't reflect what I said.

It's on line 19, the sentence, "I just didn't consider other statistically significant price movements", and I guess it should say, "not attributable to fraud related disclosures", so it's clear in context.

BY MR. OWEN:

Q So there are a bunch of stock price movements that were significant under your regression analysis that were not attributable to fraud related disclosures?

A Correct.

Q And that actually leads into my next question, which is, I want to talk about the alleged fraud that you are analyzing in this case.

I guess, first, I want to ask you is, is it three theories of fraud or one theory of fraud in your mind?

A I'm not sure how to answer that. I guess I don't have independent theories of fraud.

My understanding is that the plaintiffs are alleging a fraud with several different components, three different components.

Q So the overall lawsuit alleges fraud, and that fraud has three parts to it?

A That's my understanding, but I don't have -- in response to your earlier question, I don't have my own independent theory of fraud.

Q In the complaint, they plead them separately, do you know that?

A I don't know if that's true or not true. It wouldn't have any significance to me in any event.

Q Okay. I don't need to show you the thing. I will represent to you that there are three different sections, and each deal with restatement, reage and predatory lending.

That doesn't have any effect on your answer to the prior question?

A How the complaint is drafted, whether there are three sections, three different sections? No, that has no relevance to me.

Q And your report analyzes the three components you talked about separately?

A I'm not sure I agree with that

characterization.

Q Well, let's look at it. It says -- starting on page six, Roman numeral III, "The relationship between plaintiffs' allegations and investors' losses" -- and the next heading is A, "Predatory Lending", and thereafter you talk about predatory lending issues for seven pages before you get to page 13 where it says, "B. Reaging", and you talk about reaging for five or six pages, and then you get to page 16, it says, "C. The Restatement".

That's what I mean when I say you analyzed them separately.

A Again, I'm not sure whether anything from for my purposes turns on whatever distinction you are trying to draw.

But in terms of the organization of the report, these are subsections under one general heading.

So even as a semantic matter, I'm not sure it's completely accurate to describe them as -- as distinct as opposed to different aspects of the plaintiffs' allegations.

But, again, the distinction that you are drawing doesn't have any particular economic

significance to me anyway.

Q Well, I guess the question I have is, in your mind, are the facts and circumstances of the three different components, as you call them, interrelated or are they distinct?

A I guess my understanding is that the plaintiffs claim that they are distinct -- I'm sorry, the plaintiffs claim they are interrelated rather than distinct, but I don't have any independent opinion on that one way or the other.

Q And you would agree that of the components, there are distinct factual issues and even different business units involved?

A I guess I understand that the three different components involve different areas of Household's business, so that by definition there would be some different factual issues involved.

Q Now, one set of issues relating to one component could be correct and, then, another set of issues relating to the other component could be false, and the falsity of the second component wouldn't necessarily have anything to do with the first component, right?

MR. BURKHOLZ: Objection, form.

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A You mean -- I'm not sure I understand the question. But are you asking is it possible that plaintiffs might be able to prove some of their allegations but not other of their allegations? Is that the question?

BY MR. OWEN:

Q Well, that's part of my question. But let me try again.

The merits of the three components could rise or fall with respect to each component independently of the other component?

A I don't -- that's possible, but I don't have an opinion on that one way or the other.

Q What is your understanding about the plaintiffs' contention that the three components are interrelated?

A That they claim they are interrelated.

Q You have no understanding of whether they -- or what those claims are, how they are interrelated?

A Other than what I've said, no, that the plaintiffs alleged that there is one fraud that has several different -- three different components to it.

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But, again, I don't have any opinion on that one way or the other.

Q And you didn't analyze any interrelated qualities of the three components?

A As I said, in terms of my own analysis, I don't think anything turns on this distinction that you are trying to ask me about.

Q Is that a yes or a no in terms of whether you analyzed any interrelated aspect of the allegations?

A I analyzed what I analyzed. Whether you want to call it interrelated or not, I don't know, because I don't know what you are -- what the distinction is that you are trying to draw when I keep saying it doesn't make any difference for purposes of my analysis.

Q Okay. First, I want to talk about the restatement issue. I want to go back to the first day of the class period, July 30, 1999.

You say on that date, the stock price was inflated by $7.97.

Let's assume the company is filing financial statements that day. How in your view could Household have cleaned up its act

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disclosurewise with respect to the restatement theory?

A Well, I'm not sure I really understand that question either, other than assuming that plaintiffs' allegations are correct, that there was improper accounting which led to the restatement.

If I understand your question correctly, they could have had correct accounting instead of improper accounting.

Q So the restatement that they did in 2002, they could have done that on that day, and that would have corrected the problem with respect to the restatement theory that the plaintiffs are alleging and are you analyzing?

MR. BURKHOLZ: Objection, form.

A I didn't really say that. I just said that if I understand the question correctly, what I said was that to avoid an allegation of improper accounting, you could have had proper accounting. It's again tautological.

BY MR. OWEN:

Q What is the proper accounting that they could have had?

A I'm not an accounting expert. I know that

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the restatement, as I describe in my --

Q Page 16?

A. That's the discussion of the restatement on page 16. The restatement refers to the accounting treatment for the credit card business, but beyond that -- because I've said repeatedly I don't have any opinion as to whether the accounting was correct or incorrect, as an independent accounting matter.

Q I understand you don't have any opinion as to whether the accounting was incorrect or correct.

But in terms of the inflation that you identify on the first day of the class period, some components of that inflation is fairly attributed to the claim, right or wrong, that Household had incorrect accounting on that day?

A That's correct.

Q So if they had had correct accounting on that day, then the inflation theoretically would have been something less.

A That's right.

Q That's what I mean by how they could have cleaned up their act. That's what I'm talking about.

Let's look at the reage theory.

A Okay.

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Q Going back again to the first day of the class period, how could Household have cleaned up its act with respect to the reage theory disclosurewise?
A That's really the same point. There is allegations in the case regarding improper disclosures concerning Household's reaging practices.
And as I just described, part of the inflation from the beginning of the class period is attributable to the alleged improper disclosures regarding reaging.
And you used the same term, how could Household have cleaned up its act, which is not the most precise term in the world, but to the extent that it's connected to the analysis that I performed, there could have been proper disclosure about Household's reaging practices on the first day of the class period.
Q Do you have to know, in order to do your analysis, what plaintiffs are claiming the improper or the proper disclosures are?
A No, although I guess I would say that the analysis of my calculation of artificial inflation could be adjusted by either me or a fact finder, depending on what the evidence at trial shows.

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Q Explain to me how that process might play out.
MR. BURKHOLZ: Objection, form.
A Again, it's hard to know because it's trying to anticipate what could happen in the future.
But if, for example, the evidence at trial either because of interim judicial rulings, tactical decisions, admissions, whatever, suggest that the alleged disclosure defects are different from the analysis in my report, that could have an effect on the amount of artificial inflation that could be taken into account either by me, or by a court, or by an opposing expert, or by the fact finder, depending on what the relevant facts and circumstances are.
Q What are the disclosure defects that you analyzed in your report with respect to the reage issue?
A I attempted to quantify the amount of artificial inflation attributable to the reaging issue in this particular part of my report.
So hypothetically if the evidence with respect to the reaging issue changed, or if there were no reaging issue, or if the reaging issue were somehow different than what I analyzed in my report,

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that that could be taken into account at a subsequent point in time.
Q The thing I'm trying to understand is, you talk about the reaging issue and disclosure defects with respect to the reaging issue that you analyzed in your report.
I want to know what those disclosure defects are that you are analyzing.
MR. BURKHOLZ: Objection, form.
A I think I've answered that; improper disclosures relating to Household's reaging practices.
I've tried to quantify the effect in terms of the amount of artificial inflation caused by improper disclosures, what I'm assuming were improper disclosures relating to Household's reaging practices.
And as I have said numerous times now, if the situation between the time that I wrote this report and trial changes in some way, my analysis could be adjusted by me or somebody else to take those differences into account.
BY MR. OWEN:
Q But sitting here today, you can't be any

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more specific than the words "disclosure defects" when talking about the reage issue, and what's included within that heading?
MR. BURKHOLZ: Objection, form.
A Well, I think my report goes into some detail as to what my understanding of those disclosure defects are.
I'm just -- as I said throughout -- not expressing an opinion as to whether or not in fact there were disclosure defects.
BY MR. OWEN:
Q I understand --
A On this issue or any other issue.
Q Putting aside the question of whether there were defects or there weren't defects with respect to the defects you are talking about, the alleged defects, let's look at your report, and I ask you to show me in these three and a half pages where you identify the particular disclosure defects that you are analyzing.
A There is a series of paragraphs discussing a belief on the part of market participants that Household did not fairly describe its financial situation, particularly its loss rate on subprime

disclosures were, why the disclosures were considered by me to be fraud related, what their effect was on my calculations of inflation, it's all described in my report.

I'm happy to answer any questions about any particular disclosure, but that's the general methodology that I followed.

Q So you didn't have to know what people meant when they said "predatory lending" to do your analysis?

A Well, you know, that goes a little bit too far. I think I said I didn't need to know whether everybody subjectively thought exactly the same thing.

But the disclosures themselves refer to what people meant when they refer to predatory lending in terms of, as I said, charging excessive fees, providing inaccurate disclosures, inducing homeowners to enter into inappropriate transactions -- all these different disclosures that I refer to just don't use the term "predatory lending" in the abstract.

They describe what the factual context is for their particular conclusions with respect to

Household's predatory lending practices.

Q We have talked about practices in the context of Household's business.

Did you understand the term "predatory lending" to include any products separate and apart from the methods by which those products were sold?

A I don't think I have an understanding on that one way or the other.

Q So you don't know?

A Well, you asked do I have an understanding of it. I don't. I didn't form an understanding one way or another on that question.

Q And as you said before, you don't have any particularized expertise with respect to any of these concepts? Just reading analysts' reports?

MR. BURKHOLZ: Objection, form.

A I don't claim to have any particular expertise as to whether or not Household's lending practices conformed with applicable legal and regulatory requirements.

I didn't make any independent determination of that issue. I don't have any particular expertise on that issue.

BY MR. OWEN:

Q Does your opinion assume that Household was doing predatory lending things during the class period?

MR. BURKHOLZ: Objection, form.

A Well, if what you mean by "predatory lending things" -- again, not the most clearly defined term in the world --

BY MR. OWEN:

Q I agree with that.

A That my opinion assumes that Household's disclosures with respect to its lending practices were deficient in the sense that Household did not provide full disclosure of the extent to which it was involved in predatory lending, and the various practices that market participants concluded constituted predatory lending which could have possible adverse legal consequences and adverse consequences for the value of Household stock.

Q Would that condition also exist in the time before the class period started?

A I guess I don't have an opinion on that one way or the other.

Q Well, your inflation analysis shows 7.97 of inflation on the first day of the class period, does

it not?

A Correct.

Q And that inflation presumably relates to a state of affairs that exists on that first day of the class period, correct?

A That I'm assuming exists on the first day of the class period, correct.

Q And have you no opinion about whether or not it exists the day before the class period or not?

A As I said, I don't have an opinion whether it exists on any day during the class period other than --

Q Fair enough --

A -- than what I've already stated. I don't have an opinion as to the accuracy of Household's disclosures in the abstract other than in the way that I've already stated.

Q Okay. Well, you said you assumed that it exists on the first day of the class period?

A I assumed that there were disclosure defects on the first day of the class period, without having an opinion about whether there were or there were not.

Q And those disclosures on the first day of

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the class period would presumably relate to circumstances that existed prior to the class period, and practices and products that were being sold at that time?

A Again, that's possible, but I don't have an opinion on that one way or the other.

Q Assume some of the practices that we are talking about as within the meaning of predatory lending were disclosed to the public, but were nevertheless criticized as predatory lending by activists or others.

Would that affect your inflation analysis?

A My analysis assumes that there were disclosure defects. So I guess my answer to your question would be maybe. It just would depend on the relevant facts and circumstances.

Q What would be the facts and circumstances you would want to know?

A Whether or not whatever disclosures you are assuming in your question constituted full disclosure or eliminating the possibility of any disclosure defects.

Q One of the things that's at issue in this case is the settlement that Household entered into

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with this group of Multi-state Attorneys General.

Looking again at the first day of the class period, is that a disclosure defect that existed in your mind as of that date?

A I'm not sure I understand the question. Obviously, the settlement itself is not a disclosure defect because it hadn't occurred on the first day of the class period.

Q I'm not really talking about the settlement itself. I guess it's the possibility of that future settlement.

MR. BURKHOLZ: Objection, form.

BY MR. OWEN:

Q Well, let me try again. Is it a part of plaintiffs' claim here at all, as you understand it, that Household should have disclosed that they would settle with the Multi-state group of Attorneys General?

MR. BURKHOLZ: Same objection, form.

A You know, I guess I don't have an opinion on that question one way or the other, except to the extent that I understand plaintiffs' claim to be that Household failed to disclose details of its lending practices which ultimately resulted in a series of

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legal and regulatory repercussions which adversely affected the value of Household securities during the class period.

BY MR. OWEN:

Q Would Household in making this hypothetical disclosure on the first day of the class period have had to accuse itself of illegal misconduct to correct the disclosure defects that you discuss in your report?

A I don't really have an opinion on what Household would have had to have disclosed to be in compliance with all applicable disclosure requirements on the first day of the class period.

Q You identify inflation on that day though?

A I do, that's correct.

Q And you don't have an opinion about how it could have eliminated that inflation on the first day of the class period?

A I have the opinion that I stated earlier, by having disclosures on that day and subsequent days which eliminated the alleged disclosure defects with respect to its lending practices.

Q Let me just say this as clearly as I can. In response to the question, what should Household

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have said to correct the disclosure defects on the first day of the class period with respect to the predatory lending issue, you don't have any answer?

A Other than what I've said, correct. I don't consider myself a disclosure expert, and I have not attempted to create model disclosures.

But in order to eliminate the inflation that my analysis shows on the first day of the class period, it would be necessary for there to be an absence of any disclosure defects with respect to this particular issue and the other issues addressed in my report.

Q And I guess at trial, it will be plaintiffs' burden to establish that these defects existed?

MR. BURKHOLZ: Objection, form.

A Again, I'm not sure who would have what burden, but certainly there would have to be an adjudication that there were disclosure defects for my analysis to be meaningful.

BY MR. OWEN:

Q Are you offering any opinion regarding scienter?

A No, I'm not.

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significance which wouldn't do, in any event, because it's not an area of expert economic analysis.

MR. OWEN: Since we have five minutes left on the tape, let's take a break.

THE VIDEOGRAPHER: This marks the conclusion of tape two in the deposition of Daniel Fischel.

Going off the record, the time is now 12:11 p.m.

(Whereupon, at 12:11 p.m., the deposition was recessed, to resume at 12:45 p.m., this same day.)

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AFTERNOON SESSION

(12:48 p.m.)

THE VIDEOGRAPHER: This marks the beginning of tape three in the deposition of Daniel Fischel.

Going on the record, the time is now 12:48 p.m. Please proceed.

DANIEL R. FISCHEL,

the witness at the time of recess, having been previously duly sworn, was examined and testified further as follows:

EXAMINATION (continued)

BY MR. OWEN:

Q Turn back to your rebuttal report at page 27.

A Okay.

Q Paragraph 36, it says, "Plaintiffs claim that the alleged omissions were inflationary events because they prevented the price from falling to its true, uninflated value. Under this theory, the company's stock price did not have to increase upon defendants allegedly false statements in order to become inflated".

Do you see that?

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A I do.

Q Okay. I guess my first question is, how do you know that the plaintiffs are claiming that?

A That's my understanding of the claim.

Q Does it say it in the complaint, or did somebody tell you that they are claiming that?

A I don't recall what the complaint says. As I said, that's just my understanding of what they are claiming.

Q But you don't recall any place in the complaint where it says that?

A I don't recall one way or the other.

Q Do you recall anybody explaining that theory to you?

MR. BURKHOLZ: Objection. You are getting into an area that's -- my understanding is, pursuant to stipulation, you are not allowed to get into communications with counsel.

MR. OWEN: Well, you know, I think the stipulation generally covers communications with counsel, but in this case, the question is how he formed a belief with respect to a statement that it says in his report.

BY MR. OWEN:

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Q I don't need you to answer with respect to the contents of what they said. But what I want to know is, did this come from something that somebody told you?

MR. BURKHOLZ: Same objection.

A I'm not sure I can say with any greater degree of specificity.

I've been working on this case a long time, and in all of my discussions with people at Lexecon, particularly Mike Keable, we have been proceeding under the assumption, I would say somewhat confirmed by our stock market analysis, that the allegations with respect to the beginning of the class period were in the nature of alleged omissions.

BY MR. OWEN:

Q Why does the fact that the allegations at the beginning of the period being omissions -- I'm sorry, let me say that again.

Why does the fact that the allegations at the beginning of the class period relate to alleged omissions matter in terms of this portion of your report, those two sentences I just read?

A Well, this is in the context of a discussion, I think, motivated by a comment by the

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Court as to the proper use of regression analysis.
And the purpose of the statement, as is clear from the context as well as the footnote, is to make clear that there can be situations where there is no stock price reaction to particular disclosures but, nevertheless, the particular disclosures can be responsible for creating inflation in the price of the stock in terms of a divergence between price and true value.
That's what's explained in this particular paragraph and surrounding paragraphs.
Q Okay. Now, in your inflation chart, you have 7.97 in inflation from July 30 all the way through to November 15 -- I'm sorry -- well, let me start again.
In your inflation chart, you have $7.97 in inflation on July 30, 1999, and the same 7.97 all the way through to November 15th, 2001.
Is it your assumption that the plaintiffs' claims during that period relate only to omissions?
A First, just by way of making sure there is no misunderstanding, as you know, I have different inflation charts, and I'm just following procedure --
Q Right -- as I said before, we are only

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talking about the event studies.
A Both are event studies.
Q Okay. Fair point. The event study with specific disclosure.
A Quantification of specific disclosures.
Q Uh hum.
A Now, turning back to your question, I guess it's a combination of my understanding of the thrust of the plaintiffs claim at the beginning of the class period being based on omissions, and the findings of our analysis of relevant stock price movements in relation to particular disclosures.
I would say the analysis of inflation as opposed to this more theoretical discussion in this particular paragraph -- not just an assumption, it's also based on our analysis performed under my direction of stock price reactions to particular disclosures.
Q Let me go back to -- with respect to one part of your answer.
Am I to understand from your statements that this two-sentence passage that I just read is not accurate with respect to the leakage analysis, or doesn't apply to the leakage analysis?

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A I think you are asking about several different things simultaneously.
First, you are asking me about this paragraph which deals with the proper scope -- proper use and interpretation of regression analysis, and the implication of that discussion of regression analysis for the fact as discussed in the next sentence that I didn't find any statistically significant price increases that resulted in inflation from the beginning of the period, and through November 15th, 2001.
So I would say that's one set of issues.
And then a second set of issues is what actually I did for -- with respect to my analysis of quantifying inflation using -- or taking into account leakage where the existence of statistically significant price movements are part of the analysis, but only part of the analysis, which I can describe in more detail if you want to ask me about it.
Q I want to leave leakage to the side for the moment.
Let me see if I understand what you are saying is, because what the plaintiffs are alleging are omissions, you wouldn't expect to see a stock

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price movement from an omission.
Therefore, you can make conclusions about what was happening in the stock irrespective of any actual price changes?
A I would say not exactly. Whether a statement that's alleged to be an omission results in a price reaction depends on -- or causes a price reaction depends on the facts and circumstances of that particular statement.
What's said here is that the absence of a price reaction does not negate the possibility that the statement is nevertheless a material omission depending on, again, what the relevant facts and circumstances are.
Q You call this "plaintiffs claim" and, then, say "under this theory".
Now, is this something that you assume to be true for the purposes of your opinion?
A Not really. I could just as easily -- this again is a discussion of the proper interpretation of regression analysis. That's the purpose of it.
If I make the opposite assumption, not for purposes of illustrating the limits of regression analysis, but if I make the opposite assumption that

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plaintiffs claim particular statements are misrepresentations as opposed to omissions, and there is no statistically significant price reaction to them, putting the leakage theory to one side, I would still conclude that those statements would not be the basis of a material misrepresentation which would be included in my quantification of specific disclosures, because there is no statistically significant price reaction as a result.

So nothing really, for my purposes, turns on whether these statements are considered to be omissions or misrepresentations.

But for purposes of understanding regression analysis, it's important -- or the limits of regression analysis, it's important to understand that distinction.

Q Do you see where it says, "E.g., quarterly financial results", after the words, "allegedly false statements"?

A I do.

Q Is any statement made during the class period an inflationary event on this theory?

A On what theory?

Q This theory that we are talking about,

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under this theory that, "The company stock price did not have to increase upon defendants allegedly false statements (e.g., quarterly financial results) in order to become inflated".

A Again, this is a statement about the limits of regression analysis.

What I would say is that a disclosure which contains an omission can create inflation even if there is no price reaction to it.

That's the purpose of the -- that's the purpose of the sentence, and that's really the only purpose.

But with respect to my actual quantification of inflation focused solely on disclosures as opposed to the leakage theory, the only thing I took into account were statements that had a statistically significant price reaction in response.

Nothing turns on whether or not the statements are characterized as omissions or misrepresentations.

Q But that's the word that you used -- "omissions".

A For purposes of understanding what the

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limits of regression analysis are, and why it's possible that inflation could exist at the beginning of the class period, even if there are no disclosures at the beginning of the class period that have a statistically significant price reaction associated with them.

Q Do you have an understanding of what the allegedly false statements are?

MR. BURKHOLZ: Objection, form.

BY MR. OWEN:

Q When you say, "for example, quarterly financial results", I guess that's one of them, right?

A Well, that's a category of false statements, correct -- allegedly false statements.

Q Okay. Are there any other categories of allegedly false statements that you are aware of?

A My understanding is that the plaintiffs allege that all public statements from the beginning of the class period contained material nondisclosures relating to the three different areas that I discuss in my report.

And what I've attempted to do is, based on that assumption, attempt to quantify the amount of

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inflation that resulted, and how that inflation varied over time as different disclosures occurred, which either increased or decreased inflation during the class period.

Q You said all public statements from the beginning of the class period.

Is that the case no matter what the subject of the statement was?

A No, public statements in the nature of quarterly financial statements. So 10-Q's, 10-K's, 8-K's, if there were any, public disclosures that dealt with the subject matters of the alleged falsehoods.

If there is a public disclosure that XYZ was just promoted to a vice president, I wasn't including that in my category.

Q So those are not alleged to be false statements unless we are talking about quarterly financial results?

MR. BURKHOLZ: Objection, form.

BY MR. OWEN:

Q Or things on the list that you just gave me?

A I'm not making the allegations, so -- I'm

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just giving you my understanding of what the allegations are.

Q Okay. That's important, because you are the one who is quantifying the effects of those allegations.

A Is that a question?

Q Well, is it not important for you to understand what the allegations are accurately if you are going to put forth an opinion about what the effects of those allegations may have been?

A I would say it is important for my analysis to understand that the plaintiffs allege that there were disclosure defects in the three areas that I discuss in my report dating back to the beginning of the class period.

Q And the disclosure defects, as you understand them, relate to quarterly financial results, 10-K's, 10-Q's, 8-K's, and anything else?

A I only use those as illustrative. I haven't attempted to -- to identify every single disclosure that the plaintiffs allege to be false and misleading either because of a misrepresentation, or omission, or both.

Q But they had to relate to financial results

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at the very least?

A I'm not ensure that's true. Again, I'm not the one making the allegations, but I could imagine there could be allegations about particular disclosures that don't report actual financial results.

Q And you don't know whether plaintiffs are claiming those or not?

MR. BURKHOLZ: Objection, form.

A You know, as I sit here, I don't recall exactly what plaintiffs' allegations are with respect to every single disclosure that Household made during the class period.

BY MR. OWEN:

Q Let's look at the August 16th date, 1999, when they release quarterly financial results.

A Okay.

Q Would the allegedly false statements for that -- applicable to that particular quarterly statement be the same for the announcement of the results that took place on July 22nd?

MR. BURKHOLZ: Objection, form.

A I think for purposes of my analysis, I think it is fair to say that to the extent that I've

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concluded that the artificial inflation on July 30th and August 16th was identical, and the basis -- my understanding of the basis for that conclusion with respect to July 30th is the company's disclosure on July 22nd, that I guess I would agree that the amount of inflation that I've calculated on those two days is the same with the very important caveat of what I described at length before lunch, that in order to have inflation, you have to have a basis to recover.

BY MR. OWEN:

Q But putting aside the basis to recover, the falsity would be the same as to the announcement of results on the 22nd of July and a reporting of the results on August 16th?

MR. BURKHOLZ: Objection, form.

A I would say based on my analysis, the impact of a hypothetical disclosure or series of disclosures on those two dates would be the same.

But there is the important caveat that I'm not going to repeat again.

BY MR. OWEN:

Q That was the caveat in my question. I accept it, that that's your position.

Assume that Household had disclosed its

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second quarter 99 results on some day other than the 16th, say the 18th. Would that have any impact on your inflation chart in your report?

A Which inflation chart?

Q The specific disclosures chart.

A No, it would not. It would on the other one, but not -- it would on the leakage model, but not the quantification based on specific disclosures.

Q The last two words of that sentence says "in order to become inflated".

And I think we understand that on all of the days we are talking about here at the beginning of the class period, the inflation stays exactly the same.

In what sense --

A I'm sorry, on all --

Q Well, from July 30 to August 17, the day after the first announcement, the inflation is the same on each day?

A Correct.

Q I want to understand in the sense that you use the words "to become inflated", how the stock price is becoming inflated on any of those days?

A I think I've explained that at length, as a

So in some sense, the footnote itself is a little bit understated in terms of what was done, as is clear from looking at my original report.

The event study also contains a comment column at the last column of the event study which enables me to look at what happened on a particular day, not just the stock price reaction, using the particular model that is being used here to generate predicted returns, but also what is in the comment column, and if there is any relationship between the comment column and the stock price movement on that day.

So we really examined every single day during the entire class period, and selected, really, 14 days where there was a statistically significant reaction to a particular disclosure related to the plaintiffs' allegations in ways that are described at length in the report for purposes of my first method of quantifying inflation.

Q Now, as I understand it, the event study, the thing we are looking at right now, identifies 22 days when the stock price changed in a way that's significant under the standard that you applied, right?

A Do you want me to count them or is this just another --

Q No, I believe that's correct. Does that sound wrong to you?

A I don't know if it's right or wrong. It sounds like another Doctor Bajaj conclusion.

It might be right, it might be wrong. I don't know. If you want to know -- it's easy to count.

You just look at the number of three-star days, so maybe I will just do that -- one, two, three, four, five, six, seven, eight, nine, 10, 11, 12, 13, 14, 15, 16, 17, 18, 19, 20.

I don't know. It looks to me like there is a lot more.

Q Okay. I agree with you, I think we are really talking about apples and oranges here.

But there is more than the 14 days you settled on?

A Correct --

Q Ultimately. So there is more things going on with respect to Household than just the things that are related to plaintiffs' allegations here in terms of statistically significant price movements?

A Correct, that's certainly true. That's right.

Q And among this list of the significant days, you analyzed what happened on those days, and winnowed the list of significant days down to 14?

A Again, the event study analyzes what happened on every day. For purposes of my first method of quantifying inflation, I chose 14 dates, correct.

Q I want to ask you a question about what your expectations were when you looked at some of these dates.

The 1-tail test that you talked about anticipates a particular kind of movement in one direction?

A That's correct.

Q Using that test, does that mean that you expected certain kinds of reactions to the events that you are testing against?

A I would say that using that test of statistical significance, you have a hypothesis of which direction stocks are going to move in response to a particular disclosure.

Q So you are not agnostic as to how it might

move. You have actually an anticipated direction of movement?

A Correct, if you are using a 1-tail test.

Q Now, of the 14 days that you picked, 13 of them would meet the 2-tail test that you talk about in your report, isn't that correct?

A I have to look. It's possible, but I have to look.

Just as a shorthand, if I look at Exhibit G of my rebuttal report, which is my regression analysis with the inclusion of the additional independent variable that Doctor Bajaj indicated should be used, it looks like all 14 would meet the test of statistical significance under either the 1-tail or 2-tail test.

Q Okay. But looking at your original report, and footnote 16 on page 20, at the very bottom, it says, "The residual return on August 14", turning to the next page, "2002, the date the restatement was announced, was minus 2.5 percent, and the t-statistic was 1.77". Do you see that?

A I do.

Q Now, that t-statistic does not meet the 2-tail test?

A That's correct, at least at the five percent level of significance.

Q And I believe that's the only date among all the dates discussed in your original report which does not meet the 2-tail test?

A Of all the dates discussed where I said that there was a statistically significant --

Q Right, of the 14 days.

A Price reaction. That looks right.

Q That's the only date among the 14 that relates in any way to the restatement, correct?

A Correct.

Q So if you only applied the 2-tail test, the agnostic test in your original report, you wouldn't have found any statistically significant dates relating to the restatement?

A If I used a 2-tail test at a five percent level of significance, that's correct.

But I wouldn't consider that the appropriate thing to do.

But if I had done it, that's what I would have concluded.

Q That's what you demonstrated with your event study here and the long list of statistically

significant days here.

Is it fair to say that just because a stock price changes significantly after accounting for market industry factors, that does not mean that that stock price change is related to an alleged fraud?

A It certainly does not necessarily mean that, that's correct.

Q Hypothetically speaking, what are some examples of declines that would not be attributable to a claim of fraud in this matter?

A Any negative event which causes a statistically significant price decline where there is no claim that the negative event should have been disclosed at an earlier point in time, and all of the legal requirements to support that claim was satisfied.

I should say -- I said that a little bit backwards. Let me say that again.

Any negative event which causes a statistically significant price decline where there is no allegation that the negative event should have been disclosed at an earlier point in time.

Q And that was in fact the conclusion you reached for all of the days on this list that didn't

end up in the 14 that you picked?

A Correct.

Q It's also possible that two different things might happen on the same day, correct?

A Correct.

Q And then also there is the possibility that the statistical significance was just a random fluctuation?

A Yes, although the whole idea of statistical significance is to minimize that possibility. But it is a possibility.

Q One in 20 times --

A You could have a statistically significant price reaction that's attributable to chance alone.

Although when you are going from the abstract to the concrete, and you are looking at price reactions to particular disclosures, and you have a context to investigate where you know that there is a disclosure, you may know how the disclosure is interpreted by market participants, then the one in 20 figure wouldn't necessarily apply. You might be more confident in your judgment.

Q We talked about how the 1-tailed test anticipates a particular kind of movement in response

to a particular new piece of information.

A I wouldn't use the word "anticipates". I would say you have a hypothesis as to which direction.

Q Okay --

A -- a price is going to move.

Q The 1-tail test has a hypothesis about what direction a stock price will move.

I guess now I want to look at these 14 days. I guess one of them we have already talked about was the credit card restatement date.

Another two of them related to the settlement with the group of Multi-state Attorneys General on October 10th and 11th of 2002 which your report treats together.

On both of those days, the stock price and the inflation, which was negative, went up.

Is my understanding correct on that?

A Well, the exhibits aren't marked so I have to find the correct exhibit.

Q It's Exhibit 53.

A Correct. And you are asking about October --

Q 10th and 11th.

MR. OWEN: All right. I don't have any more questions really. Thank you very much.

A Thank you. Again, I apologize for the weather.

THE VIDEOGRAPHER: This marks the conclusion of today's deposition of Daniel Fischel.

Going off the record, the time is now 4:28 p.m.

(Whereupon, at 4:28 p.m., the signature of the witness having been reserved, the witness being present and consenting thereto, the taking of the instant deposition ceased.)

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

LAWRENCE E. JAFFE PENSION PLAN,)
on behalf of Itself and All)
Others Similarly Situated,)
Plaintiffs,)
vs.) No. 02 C 5893

HOUSEHOLD INTERNATIONAL, INC.,)
et al.,)
Defendants.)

I, DANIEL R. FISCHEL, state that I have read the foregoing transcript of the testimony given by me at my deposition on the 21st day of March 2008, and that said transcript constitutes a true and correct record of the testimony given by me

at said deposition except as I have so indicated on the errata sheets provided herein.

____
DANIEL R. FISCHEL

No corrections (Please initial)________
Number of errata sheets submitted ____________(pgs)

SUBSCRIBED AND SWORN TO
before me this _____day
of ____________, 2008.

____
NOTARY PUBLIC

STATE OF ILLINOIS)
) SS:
COUNTY OF C O O K)

I, RICHARD H. DAGDIGIAN, Illinois CSR No. 084-000035, Registered Professional Reporter and Notary Public in and for the County of Cook, State of Illinois, do hereby certify that previous to the commencement of the examination, said witness was duly sworn by me to testify the truth; that the said deposition was taken at the time and place aforesaid; that the testimony given by said witness was reduced to writing by means of shorthand and thereafter transcribed into typewritten form; and that the foregoing is a true, correct, and complete transcript of my shorthand notes so taken as aforesaid.

I further certify that there were present at the taking of the said deposition the persons and parties as indicated on the appearance page made a part of this deposition.

I further certify that I am not counsel for nor in any way related to any of the parties to this suite, nor am I in any way interested in the outcome thereof.

I further certify that this certificate applies to the original signed IN BLUE and certified transcripts only. I assume no responsibility for the accuracy of any reproduced copies not made under my control or direction.

IN TESTIMONY WHEREOF, I have hereunto set my hand and affixed my notarial seal this ____day of ____________, 2008.

____

Richard H. Dagdigian, CSR, RMR, CRR

My Commission expires
May 1, 2011.

EXHIBIT 4

UNITED STATES DISTRICT COURT

NORTHERN DISTRICT OF ILLINOIS

In re: Lawrence E. Jaffe Pension Plan Plaintiff,	
v.	Lead Case No. 02-C-5893
Household International, Inc., et al Defendant,	

AFFIDAVIT OF BRADFORD CORNELL

October 30, 2008

I. Qualifications

(1) I am currently a visiting Professor of Finance at the California Institute of Technology. Previously, I was a Professor of Finance and Director of the Bank of America Research Center at the Anderson Graduate School of Management at the University of California, Los Angeles ("UCLA") for 26 years.

(2) I earned a master's degree in Statistics from Stanford University in 1974 and earned my doctorate in Financial Economics from Stanford in 1975. I have served as an editor of numerous journals relating to business and finance and have written more than 80 articles and two books on finance and securities, including Corporate Valuation: Tools For Effective Appraisal and Decision Making, published by McGraw-Hill, and The Equity Risk Premium and the Long-Run Future of the Stock Market, published by John Wiley and Sons. To complement my academic writing, I have also authored articles for *The Wall Street Journal* and the *Los Angeles Times*.

(3) In 1988, I was cited by the Financial Management Association as one of the ten most prolific authors in the field of finance. I have also received prizes and grants for my research from the Chicago Board of Trade, the Chicago Mercantile Exchange and the Institute for Quantitative Research in Finance. My article, "Corporate Stakeholders and Corporate Finance," received the 1987 Distinguished Applied Research Award from the Financial Management Association. In 1999, I was awarded the I/B/E/S prize for empirical work in finance and accounting (with Wayne Landsman and Jennifer Conrad). More recently, Richard Roll and I received a Graham and Dodd Scroll Award from the Financial Analyst Society for our work on delegated agent asset pricing theory.

(4) I have served as a Vice President of the Western Finance Association. I am also a past director of both the American Finance Association and the Western Finance Association. I have served as an associate editor of numerous professional journals including: *The Journal of Finance, The Journal of Futures Markets, The Journal of Financial Research* and *The Journal of International Business Studies.* I have served as a reviewer for nearly a dozen other professional journals.

(5) My teaching and writing have focused on a number of different financial and economic issues, many of which are relevant to the subject matter of this declaration. I currently teach Applied Corporate Finance and Investment Banking at Caltech. I have drawn upon this experience in order to formulate the opinions provided herein. In addition to my teaching, writing, and research studies, I also serve as senior consultant to CRA International ("CRA"), an international consulting firm. In my position as a senior consultant, I advise business and legal clients on financial economic issues. Prior to my affiliation with CRA, which began in March of 1999, I operated FinEcon, a financial economic consulting company, through which I also advised business and legal clients on financial economic issues. I have served as a consultant and given testimony for both plaintiffs and defendants in a variety of securities, regulatory and commercial lawsuits. During my many years of experience as an expert witness and consultant, I have provided economic analyses and expert testimony (again, for both plaintiffs and defendants) related to valuation, corporate finance and damages issues. I have been engaged as a damages expert in numerous high-profile cases that revolved around complex financial and securities transactions.

(6) My background is described more fully in my curriculum vitae, which is attached as Exhibit 1 to this affidavit. A list of my publications may also be found as part of Exhibit 1.

(7) My hourly rate in this matter is $750.

II. Materials Reviewed and Opinions

(1) In preparing by opinions in this matter I have reviewed:

a. The report, rebuttal report and deposition transcript of Prof. Daniel Fischel.

b. The report and rebuttal report of Dr. Mukesh Bajaj.

c. My published article: "Using Finance Theory to Measure Damages in Fraud on the Market Cases." With G. Morgan. *UCLA Law Review*, Vol. 37, No. 2, 1990, pp. 883–924.

d. The expert report of Dr. Blaine Nye and the court opinion in Re *Williams Securities Litigation*.

(2) Based on my review of his report, I understand Prof. Fischel did the following in developing his leakage model. First, he estimated a regression model which related the return on Household's stock to the returns on the S&P 500 and S&P Financials Indexes during the period from November 15, 2000 to November 14, 2001. Second, Prof. Fischel used the regression model to predict the returns for Household's stock on a daily basis during the period from November 15, 2001 to October 11, 2002 (the alleged "leakage period"). Finally, he calculated a value line based on the assumption that but-for leakage of fraud related information, the return on Household's stock would have equaled the predicted return from the regression model for every day during the leakage period.

(3) Although Prof. Fischel refers to his leakage model as an event study approach, citing my paper with Mr. Morgan as support, I do not agree. Instead, it is what Mr. Morgan and I

refer to as a comparable index approach. I say this because during the alleged leakage period Prof. Fischel does not identify any specific events. Instead, for every day during the period his procedure treats the difference between the return predicted by his model and the actual return on Household stock as being attributable to the leakage of fraud related information. As a result, Prof. Fischel's approach, as applied to the leakage period, is identical to the comparable index approach described on page 898 of Cornell and Morgan.

(4) Whether Prof. Fischel's approach is called an event approach or a comparable index approach, it still suffers from the problem that Mr. Morgan and I discuss on page 903 of our paper. There we say, "The trouble with the comparable index approach, . . . is that it attributes any decline in the security price that is not due to movements in the market or the industry to disclosure of the fraud. If the disclosure of the fraud is associated with the release of other company-specific news, the comparable index approach will overestimate the true damages."

(5) The recognition of this problem with the comparable index approach is not unique to Mr. Morgan and me. It has been widely documented in the academic literature, including published work by Prof. Fischel. In fact Prof. Fischel concedes this issue in his deposition:[1]

Q: So there are a bunch of stock price movements that were significant under your regression analysis that are not attributable to fraud related disclosures?

A: Correct.

(6) Furthermore, this comports with common sense. For companies like Household over a period as long as the alleged leakage period, there are hundreds, if not thousands, of news

[1] Daniel R. Fischel's deposition, March 21, 2008, page 57, line 12.

items. Assuming the model employed by Prof. Fischel properly nets out market and industry related effects, there are still hundreds of news items that deal with Household itself. Prof. Fischel's leakage model assumes, without demonstrating, that all the news items that affect Household's stock price are related to the fraud. In my opinion as an economist, that assertion does not provide adequate evidence, indeed it really provides no evidence, that the stock price decline was caused by leakage of fraud related information rather than disclosure of other firm specific news.

(7) In this respect, I note that in addition to economists courts have also concluded that models such as the one employed by Prof. Fischel do not adequately measure the extent a company's stock price decline that can be attributed to leakage of fraud related news. For instance, in Re *Williams Securities Litigation*, Dr. Blaine Nye used a model similar to Prof. Fischel's also with the goal of estimating the impact of the leakage of fraud related news on Williams's stock price. In response, the court granted a Daubert motion excluding Dr. Nye's testimony saying that "the applicable law requires a securities fraud plaintiff in a 'fraud on the market case' to identify compensable losses by separating the compensable fraud-related losses from losses attributable to general economic conditions, broad market trends, industry-specific stresses, management incompetence, bad luck and other non-fraud factors." In my opinion, the court's thinking in Williams is spot on from the perspective of an economist. Although Prof. Fischel's model could take account of market and industry factors, assuming it is properly specified, it does not take account of firm specific factors. Therefore, any estimate of inflation produced by this model cannot be relied upon.

(8) There is one final issue that arises when regression models are applied over long periods to predict returns as Prof. Fischel does in his leakage model. No regression model

perfectly accounts for market and industry factors. Nonetheless, if the models are used to calculate residual returns over intervals of no more than a few days, the errors are generally minor. However, when a model is used to predict returns over periods hundreds of days long the errors compound. Such compounding, in turn, can produce significant errors in measured inflation. This is another reason to be skeptical of the results produced by the comparable index approach.

Bradford Cornell

October 30, 2008

CALIFORNIA ALL-PURPOSE ACKNOWLEDGMENT

State of California

County of Los Angeles

On October 30, 2008 before me, Patricia Knoebl-Wood,
Date — Here Insert Name and Title of the Officer

personally appeared Bradford Cornell
Name(s) of Signer(s)

who proved to me on the basis of satisfactory evidence to be the person(s) whose name(s) is/are subscribed to the within instrument and acknowledged to me that he/she/they executed the same in his/her/their authorized capacity(ies), and that by his/her/their signature(s) on the instrument the person(s), or the entity upon behalf of which the person(s) acted, executed the instrument.

PATRICIA KNOEBL-WOOD
Commission # 1761318
Notary Public - California
Los Angeles County
My Comm. Expires Aug 12, 2011

Place Notary Seal Above

I certify under PENALTY OF PERJURY under the laws of the State of California that the foregoing paragraph is true and correct.

WITNESS my ~~hand and~~ official seal.

Signature Patricia Knoebl-Wood
Signature of Notary Public

OPTIONAL

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Document Date: October 30, 2008 Number of Pages: 7

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- ☒ Individual
- ☐ Corporate Officer — Title(s): ____
- ☐ Partner — ☐ Limited ☐ General
- ☐ Attorney in Fact
- ☐ Trustee
- ☐ Guardian or Conservator
- ☐ Other: ____

Signer Is Representing: ____

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- ☐ Corporate Officer — Title(s): ____
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EXHIBIT 5

UNITED STATES DISTRICT COURT

NORTHERN DISTRICT OF ILLINOIS

EASTERN DIVISION

LAWRENCE E. JAFFE PENSION PLAN, On Behalf of Itself and All Others Similarly Situated, Plaintiff, vs. HOUSEHOLD INTERNATIONAL, INC., et al., Defendants.	Lead Case No. 02-C-5893 (Consolidated) CLASS ACTION Judge Ronald A. Guzman Magistrate Judge Nan R. Nolan

LEAD PLAINTIFFS' FOURTH AMENDED RESPONSES AND OBJECTIONS TO HOUSEHOLD DEFENDANTS' [NINTH] SET OF INTERROGATORIES TO LEAD PLAINTIFFS

In addition to the above, Lead Plaintiffs further incorporate by reference and identify the Expert Report of Harris L. Devor dated August 15, 2007, and all documents referenced therein. Mr. Devor's report discusses, *inter alia*, how Household's reage, restructure, or account management policies and practices rendered the Company's loan loss reserves unreliable.

INTERROGATORY NOS. 292-305 [64]:

For each Disclosure identified in response to Interrogatory Nos. 31-33, set forth the "truth" that you contend was revealed to the market by the Disclosure.

RESPONSE TO INTERROGATORY NOS. 292-305 [64]:

Lead Plaintiffs hereby incorporate by reference all the General Objections above, as if fully set forth herein. Lead Plaintiffs also incorporate by reference all the General and Specific objections included in Lead Plaintiffs response to Interrogatory Nos. 131-134 [31-33]. Lead Plaintiffs also object to this interrogatory as compound on the grounds that it seeks responses for each of the numerous disclosures set out in three separate interrogatory responses. Lead Plaintiffs object on the grounds this interrogatory is properly the subject of expert testimony and expert discovery has not yet been completed. Lead Plaintiffs also object to this interrogatory as vague and ambiguous since the term "truth" is quoted in the interrogatory but is neither defined in the Interrogatories nor referenced in any of the responses to Interrogatory Nos. 131-134 [31-33].

Pursuant to the Court's June 14, 2007 Order, including the Court's directive to "provide an explanation as to the nature of that 'partial information' and how it contributed to the relevant 'truth' becoming 'generally known' to the marketplace," plaintiffs amend their response to this interrogatory to read as follows:

As noted in plaintiffs' responses to Interrogatory Nos. 131-134 [31-33], beginning in late 2001 certain limited facts regarding Household's true operational and financial condition began to leak into the market. Each time negative information about Household was disclosed, however, defendants were swift to react with additional false statements in furtherance of the fraud. Plaintiffs' responses to Interrogatory Nos. 131-134 [31-33] list examples of these partial disclosures and defendants' false denials in response. As the Court in this action has recognized "there are a tangle of factors affecting price and the market may learn of possible fraud through a number of sources [besides a formal corrective disclosure]: *e.g.*, from whistleblowers, analysts' questioning financial results, resignations of CFOs or auditors, announcements by the company of changes in accounting treatment going forward, newspapers and journals, etc." September 19, 2006 Order at 5 (internal quotations omitted and alteration in original). Thus, "the truth that a misrepresentation or omission conceals can make its way into the market, resulting in dissipation of a fraudulently inflated share price, long before a company issues a formal 'corrective' announcement, and by a variety of other ways" including "a series of earlier, smaller disclosures by the issuer or others that gradually leads market participants whose actions set price to conclude that the misstatement was false" or "a growing quiet awareness on the part of certain highly sophisticated market participants – arbitrageurs and sell side analysts – that previously publicly-available facts, which for a time had gone unnoticed or seemed unimportant, were in fact inconsistent with the misstatements. Yet another is that the higher earnings or sales in the future that one would have predicted based on the misstatement do not materialize or the poor financial condition of the issuer, which the misstatement masked, subsequently becomes obvious." *In re Motorola Sec. Litig.*, No. 03 C 287, 2007 U.S. Dist. LEXIS 9530, at *118-119 (N.D. Ill. Feb. 8, 2007). In this case, over time as more and more information relating to the Company's improper lending, re-aging and credit card accounting practices was revealed to investors, defendants' denials and other false statements became less and less credible and the artificial inflation contained in Household's stock price due to the fraud dissipated, removing artificial inflation. The chart below reflects examples of disclosures by analysts, third parties and defendants that revealed partial information regarding Household's true financial and operating condition with respect to the fraud alleged in the Complaint and describes the information these disclosures revealed:

After the close of trading on November 14, 2001, the *Associated Press*, *Business Wire* and *Los Angeles Times* reported that the California Department of Corporations sued Household for $8.5 million, alleging the Company engaged in predatory lending practices.	The November 14, 2001 articles reported that the State of California sought $8.5 million "as a result of numerous violations of the laws and regulations intended to protect California loan consumers." The articles also noted that the California Department of Corporations "discovered 1,921 incidents of charging excessive administrative fees, the same category of violations that Household was required to correct in 1998." Plaintiffs contend that this disclosure revealed partial information regarding Household's use of improper lending practices and raised uncertainty among investors about the accuracy of the Company's prior financial results announced during the Class Period, including whether Household's prior financials were inflated due to improper lending practices in the state of California and elsewhere. This disclosure also provided information to investors regarding the heightened risk of refunds and changes to existing practices. This disclosure also provided information tending to contradict defendants' public claims that Household complied with all laws governing the Company's lending operations as well as defendants' public denials that the Company was engaged in improper lending practices. As noted by analysts following the disclosure, the announcement that the Company had been sued by the California Department of Corporations raised several unanswered questions for investors, such as "1) how much more in refunds might Household owe? 2) will the accusations escalate (within or beyond the state)? and 3) will there be any operational constraints?" *See* November 15, 2001 Deutsch Bank Alex Brown report. At least one analyst

	concluded that "there could be a cloud overhanging the stock in the short term." *Id.*
On January 8, 2002, the *American Banker* published an article announcing that Household had agreed to pay $12 million to settle the California Department of Corporations lawsuit.	The January 8, 2002 article describes the $12 million settlement between Household and the California Department of Corporations for lending violations. The article states that Household would pay $9 million to the State and $3 million in refunds to injured borrowers. Household also agreed to be subject to "an unprecedented level of oversight from its California regulator." The California Department of Corporations stated that the settlement was "so tough" because Household was a '"recidivist.'" Plaintiffs contend that this disclosure revealed additional partial information regarding Household's improper lending practices and provided information to investors regarding the heightened risk of refunds. The disclosure also raised questions about whether Household's lending practices would come under increased scrutiny by California's regulators or regulators outside of California. This disclosure also contradicted, in part, Household's claims that the Company followed all laws governing the Company's lending operation. Indeed, one industry consultant noted that "[t]his case is of particular interest because it marks what could be the start of increased oversight by state regulatory agencies of consumer finance companies" and that it could spark a trend in other states.
On February 6, 2002, the *Dow Jones News Service* published a report on a *Wall Street Journal* article regarding an ACORN lawsuit against Household over the Company's lending practices.	The February 6, 2002 article describes a class-action lawsuit brought in California by ACORN against Household alleging misleading, confusing and unfair sales practices. Plaintiffs contend that this disclosure revealed partial information regarding Household's use of improper lending

	practices. These disclosures, in connection with prior disclosures including those identified previously, raised uncertainty among investors about the accuracy of the Company's prior financial results announced during the Class Period and whether these financials were inflated due to improper lending practices in the state of California and elsewhere. These disclosures also provided information to investors regarding the heightened risk of exposure due to improper lending practices and indicated that ACORN was ratcheting up its action against Household. These disclosures also provided information tending to contradict defendants' public claims that Household complied with laws governing the Company's lending operations as well as defendants' public denials that the Company was engaged in improper lending practices.
On February 18, 2002, *National Mortgage News* reported on a class action lawsuit in California against Household alleging improper lending practices.	The February 18, 2002 article provides additional detail regarding the California lawsuit including allegations that Household "tricked" and "trapped" customers in high-cost mortgages in amounts so large in relation to the value of their homes that the borrower could not refinance with a competitor. According to the article, the lawsuit sought restitution for customers who refinanced loans through Household or Beneficial in California. The article also discussed Household's settlement with the California Department of Corporations. Plaintiffs contend that this disclosure increased investor awareness as to the possibility that Household was engaged in predatory lending in California and elsewhere, causing investors to question whether the Company's announced financial results were based on improper or illegal practices. The discussion of these lawsuits and the settlement with the California Department of Corporations also tended to undermine defendants' public

	statements that Household was a leader in ethical lending followed all laws governing the Company.
On April 18, 2002, the *Seattle Post-Intelligencer* published an article detailing allegations of improper lending at Household in the State of Washington	The April 18, 2002 article included a summary of the Washington Department of Financial Institution's ("DFI") findings regarding Household's improper lending practices. The article quoted Washington DFI investigation supervisor Chuck Cross as stating he believed that the Company's consumer finance subsidiaries "have the most complaints that we have on record." The article also reported on private lawsuits in Washington and the Company's settlement with the California Department of Corporation. Plaintiffs contend this disclosure provided additional partial information that Household's use of improper lending practices was more widespread and not limited to California. The disclosure also revealed that Household was under investigation in Washington, further undercutting the reliability of Household's financial statements and defendants' claims that the Company was not involved in improper lending.
On May 7, 2002, a series of articles were published in various sources regarding Household's improper lending practices.	The May 7, 2002 articles reported that the New York State Comptroller was considering discontinuing the New York Common Retirement Fund's investment of 2.5 million Household shares worth $140 million. The Comptroller commented that Household needed to take drastic steps to reform its predatory lending practices. The Comptroller also stated that "Management's mishandling of the [predatory lending] issue has placed its ability to control the future viability of the company at risk. Investors should be concerned about the real possibility of a negative impact on the company's performance in the future." The May 7, 2002 articles reported that the Comptroller's announcement came in response to a lawsuit filed in Illinois that

	accused Household of predatory lending. The articles noted that Household had been struggling to maintain its stock price and image amid its legal battles and questions about its accounting practices and reported that "[s]ome on Wall Street are also expressing concern about Household's lending practices." The articles also reported that Company observers stated that the Comptroller's remarks "could ratchet up regulatory scrutiny of the company and make it more likely that other officials would join the chorus." The articles also reported that at the upcoming annual meeting Household shareholders would vote on a resolution asking Household to link its CEO pay to progress in addressing the Company's ongoing problems with predatory lending. Household management recommended shareholders vote against this proposal. Plaintiffs contend that these disclosures revealed additional (albeit incomplete) information regarding Household's use of improper lending practices and, in combination with prior disclosures, raised new doubts among investors about the accuracy of the defendants' public statements concerning the Company's prior financial results during the Class Period and whether these prior financials were inflated due to improper lending practices. These disclosures also provided information undercutting the reliability of defendants' public claims that Household complied with all laws governing the Company's lending operations as well as defendants' public denials that the Company was engaged in improper lending practices.
On May 30, 2002, the *New York Post* published an article regarding Household's attempts to block public access to the Washington DFI report.	The *New York Post* and *American Banker* articles discuss Household's successful attempt to obtain a temporary injunction against the release of the Washington DFI report. The *New York Post* article also

In an *American Banker* article published on May 31, 2002, Household characterized the Washington DFI report as a "draft" with "factual errors" that Household wanted to correct and tried to downplay the situation, stating, "It is our regulators' and the attorney general's job to investigate any complaints brought forth by consumers in their state, and we don't find anything unique or surprising that they are doing their job . . . . [W]e take proper steps to work with the department to uncover the facts and if necessary formulate an appropriate resolution for the borrower." Household admitted some "customers in Bellingham may indeed have been justified in their confusion about the rate of their loan" and claimed Household "took full and prompt responsibility" and is "satisfied that this situation was localized to the Bellingham branch." On June 2, 2002 the *Chicago Tribune* published an article discussing increasing pressure caused by mounting lawsuits and investigations related to the Company's improper lending practices.	states that "Wall Street is concerned that Household International's profits won't be up to expectations – because the company might not be able to continue doing some nasty things it has been accused of doing." The *Chicago Tribune* article listed recent lawsuits and other events related to Household's improper lending practices and discussed the increasing pressure faced by Household. Plaintiffs contend that these disclosures revealed an attempt by Household to suppress negative information about the Company's improper lending practices. This attempt, in combination with prior disclosures of lawsuits and allegations of predatory lending, raised further uncertainty among investors about the accuracy of defendants' public statements concerning the Company's engagement in improper lending practices and whether prior Class Period financials were inflated due to improper lending practices. These new disclosures also revealed additional information that the Company used confusing and misleading sales tactics to generate revenue which also tended to contradict defendants' public claims that Household complied with all laws governing the Company's lending operations as well as defendants' public denials that the Company was engaged in improper lending practices.
On July 26, 2002, the *Bellingham Herald* published an article detailing accusations that Household was engaged in predatory lending practices.	The July 26, 2002 article stated, "[f]or the first time, Household International has acknowledged that its employees may have misrepresented mortgage loan terms to some Whatcom County homeowners who refinanced their homes at the Bellingham office of Household Finance Co., a subsidiary." The article also stated, "[u]ntil now, company spokesmen have portrayed Household as an industry leader in consumer protection, with elaborate safeguards to make sure borrowers

	understand the deals they are signing" but "this week, [a company spokesperson] said an internal probe of the complaints had uncovered some serious problems." The article also describes a "rash" of recent complaints from Household customers regarding "misleading Household sales pitches." The article also notes that Household borrowers had complained about "exorbitant loan fees and life insurance premiums added to the principal of their loans, plus high prepayment penalties that made it nearly impossible for them to refinance with another lender." Finally, the article reports that the Department of Financial Institutions stated that, contrary to Household's assertions, the complaints about Household's improper lending practices were not confined to the Bellingham branch. Plaintiffs contend that this disclosure is a partial admission about Household's engagement in improper lending practices in the State of Washington. Combined with prior disclosures regarding lawsuits, regulatory fines and allegations of predatory lending, this partial admission increased investor and analyst concerns that the improper practices were more widespread than Household and other defendants acknowledged. This information also raised further uncertainty among investors about the accuracy of defendants' public statements concerning the Company's engagement in improper lending practices and whether prior Class Period financials were inflated due to improper lending practices. This disclosure, combined with information previously in the market, also raised concerns about the future performance of Household. For example, on July 31, 2002, Morgan Stanley analysts wrote, "[t]o reflect predatory lending risks, we reduced our estimate of Household's five-year EPS growth rate to 8% from 14% and cut our

	2003 EPS estimate to $5.02 from $5.26." On August 12, 202 Deutsche Bank analysts stated that "we are lowering our target price to $53 [from $63]" and "[w]e are also lowering our long-term growth rate to 10%-12% from 14% . . . as we believe Household's loan growth will slow as lending restrictions gradually take hold." In addition, this admission contradicted, in part, defendants' assurances that Household complied with all laws governing the Company's lending operations and undercut defendants' public denials of predatory lending allegations.
On August 26, 2002, *American Banker* discussed the contents of the Washington DFI Report and stated that the WA DFI had shared the Washington DFI Report with other officials in Washington and in other states. On August 29, 2002 the *Bellingham Herald* reported that the Washington DFI Report was available in full on the newspaper's website.	The August 26, 2002 article discusses in depth the Washington DFI Report which, despite an injunction obtained by Household, had been leaked to the press. According to the article, the Washington DFI Report identified numerous "patterns of consumer abuse" and states that the DFI was dissatisfied with efforts made by Household to respond to allegations. The article reported that after identifying that Household had intentionally misused its good-faith estimate form in several branches in Washington and receiving reports from regulators in other states concerning this practice, the Washington DFI Report stated that the DFI "does not believe the practice is isolated." The article also reported that the Washington DFI had shared the WA DFI Report with officials outside of Washington and that the Washington attorney general's office was in contact with other states investigating Household. The article also stated "[s]ources said that the Washington banking regulators are trying to negotiate a settlement with Household that would cover borrowers in a number of states." The article also discusses the numerous lawsuits faced by Household regarding the Company's lending practices. Plaintiffs contend that this article provided additional, but incomplete, information that

	the Company's improper lending practices were more widespread than initially believed. The disclosure also raised (1) the specter of investigations into the Company's lending practices outside Washington, raising additional uncertainty about the accuracy of the Company's prior financial results and public denials of improper practices and (2) that the Company could potentially face large fines and/or settlements as well as changes to its business model negatively impacting future results.
On September 2, 2002, *Forbes* published an article entitled "Home Wrecker" which detailed allegations of predatory lending at Household (this article was first available on *Forbes.com* after the close of trading on August 15, 2002 and hit newsstands on August 19, 2002). On August 19, 2002 *National Mortgage News* reported that ACORN had filed a class-action lawsuit in Massachusetts, and had previously filed a state class action in California and a nationwide class action in Illinois.	The August 19, 2002 and September 2, 2002 articles detailed complaints across the nation about Household's predatory lending practices. These practices included misrepresenting interest rates, using misleading HOLP's to underestimate the cost of the loan, and improper fees and insurance. The articles linked the improper lending practices Household previously admitted occurred in Washington to other areas of the country. The September 2, 2002 article also quoted Minnesota Commerce Commissioner James Bernstein who stated "Household encourages, or at least tolerates, these abuses . . . . It's not just an occasional rogue loan officer or a rogue office. It has to do with the corporate culture." Plaintiffs contend that these disclosures revealed partial information regarding the widespread nature of improper lending practices, and tended to contradict defendants' prior claims that the improper practices were limited to a single based office in Washington. These disclosures also raised additional questions among investors and analysts regarding the accuracy of the Company's prior financials and future prospects.
On September 3, 2002, analyst Howard Mason of Sanford C. Bernstein & Co. published a report cutting growth estimates for Household based on anticipated sales	The September 3, 2002 report authored by analyst Howard Mason of Sanford C. Bernstein & Co. reduced earnings growth estimates for Household. This report

practice reform at Household.	analyzed the Washington DFI Report which indicated that "confusing sales practices in the Household branch system are more widespread than a few renegade loan officers, and quite possibly systemic." The report also questioned the sustainability of Household's business model and reduces Household's long-term EPS growth target of 13-15% to 10-12%. Plaintiffs contend that this disclosure revealed additional information regarding the potential impact of Household's predatory lending practices on the Company's future growth and earnings. The report reflected (1) growing disillusionment among analysts and investors with Household's business model and (2) concern that the Company could not operate as profitably absent the current practices. This disclosure also provided information tending to further contradict defendants' public claims that Household complied with all laws governing the Company's lending operations as well as defendants' public denials that the Company was engaged in improper lending practices.
On September 10, 2002, *The American Banker* published an article entitled "Reforms Seen Hurting Household's Profits."	The September 10, 2002 article discusses analyst Howard Mason's September 3, 2002 report. The article also quoted Aldinger as conceding that charges to Household's lending practices had resulted in slower revenue growth. Aldinger also contended that the changes would not alter the business dramatically. The article also noted that other analysts were questioning whether Household's debt would be downgraded as the result of concerns over earnings growth. Plaintiffs contend that this disclosure contains a partial admission as to Household's prior reliance on improper lending practices to inflate its earnings without disclosing the use of such practices. This disclosure and Aldinger's statements

	also tended to raise further doubts about the continued viability of Household's lending business works and the assorted revenue streams.
On October 4, 2002, the *Wall Street Journal* published an article entitled "Household International May be Near Large Settlement" which discussed the Attorneys General's ("AG") year-long investigation into Household's predatory lending practices and indicated that Household and the AG were nearing a \$350-\$500 million settlement.	This disclosure discussed the AG's year-long investigation into Household's predatory lending practices and indicated that Household and the AG were nearing a \$350-\$500 million settlement. The article was based on an analyst report authored by Howard Mason of Sanford C. Bernstein & Co. According to the article, Mason arrived at his settlement estimate by calculating the fees, loan rates and credit insurance provided to Household's clients. Plaintiffs contend that this disclosure revealed further information that the scope of Household's improper lending practices was nationwide and contradicted defendants' public claims that Household complied with all laws governing the Company's lending operations as well as the defendants' public denials that the Company was engaged in improper lending practices. This article also discussed the possibility of a large settlement in the face of Household's continued denials that improper practices were widespread. This also revealed that Household likely would face huge fines as punishment for the Company's improper lending practices. This disclosure also revealed partial information about defendants' attempts to conceal the widespread nature of Household's improper lending practices and that Household had been under investigation by the multistate group of AGs and conflicted with their public statements that as late as September 2002 that the Company was not engaged in negotiations with the AGs. This article also provided investors with partial information regarding the magnitude of the Company's improper lending and the potential impact of the settlement, both in

	terms of a settlement amount and with regard to the Company's future growth and earnings. Indeed, on October 8, 2002, UBS Warburg analysts stated that "[w]e are cutting our 2003 estimate to reflect the impact of a regulatory fine on HI's earnings and capital base . . . we estimate this fine could exceed $500 million." These analysts further noted that "the company would likely have difficulty paying a fine of this magnitude out of cash flow" and [i]rrespective of the size and timing of a fine, we continue to believe HI's business model, in terms of its marketing and pricing practices, is likely to change, resulting in a longer term earnings growth rate which we estimate of 7%."
On October 11, 2002, Household issued a press release announcing that, in addition to its most recent charge of $600 million (pre-tax) to cover the cost of its restatement, the Company would now be forced to pay $484 million (pre-tax) in restitution to customers nationwide (plus the cost of reimbursing the states for their investigation) to settle claims by a multistate group of AGs and banking regulators related to its predatory lending practices from January 1, 1999 through September 30, 2002. The Company also stated it expected the changes in business practices to cut earnings by 10 cents a share in 2003, by 20 cents in 2004, and by 30 cents in 2005.	Plaintiffs contend that Household's announcement of the $484 million pre-tax settlement with a multistate group of AGs and banking regulators confirmed Household's widespread use of improper lending practices from 1999 to 2002. The disclosure also confirmed prior rumors that Household would face a large fine for its improper lending activities and that cessation of the Company's widespread improper lending practices would severely reduce future earnings. This disclosure also confirmed that Household had been under investigation by the multistate group of AGs and conflicted with their public statements that as late as September 2002, the Company was not engaged in negotiations with the AG's.
On December 1, 2001, *Barron's* published an article criticizing Household's accounting policies, including its reaging and charge-off practices and policies. On or around the same date, *BusinessWeek* also published an article on the same topics.	The December 1, 2001 article entitled "Does it Add Up? A Look At Household's Accounting" questioned the Company's accounting and reaging practices. The article states that a securities analyst whose firm worked for Household was concerned the Company's credit quality was worse than actually reported and that Household had "boosted reported earnings by, among other things, slowing recognition of credit losses." The article quoted this analyst as stating: "Household's loss rate on subprime

	mortgages is close to that of the savings-and-loan industry, even thought S&Ls generally have more affluent borrowers and issue fewer second mortgages which, by their nature, are shakier than first mortgages." The *BusinessWeek* article touched on many of the same subjects. Plaintiffs contend that this disclosure revealed partial information regarding the Company's true financial and operating condition. Specifically, this disclosure partially revealed that Household was using various accounting gimmicks such as reaging to manipulate the Company's publicly reported charge-off and delinquency statistics and boost earnings. These disclosures created headline risk with regard to Household's published credit quality metrics and raised uncertainty among investors about the accuracy of the Company's financial and operational results as publicly disclosed during the Class Period.
On December 11, 2001, Legg Mason issued a report discussing Household's accounting policies and practices.	In the December 11, 2001 report Legg Mason analysts expressed confusion regarding the Household's recent reports concerning the Company's accounting, in particular its reaging policies. After discussing Household's disclosures, the analysts listed numerous questions and concerns. Plaintiffs contend that this report provided investors with partial information that Household's previously reported asset quality statistics may have been distorted by reaging and/or other accounting practices. For instance, this report found Household's "lenient reaging policy disturbing as it undermines the analytical value of the reported asset quality statistics" and asked the Company to "report asset quality problems more conventionally (a late is a late until repaid in full)." After having suspended their investment rating on December 3, 2001, the analysts downgraded Household's stock two notches from SB ("Strong Buy") to M ("Medium")

	and lowered their risk rating from 1 ("Low") to 2 ("Average").
On June 7, 2002, the Center for Financial Research and Analysis, Inc. ("CFRA") published a report criticizing Household's reaging policies.	Plaintiffs contend that this disclosure revealed additional (but incomplete) information that Household's publicly announced credit quality statistics were manipulated through reaging. The June 7, 2002 report stated that Household's "reaging may obscure its credit quality picture" because "deferral of charge-offs occurs by definition upon reaging." After discussing the information disclosed in the April 9, 2002 8-K, CFRA stated that "the Company's reaging policies cause these figures to understate HI's delinquency and charge-off experience." This disclosure contributed to the increasing erosion of defendants' credibility with investors and raised uncertainty regarding the credit quality of Household's loans.
An August 17, 2002 article in *The New York Times* stated that "Household has not supplied enough data on re-aged loans for a year earlier to show whether credit problems are rising sharply" and quoted a Credit Suisse First Boston analyst who said that "[i]t would be very helpful to have re-aging data disclosed on a regular basis." On August 19, 2002, the CFRA published a follow-up to its June 7, 2002 report, again criticizing Household's reaging policies.	In the August 19, 2002 report the CFRA observed that "[i]n the June 2002 quarter, the Company changed the format for its disclosure of reaging." CFRA noted that "whereas [Household] had previously broken out the percent of credits which had been reaged multiple times, the latest 10Q details only whether the account has been reaged" and that the Company "refrained from disclosing the amount of recidivism, which reflect [sic] accounts that are delinquent or charged-off one year after having been reaged and (in retrospect, one could argue) should have been charged-off at the time of reaging." The August 17, 2002 *New York Times* article similarly questioned the usefulness of Household's published re-age data.

On March 19, 2003, Household issued a press release announcing that on March 18, 2003, it had agreed to the entry by the SEC of a consent order relating to Household's disclosures about its restructuring and other account management policies.	The consent decree revealed that Household's Class Period disclosures regarding its restructure policies failed to present an accurate description of the Company's policies and practices. The SEC found that Household chose to disclose its restructure policies in a way that connoted strict controls, rather than in a way that accurately described the true "loose" policies. The consent decree also revealed that the Company's false disclosures regarding management of delinquencies were material and violated Sections 10(b) and 13(a) of the Exchange Act, and Rules 10b-5 and 12b-20, 13a-1 and 13a-13 under the Exchange Act.
On August 14, 2002, defendants finally admitted that Household's earnings had been falsely reported for approximately eight and one-half years and that Household would take a $600 million charge and restate its previously reported earnings for each and every quarter of the Class Period.	These disclosures revealed that Household had improperly accounted for certain credit card co-branding and marketing agreements which resulted in false financial statements during the Class Period and would restate the Company's prior financials to reduce earnings for each quarter during the Class Period. These disclosures contributed to uncertainty among investors about defendants' accounting practices and led to an erosion of credibility as to their statements on the improper lending, reaging and credit quality issues discussed earlier in this chart.

In addition to the above, Lead Plaintiffs incorporate by reference and identify the Expert Report of Daniel R. Fischel, dated August 15, 2007, and the Rebuttal Report dated February 1, 2008, and all documents referenced therein. Mr. Fischel's reports discuss, *inter alia*, the "truth" that was revealed to the market by the partial disclosures referenced throughout the report, and quantifies the economic impact of such partial disclosures.

INTERROGATORY NO. 306 [65]:

Identify any document reflecting the authorization or approval by Household of any policy that you contend was illegal or prohibited by any relevant banking or lending laws.

Subject to and specifically incorporating the foregoing General and Specific Objections, and without waiving them, and based on clarification made by defendants during the meet and confer that scienter as used in this interrogatory relates to defendants' state of mind connected to a false statement, Lead Plaintiffs amend their response to this interrogatory to read as follows:

See Response to Interrogatory No. 315 [74].

DATED: February 1, 2008

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EXHIBIT 6

UNITED STATES DISTRICT COURT
NORTHERN DISTRICT OF ILLINOIS, EASTERN DIVISION

LAWRENCE E. JAFFE PENSION)
PLAN, on Behalf of Itself and)
All Others Similarly Situated,)
)
Plaintiffs,)
)
vs.) Lead Case No. 02-C-5893
)
HOUSEHOLD INTERNATIONAL,)
INC., et al.,)
)
Defendants.)

VIDEOTAPED DEPOSITION UPON ORAL EXAMINATION
OF
CHARLES CROSS
CONFIDENTIAL

9:02 A.M.
APRIL 9, 2008
1515 COMMERCE STREET
TACOMA, WASHINGTON

REPORTED BY: JULIE R. HEAD, CRR, RPR, CCR No. 3119

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TANIA GRANT, Videographer

I N D E X

predatory lending," unquote.
My question to you, sir, is -- First of all, do you recall making that statement?
A. I think I said that a bunch of times. I'm sure I said it in an event talking about predatory lending.
Q. And -- And is that statement consistent with your knowledge and belief?
A. Yes.
Q. I'm looking for my documents, here.
Do you know what this case is about that you're being called as a witness here today on?
A. Vaguely. I mean, a little bit.
I think it's a Household employees and class action suit against the company, and I had to sort of fill in between -- the bits of information that Mr. Baker gave me some time back, but I -- I'm guessing it had something to do with Household employees feeling that management practices maybe somehow devalued their stock.
Q. Okay. Do you understand that it's a securities case?
A. I don't know that I specifically knew that it was a securities case, but --
Q. Okay. And you mentioned some conversations

with Mr. Baker. How many times -- How many times have you talked to any lawyer representing the plaintiffs in this case?
A. Boy, I wouldn't know that. I think Mr. Baker's the -- the only attorney I know, for sure, who represents the plaintiffs -- I don't even really know who the plaintiffs are, but -- I'm fairly comfortable saying -- at least as far as I know, Mr. Baker is the only attorney I was speaking with with the knowledge that -- that the attorney represented the plaintiffs.
Q. Okay. How many times did you talk to Mr. Baker?
A. We had a short conversation way back in November or December. I was at an airport; he left me a message; I left him a message; we connected; I think we talked for maybe five or ten minutes; I think I was in Chicago or Minneapolis; we didn't talk again for a while; we did -- we had a conversation sometime, I want to say, after the start of the year where maybe we talked for a half hour or so; we had, I want to say, another silence for a while, some phone tag back and forth -- I was kind of hard to get ahold of -- we finally talked and he had been calling to give me a courtesy call to let me know this deposition was going

to happen, and; then, I think we might have had one other conversation after that in which he told me that my former boss, John Bley, was a witness for you guys.
So -- That would be -- There was one other one, here, recently, where we talked about where the venue was going to be, whether I had to go to Seattle or not.
Q. Okay. And in connection with the substantive discussion, as I'll call it, the half-an-hour discussion, what do you recall you were asked and what did you say?
A. I don't know that he asked me questions that required answers. We dialogued a little bit. He told me that -- that he was interested in my deposition I did with Bob Parlette, which we've been going through pieces of, here. We talked about the fact that John would be an expert witness for you guys and I -- I believe you guys had already -- somebody had already done John's deposition, so, he briefly told me how that went.
I don't recall specific questions about this case that I had to answer or that maybe I -- I could answer.
Q. Do you recall the general -- generally, what was discussed, other than what you've already said?
A. Pretty much what I already said: That he was

interested in my deposition with -- with Bob Parlette; he had even actually reminded me that I had done this deposition, because it had slipped my mind; and, at one point, one of the conversations, we talked about whether Exhibit 3 would have actually been a -- I think a formally issued report of the department or whether it was still in draft form, and we talked about that a little bit.
Q. Anything else you can recall?
A. No. But would you like me to -- If I -- If something comes to mind --
Q. Sure.
A. -- take you back and provide you that?
Q. Sure. And in connection with the -- what the subject matter that you just referred to about the report, is there anything you recall telling him in particular about that?
A. Yeah, I was -- I -- I think I laughed and said that -- I think I might have asked him, "Does it have my signature on it?" And he said, "Yes." And it's got my signature on it, it was -- it was a formally entered report of the agency, and I remember issuing that report. I remember Household asking me not to and a whole bunch of arguments around whether it should be or not. But it was definitely an entered report by the

agency.

There was some discussion about the term apparent violations, and I explained to Mr. Baker that, basically, if -- if -- if the term apparent violations in this report is somehow going to make it a non-formal report or -- or a draft report, then I think just about any report we ever did would fall into that category, including all of the reports out of our division of banks. I mean, for 15 years, now, everything would be draft, because we use that term, apparent violations, as does the FDIC, federal regulatory agency, so -- That's where I brought it from. I was with the FDIC before I came to Washington State. It's an accepted term that's used throughout examination reports.

Q. Um-hum.

Anything else you can recall discussing with Mr. Baker?

A. Not that I recall right now.

Q. Did he provide you, at any point, with any documents?

A. Yes. A -- The protective order I think is all that I got from him.

Q. Anything else?

A. I don't think I got anything else from him. I did get these transcripts from my attorney, but I don't

think those came -- I don't know where they came from, but --

Q. In any event, I'm not interested in what you talked about with your attorney.

MS. MARTIN: Right.

Q. (BY MR. SLOANE:) I just want to know what --

A. I don't think he -- I don't think so.

Q. Was there any discussion in those various conversations about you being a witness in this case?

A. He told me that I was named as a witness, or named on the witness list, and, therefore, I was subject to deposition.

Q. Did he mention to you anything about any expert role you might have in this dep -- in this case?

A. No, I don't -- I don't think we -- People call me a lot asking me to be an expert and I -- and other than a state -- I will be an expert for a state agency. I will not be an expert for -- for a private action. So, if he did ask me that, which is possible, because I get asked that -- seems like almost a weekly basis these days -- I would have said no.

Q. Okay.

Did you -- Have you seen -- You mentioned John Bley. Have you seen or been given any information about Mr. Bley's views that he had expressed in connection

with this case?

A. Briefly.

Mr. Baker told me that -- that John, I believe, will be testifying that it was not a -- I don't know if I'm using the right term -- formal or that it was -- that -- that the report that I issued was a draft report.

Q. Is there anything else that you recall him test -- telling you about?

A. He told me that John would be a expert witness for predatory lending and I said, "Ah-hah. That must be because of John's 2000 testimony at the federal reserve" -- although, I think I remembered it being, like, 1999, or something. Mr. Baker refreshed me it was 2000 or -- I think it was 2000.

And I recounted to him that, yes, I'd been there with John; that -- that -- that I'd been the author of much of that testimony; that -- that I sat behind John while he was giving it. So, I was -- I was familiar with that and I knew that even to -- to this date, people bring up that testimony.

Q. Did you -- Do you have any basis for believing that Mr. Bley is not an honest person?

A. Well, I think John's a very honest person.

Q. And do you know or have you had any contact

with -- a woman by the name of Ghiglieri?

MR. BAKER: Kathy Ghiglieri.

A. No. Doesn't ring a bell.

Q. (BY MR. SLOANE:) How about a fellow by the name of Devore, D-E-V-O-R-E?

A. Does not ring a bell.

Q. Okay. I'll ask you, just because I can't imagine you have, but there's another gentleman by the name of Fichel, F-I-C-H-E-L. You have any contact with him?

A. I don't believe so.

Q. Okay.

Let me just take a short break because I don't think I have anything more, but --

MS. MARTIN: Sure.

MR. SLOANE: I'll probably be told I do, so -- But it won't be long.

THE VIDEOGRAPHER: We are now going off the record in the continuing deposition of Charles Cross. The time is now 11:49 a.m.

(Off the record at 11:49 a.m.)

(Back on the record at 11:56 a.m.)

THE VIDEOGRAPHER: We are now back on the record in the continuing deposition of Charles Cross. The time is now 11:56 a.m.

REPORTER'S CERTIFICATE

I, JULIE R. HEAD, the undersigned Certified Court Reporter and Notary Public, do hereby certify:

That the sworn testimony and/or proceedings, a transcript of which is attached, was given before me at the time and place stated therein; that any and/or all witness(es) were by me duly sworn to testify to the truth; that the sworn testimony and/or proceedings were by me stenographically recorded and transcribed under my supervision, to the best of my ability; that the foregoing transcript contains a full, true, and accurate record of all the sworn testimony and/or proceedings given and occurring at the time and place stated in the transcript; that I am in no way related to any party to the matter, nor to any counsel, nor do I have any financial interest in the event of the case.

WITNESS MY HAND AND SEAL THIS 14th day of April, 2008.

JULIE R. HEAD, CRR, RPR
Certified Court Reporter
CCR No. 3119
Notary Public in and for the
State of Washington, residing in
Snohomish County. Commission
Expires 8-09-11.

EXHIBIT 7

UNITED STATES DISTRICT COURT

NORTHERN DISTRICT OF ILLINOIS

EASTERN DIVISION

LAWRENCE E. JAFFE PENSION PLAN, On Behalf of Itself and All Others Similarly Situated, Plaintiff, vs. HOUSEHOLD INTERNATIONAL, INC., et al., Defendants.	Lead Case No. 02-C-5893 (Consolidated) <u>CLASS ACTION</u> Judge Ronald A. Guzman Magistrate Judge Nan R. Nolan

LEAD PLAINTIFFS' STATUS REPORT FOR THE FEBRUARY 7, 2008 TELEPHONE STATUS CONFERENCE

Lead plaintiffs respectfully submit this statement in advance of the February 7, 2008 status conference call.

A. Professor Fischel's Report Complies with the Court's November 20, 2007 Order

Lead Plaintiffs served their expert rebuttal reports on February 1, 2008, including the rebuttal report of economic expert Professor Daniel R. Fischel. Professor Fischel's report identifies the source of inflation in Household International, Inc.'s ("Household") stock on the first day of the Class Period and explained why regression analysis is not appropriate in this case to identify the day Household shares first became inflated.[1] Lead plaintiffs also served on defendants a further statement regarding damages that addresses the additional points of clarification sought by defendants' expert Dr. Mukesh Bajaj.[2] Professor Fischel's rebuttal and plaintiffs' supplemental statement address all of the purported deficiencies identified by Dr. Bajaj in his report.[3]

Defendants now contend that plaintiffs failed to comply with the November 20, 2007 Order because Professor Fischel did not provide a regression analysis taking the artificial inflation "back to zero." As discussed below, however, lead plaintiffs have complied fully with the Court's Order by responding to all of the issues raised by Dr. Bajaj.[4]

In the November 20, 2007 Order, Dr. Bajaj was directed to "specify all exceptions and deficiencies in Professor Fischel's report, including those that prevent Dr. Bajaj from offering his

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1 Professor Fischel's rebuttal report is attached as Exhibit A.

2 The supplemental statement is attached as Ex. B.

3 A copy of the relevant portion of Dr. Bajaj's report is attached as Ex. C.

4 Defendants do not take issue with plaintiffs' supplemental statement which explains that because plaintiffs intend to propose the FIFO (first in, first out) method of "matching" and have never proposed the netting of shares purchased before the Class Period it is not necessary to determine pre-Class Period inflation (whether going back to July 22, 1999, October 23, 1997, or some earlier date) in order to calculate damages for class members based on the current Class Period.

own analysis," and plaintiffs were ordered to respond. *See* November 20, 2007 Order. Professor Fischel's rebuttal report complies with this Order. Ex. A at ¶¶25-29. In his report, Professor Fischel explained the source of inflation in the stock on the first day of the Class Period which is the information Dr. Bajaj claimed he needed. Ex. A at ¶36; Ex. C at 87; *see also* November 20 Order ("Defendants [] claim that their expert required more information as to the source of the pre-Class Period inflation Professor Fischel claims is present in the price of Household stock on the first day of the Class Period.").

Lead plaintiffs understood the Court's November 20 Order to require them to respond to the "exceptions and deficiencies" identified by Dr. Bajaj, which they did. Although the Court indicated in the Order that it "***expect[ed]*** Professor Fischel [would] provide a regression analysis showing the date on which there was zero inflation in the stock price," plaintiffs did not understand that the Court had, without even seeing Dr. Bajaj's report (which was served after the Order), ordered plaintiffs' expert to provide that analysis. As explained by Professor Fischel such an analysis was not required in order to respond to Dr. Bajaj's criticisms, which he points out were "incorrect and misleading because [Dr. Bajaj] mischaracterizes Plaintiffs' allegations and the use of regression analysis to quantify artificial inflation." Ex. A at ¶37.

Notably, Dr. Bajaj did not indicate in his report that a regression analysis from Professor Fischel indicating the first date on which inflation came into the stock, was necessary for him to provide his own analysis. Ex. C at 87-89. The parties met and conferred to discuss these issues Wednesday afternoon and during the call defendants acknowledged that Dr. Bajaj could provide his own analysis without this information.[5] Until now, defendants have argued that the information they

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[5] The meet and confer alluded to by defendants in their report occurred ***before*** Dr. Bajaj even served his report, thus defendants' "offer" to "meet and confer with Plaintiffs regarding any issues they may have encountered in complying" was, to say the least, illusory. Defs' Status Report at 2. Following receipt of Dr.

seek is necessary for Dr. Bajaj's analysis. This was their entire basis for insisting that Dr. Bajaj be permitted a sur-rebuttal. In their status report, however, defendants now claim that "this issue bears, *inter alia*, on whether Plaintiffs are seeking damages for the consequences of time-barred events." Defs' Status Report at 2. As Professor Fischel explained, defendants' assertions misconstrue plaintiffs' claims. Ex. A at ¶37.

Professor Fischel identified the source of inflation in Household stock on the first day of the Class Period. Ex. A at ¶36. He stated that Household's stock price was artificially inflated on July 30, 1999 by Household's failure to disclose material adverse facts in connection with its July 22, 1999 statement announcing its second quarter results. *Id.* It is a legal issue for Judge Guzman to decide whether the Class Period can start on July 30, 1999 or if it has to start on August 16, 1999, the date of the first public statement during the Class Period.

In any event, Professor Fischel's opinion that Household's stock was inflated during the Class Period does not change if the Court shortens the start of the Class Period from July 30, 1999 to August 16, 1999, or to a later date; nor does it matter if, or how much, Household's stock was inflated prior to the first actionable statement. ¶36. Indeed, Household's stock may have been inflated since the beginning of the old Class Period (October 23, 1997), (or even before that time) but that is no longer part of plaintiffs' case because it was dismissed by Judge Guzman on statute of limitations grounds. The existence of pre-Class Period artificial inflation would not preclude plaintiffs' cause of action for defendants' subsequent false statements that continued to artificially prop up Household's share price. This is because each statement made by defendants to the market that failed to disclose the adverse information regarding Household's improper business practices

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Bajaj's report, plaintiffs and their expert understood the purported "deficiencies and exceptions" and did not require further clarification from defendants in order to respond. *See* Exs. A and B.

(predatory lending, improper re-aging and improper accounting) was an inflationary event. *Id.*, ¶¶36-38. Had the adverse information been disclosed, Household's share price would have fallen to its true value as identified by Professor Fischel in Exhibits 53 and 56. *Id.* at ¶¶36-39.

Furthermore, as Professor Fischel clearly explains in his report, a regression analysis cannot be used in this case to show the date on which there was zero inflation in Household's stock price:

> Plaintiffs claim that the alleged omissions were inflationary events because they prevented the price from falling to its true, uninflated value. Under this theory, the Company's stock price did not have to increase upon defendants allegedly false statements (*e.g.*, quarterly financial results) in order to become inflated. Consequently, the fact that I did not identify statistically significant price increases that resulted in the inflation increasing between the beginning of the Class Period and November 15, 2001 does not contradict plaintiffs' allegations. Moreover, event studies (which are based on regression analysis) are intended to measure stock price movements upon disclosure of new information, not the non-disclosure of information. Therefore, no regression analysis can be used to identify the day on which the stock price became inflated in this case.

Ex. A at ¶38 (citation omitted).[6] Accordingly, Professor Fischel's event study was not designed to determine the date on which the inflation came into the stock, but instead to estimate the artificial inflation in Household stock based on the effect of corrective disclosures and leakage from November 14, 2001 through the end of the Class Period. Ex. A at ¶¶38-39.

Defendants did not indicate in their Status Report what "remedy" they seek and did not specify a remedy when asked during the meet and confer; however, given Professor Fischel's comprehensive response to the issues raised by Dr. Bajaj, lead plaintiffs urge the Court to allow expert discovery to move forward without additional delay. Defendants will have the opportunity to further explore these issues at Professor Fischel's deposition.

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[6] In arguing to the contrary, defendants misquote Fischel's statement in paragraph 39. Defs' Status Report at 2. The full sentence should read, "Regression analysis . . . can be used in this case to calculate the amount of artificial inflation resulting from an alleged omission on any day ***during the Class Period***." Ex. A at 39 (omitted portion in bold).

B. Any Limited Sur-Rebuttal Should be Served by March 1, 2008

Defendants have not informed plaintiffs if and when they intend to file a sur-rebuttal from Dr. Bajaj in light of the response to Dr. Bajaj's criticisms provided by Professor Fischel and plaintiffs. If Dr. Bajaj wishes to submit a limited sur-rebuttal, plaintiffs will not object, provided defendants agree to serve that report by March 1, 2008 (giving defendants' expert an entire month) and to complete his deposition by March 14, 2008.

C. Expert Depositions

Judge Guzman has scheduled a status hearing on March 17, 2008 to set a summary judgment and trial schedule. All depositions must be complete by March 14, 2008 so the parties can appear before Judge Guzman on March 17, 2008. Lead plaintiffs have offered Professor Fischel for deposition on March 13, 2008 but still have not received a date for Dr. Bajaj. Defendants have been on notice for months that plaintiffs want to depose Dr. Bajaj prior to March 14, 2008 to avoid any further delay in setting this case for trial. The rest of the retained expert depositions have been scheduled, and will be completed in time for the March 17, 2008 trial setting conference.

D. Defendants' Refusal to Provide Information Relating to the 23 Non-Retained Expert Witnesses

Rather than complying with the Court's January 31, 2008 Order, without any advance notice or a properly noticed motion for reconsideration, defendants request in their status report that the Court reconsider its ruling. Aside from the procedural deficiencies of the motion, defendants fail to identify any meritorious grounds, as to why this Court should reconsider its well-reasoned opinion. Indeed, defendants' status report simply reiterates the exact same points they made in their original opposition. However, disagreeing with the Court's Order is not a proper basis for reconsideration.

As outlined in plaintiffs' submissions, the specific opinions the 23 witnesses will offer and the bases for those opinions is information necessary not only for plaintiffs to determine what additional steps, if any, they need to take with respect to defendants' "experts," but also for the Court to perform its gatekeeper function under *Daubert*. The Federal Rules do not envision "trial by ambush." Accordingly, defendants should be required to provide the information outlined in the Court's January 31 Order.

DATED: February 6, 2008

Respectfully submitted,

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EXHIBIT 8

TRANSCRIBED FROM DIGITAL RECORDING

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

LAWRENCE E. JAFFE, Pension Plan, on behalf of itself and all others similarly situated, and GLICKENHAUS INST GRP.,

Plaintiffs,

vs. No. 02 C 5893

HOUSEHOLD INTERNATIONAL, INC., ARTHUR ANDERSEN, L.L.P., W F ALDINGER, and D A SCHOENHOLD,

Defendants.

Chicago, Illinois
February 7, 2008
1:05 P.M.

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

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(Proceedings held in open court:)

THE COURT: Good afternoon, everyone. This is Nan Nolan in Chicago, I'm the magistrate judge in the case -- the person who has been supervising the discovery.

For the plaintiff, who is on the phone, please?

MR. BURKHOLZ: Your Honor, Spence Burkholz for the plaintiffs.

THE COURT: Okay.

MR. BURKHOLZ: I also have with me Azra Mehdi, Cam Baker, Luke Brooks, and Lori Fanning.

THE COURT: Okay. Thank you

And for the defendants, please.

MS. BEST: Yes. Good afternoon, your Honor. It is Landis Best from Cahill Gordon.

THE COURT: Okay.

MS. BEST: And with me I have David Owen and Susan Buckley. And also Adam Deutsch is on the line from the Eimer firm.

THE COURT: Okay. Thank you very much.

So we are here for a status today. Thank you for each of you filing your status reports.

We have, I think, three issues. At least it appeared from the status report there are three issues, and then anything anyone else wants to bring up.

And I don't believe we have any -- we have three

issues, but I don't think there are any motions pending, they are just issues that were brought up at a prior status. Okay?

So the first is the defendants's notice. The way we have written it is the defendants's notice concerning expert discovery, expert testimony.

Who wants to summarize what that argument was?

Ms. Best, you want to do that?

MS. BEST: Yes, your Honor. Thank you.

Your Honor, we have put forth in our status conference report our kind of understanding of why we are where we are in the face of your Honor's recent order requiring us to list out the opinion and the basis therefore of the 23 witnesses that we listed on our notice. And we set forth the reasons why we felt we had no other choice but to list these individuals because of the Sunstar decision and because of the way that decision interpreted Rule 701 and the amendment thereto and specifically dealing with testimony of a lay witness with respect to areas of specialized knowledge.

And, your Honor, it is our view that perhaps there may have been some misunderstanding for which we apologize. We are not attempting -- we did not list these individuals and we do not intend to call them to give classic expert testimony in the sense of opining on matters, you know, after the litigation. Rather, these are witnesses who had day-to-day activities, that they have knowledge of the events that have been called into between Ms. Spencer and what you are opining, and I think the plaintiffs are actually agreeing. And who knows even -- you know, who knows what something may come out of their side too. So this could be a good ruling for everybody. Okay?

MS. BEST: Okay. So we will work on that, your Honor, and get that to the plaintiffs.

THE COURT: Good. Good. That's great. That deals with that. Okay.

Second is -- the second is, let's do Professor -- do you say Fischel? Is it Fischel or -- Fischel?

MR. BURKHOLZ: It is Fischel, close enough.

THE COURT: -- Professor Fischel's supplemental report.

Okay. There are two prior orders this relates to, but I -- this began October 17th, which is Document 1144. And then we had a follow up. We had -- let's see. Where was that?

MR. BURKHOLZ: It is the November 20.

THE COURT: Yeah, the November 20th order.

In that order -- in that we ordered Professor Fischel, quote, to provide a regression analysis showing the date on which there was zero inflation in the stock price, close quote.

Professor Fischel's supplemental report states, no regression analysis can be used to -- so and then he was ordered to do that.

Okay? Then there was Professor Fischel has

subsequently issued a supplemental report. And in this supplemental report he says, no regression analysis can be used to identify the day on which the stock price became inflated in this case.

Okay. Now that was really what the issue is here.

Can -- Ms. Best, let's talk about this. Can you live with that?

MR. OWEN: Your Honor, this is David Owen. I'll speak to these issues.

And the shorter answer is, no, we can't live with that. We made two motions seeking free class inflation information. We believe your order was clear about showing the dates upon which there was zero inflation.

I personally, for the defendants, don't have any particular preference or need that it be a regression analysis, but it seems to me plaintiffs have alleged a fraud, and they have to tell us when that fraud started. That's what led to our motion, and we believe that's what led to your Honor's order.

The fact that Professor Fischel may not be able to do whatever regression analysis he would like to produce that number does not relieve the plaintiffs of their discovery obligations with respect to damages and so forth as we said in our previous two motions on this subject. And we need that information.

Dr. Bajaj has explained why we need that information. You know, we tried to meet and confer with the plaintiff about this back in December, you know, so we could work out an understanding of what it is that they were going to do, and they refused. And what they told us is that, you know, we're going to comply. We're going to give it to you, and that's all we're going to say on the subject.

Well, they didn't comply. And I would add that, you know, only two weeks ago Mr. Burkholz stood right in front of your Honor and said they were going comply with the order. And I think it is very clear now that they haven't done it.

Their position is Dr. Fischel said he can't do it by way of regression, and that they don't have to do it with respect to their general damages disclosure. They have a separate document that says that. And their status conference statement says that the aforesaid didn't really mean what it said when it said that it expects Professor Fischel to provide this information because all they need to do is say that his analysis -- Dr. Bajaj's analysis is incorrect and misleading, so, therefore, we're not going to do it.

You know, that's something they could have told us back in December when we wanted to meet and confer. If -- if they had a problem with the order that said they were going to provide that information, their options are to move for reconsideration or to take it up to Judge Guzman or to meet

with us and explain to us what their problems are so that we can talk with them about how to get around it. They didn't take up any of those options.

What they did is they waited until February 1st and then said, oh, we're not doing it, and Fischel can't do it by way of regression analysis.

Well, you know, these are fraud claims. And fraud claims require an explanation of what the fraud is, irrespective of what the class period said. You know, when defendant is alleged to have lied about something, that theoretically produces inflation in the stock price.

The complaint says all sorts of things about why in 1997 and 1998 -- and if Judge Guzman hadn't shortened the class period, we would see inflation from Professor Fischel as to dates in 1997 and 1998, but we don't. And your Honor ordered them to produce that information, and they refused. And we think that's totally unacceptable.

And it is just -- their conduct that gets us here really smells like bad faith. I mean, these are things that we should have been talking about, and we haven't, and that's their fault. And we're very, very unhappy. And our basic position is we're entitled to the information that was ordered to be provided, and we'd like to get it.

THE COURT: Okay.

MR. OWEN: I don't know the words that the plaintiffs need to understand what their obligations are, but --

THE COURT: Mr. Owen --

MR. OWEN: -- (unintelligible).

THE COURT: Mr. Owen, let me ask you, you said something which I didn't think I heard you say before. You said -- and I know I reviewed, obviously, what we ordered from Dr. Fischel.

I -- you're saying to me now that if Fischel can't do it, you want the plaintiffs to do it. Is that what you are saying?

MR. OWEN: I think that's correct. I mean, I don't know personally what Fischel could do or couldn't do on this subject using regression analysis or any other analysis. But whether he can do or can't do -- I suspect that he can do, but that's quite a separate question -- the plaintiffs have an obligation to disclose the scope of their fraud and what their damages are. And they have asserted in damages interrogatories things on this subject that we have raised questions about, and they are hard questions for the plaintiffs, and the plaintiffs clearly don't want to answer the question.

THE COURT: All right.

MR. OWEN: But the answer to that is not to allow them to duck this hard question --

THE COURT: Okay.

MR. OWEN: -- or to disregard orders that order them

to provide the information. The answer for them is to comply with the Court's order.

THE COURT: Okay. All right.

MR. BURKHOLZ: Your Honor?

THE COURT: Yes.

MR. BURKHOLZ: This is Spence Burkholz. If I could be heard on this.

THE COURT: Uh-huh.

MR. BURKHOLZ: Of course the last thing we want to do is not comply with the Court's order. Okay? And let me try to walk through this and explain our position on it, because we obviously want to comply with the Court orders and provide whatever information is required.

We had the Court order of November 20th which said Dr. Fischel had to explain two things, one, our Exhibits 53 and 56 alternatives theories, and he did that in his supplemental report. In addition, he was required to provide information regarding the source, source of inflation on Household stock on day one, and he did that. And I'm going to get to that.

So the defendants's expert ten days later, Dr. Bajaj, issues a 90-page report, full of criticisms, no independent theory of damages, but full of criticisms.

On page 87 of that report, he says, I need to know pre-class period inflation in order to calculate trading gains.

THE COURT: Hold on. He needs to know pre-class?

MR. BURKHOLZ: Period inflation in order to calculate what he considers trading gains.

THE COURT: Okay. Period.

MR. BURKHOLZ: Okay?

THE COURT: Okay.

MR. BURKHOLZ: So then what we did was on February 1st -- and, by the way, these are complicated damage issues. Nobody disagrees with that. We were working with our expert, and we also made a decision, you know what, we're going to respond, Dr. Fischel is going to respond to all the criticisms, and he does that in a 28-page report, which we submitted with our status conference statement.

He responds to the Court's question about Exhibits 53 and 56. He also responds to the issue of the source of inflation in Household stock on the first day of the class period. And he says, according to the plaintiffs, there was a statement on July 22nd before the class period. That statement was a lie in the market on March 30th.

We know from Judge Guzman's prior decision on the statute of limitations that we have a class period here that starts on July 30th, 1999. And there is no public statement by Household. The first public statement by Household is on August 16th, you know, a couple weeks after the beginning.

THE COURT: What paragraph --

MR. BURKHOLZ: So what's --

THE COURT: What paragraph of Fischel's affidavit are you talking about right now?

MR. BURKHOLZ: It is paragraph 30. It is his rebuttal report, paragraph 36.

THE COURT: Okay. All right. 36.

MR. BURKHOLZ: So he explains -- he explains the source of the inflation on day one of the class period is this July 22nd, 1999, statement.

Now it may be that Judge Guzman says, you know what, the defendants didn't have a duty to correct that statement of July 22nd. And this class period here has to start with the first public statement made by Household, and that's going to be on August 16th, 1999. And that's when our class period will start. And it doesn't matter whether there is inflation or not before the class period, that's irrelevant.

MR. OWEN: Your Honor, that's exactly the problem.

THE COURT: Okay.

MR. BURKHOLZ: Can I -- can I --

THE COURT: I'm going to give you -- wait, wait. I'm -- I promise you you're going to have to time to tell me because I actually want to know why pre-class period inflation is important.

But please let this gentleman finish first. Okay? Because I am following along here, since we're doing this on the phone, I'm following along with this affidavit -- or with this report here. Okay?

MR. BURKHOLZ: Okay. Thank you, your Honor.

THE COURT: So continue -- are you saying --

MR. BURKHOLZ: Can I -- if I can finish -- you know what, if I can finish my presentation, I think I'm going to answer all the Court's questions.

THE COURT: Okay. Good.

MR. BURKHOLZ: All right.

So we went ahead, and I said, you know what, Dr. Bajaj criticizes some -- he meets this pre-class period inflation on page 87 of his report. He says he needs it because the -- to calculate these trading gains. That's a claims issues that's going to be decided on -- the Court is going to -- Judge Guzman is going to decide, assuming we get a jury verdict, how these class members are going to be treated in terms of their damages. And Dr. Fischel is not opining on that.

But, you know what, let's provide a supplemental damage statement which explains in full our damage theory so they don't complain about it and deals with this trading gain issue of why pre-class period inflation is not important to our damage theory. And we do that. We submit that. We submitted that to the Court with our submission here.

And so then we go ahead and we respond to the fact that under FIFO pre-class period inflation is not relevant to damage calculations.

Okay. Now this issue of the regression analysis. They say they need it. Now we hear that they may not need it. Let me just try to explain that.

So the regression analysis shows the inflation coming out of Household stock with the partial disclosures toward the end of the class period. A regression analysis isn't going to show when the stock becomes inflated. You take those fraud -- we call them fraud-related declines, declines in Household stock price, and you bring them back to the beginning of the class period, which is July 30th, 1999, and you say, the stock is inflated, as we show on Exhibit 53 by $7.97 that those are the specific disclosures that are fraud related.

Now we don't know when there is zero inflation in Household stock before the class period. First of all, it is not relevant to our case. Household stock may have been inflated -- may have been inflated going back to the beginning of our old class period in 1997 or even before that. We didn't have discovery on that. We wouldn't -- that's not part of our case. It is not even relevant to our case.

Now the defendants want to say, well, look, there is a statement before the class period that inflated the stock price. And if that's not actionable, your entire case is not actionable. Well, they could bring that claim against -- they could bring that argument at summary judgment. There is no case law to support it.

The way that -- the way it is going to work in this case is we have a July 30th -- a July 30th start to our case. We have no statement on that date. We are -- our position is the stock was inflated on that date by a failure of Household to disclose the true facts. And if they did disclose the true facts on that day, the stock would have went down by the amount of the fraud decline that Dr. Fischel found later, the $7.97. And the fact is that there was a July 22nd statement, eight days before, that was alive in the market on that day.

Now Professor -- I mean, Judge Guzman may say, you know what, I'm not letting you start the class period when there is no statement. You start the class period a couple weeks later when there is a statement.

Or Judge Guzman can say, you know what, that statement a couple weeks later, August 16th, 1999, your evidence isn't good enough. Your evidence of falsity of showing the statements are false in this case, I don't really see it until January of 2000.

Does that mean we have no case here? No, it means that we start our case whenever the Judge finds there is an actionable statement. And our theory of the case is it is not anything that happened before the class period, it is the statement for the day of -- in the class period when they speak and a failure to disclose the truth that keeps the stock at an inflated price.

And Dr. Fischel explains in his report why you don't use a regression analysis to go back to show when there is zero inflation in the stock price. And if I -- there is no way to even know when there is zero inflation in the stock price because, once again, we had no discovery going back to 1997 or before. That's not -- that's not part of our case. It wouldn't even be something that we would want to or have to show, and it wouldn't be relevant to any calculation of damages in this case.

THE COURT: All right. Let me just put it another way, and then Mr. Owen can talk.

MR. BURKHOLZ: Okay.

THE COURT: If you were giving an answer, would you say no earlier than July 30th, 1999?

MR. BURKHOLZ: In answer to what question?

THE COURT: On what day -- therefore, on this -- if there is a day on which the stock price became inflated. I mean --

MR. BURKHOLZ: Well, the stock price is inflated by when there are legal claims to -- in which you seek damages. Now Judge Guzman said that day was July 30th, 1999, because of this Sarbanes-Oxley analysis he did --

THE COURT: Right.

MR. BURKHOLZ: -- in his court order, you know, back in 2006 or 2007.

should probably be filed also. Okay?

MS. BEST: Okay. Thank you, your Honor.

THE COURT: Okay. Thanks, everybody. Bye-bye. Bye-bye now.

(Which concluded the proceedings in the above-entitled matter.)

C E R T I F I C A T E

I hereby certify that the foregoing is a transcript of proceedings before the Honorable Nan R. Nolan on February 7, 2008.

DATED: February 8, 2008

EXHIBIT 9

Newville, Josh

From: Newville, Josh
Sent: Sunday, March 29, 2009 8:37 PM
To: 'Luke Brooks'
Cc: Maureen Mueller
Subject: RE: Deposition cuts

Luke: In our discussions last week, you asserted that if we opened the door by asserting that charges weren't filed, the testimony on 179-181 comes in -- it relates to settlement negotiations, and I made that clear to you during our M&C. We discussed this issue with Judge Guzman at length. Your argument before Judge Guzman was that if we open the door, then you could introduce the testimony regarding WHY charges weren't filed. The court ruled that if we present the testimony from Cross on the fact that no charges were filed, we've opened the door. Based on the Court's ruling, we are choosing not to open the door.

Are you now saying that this testimony on the settlement negotiations on 179-181 comes in for any purpose whether or not we open the door? If that is the case, what was the purpose in your raising the door-opening argument to the court? Why else would I have agreed to withdraw the testimony on 50-51? Please let us know by 10:00 p.m. this evening whether this is something we need to raise with the Court tomorrow.

From: Luke Brooks [mailto:LukeB@csgrr.com]
Sent: Sunday, March 29, 2009 5:15 PM
To: Newville, Josh
Cc: Maureen Mueller
Subject: Deposition cuts

Josh,

I write further to our conversation Friday night. We cannot agree to withdraw plaintiffs' designation of 179:20-181:9. This cut is not objectionable, we never withdrew the designation and you failed to raise the issue with Judge Guzman. In fact, after first stating that there were no remaining issues with the Cross deposition, you specifically indicated that the only issue you had on p. 179 was lines 8-19, relating to the date of the settlement, which we then discussed: "On Page 179, the testimony that we object to is Lines 8 through 19." Tr. at 662:1-2. It is not appropriate to re-raise the issue now.

Also, we note that on Posner plaintiffs may play 114:8-12, 17-22; 115:11-22, 25 and 116:1-5 in their cut.

Luke

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EXHIBIT 10

Newville, Josh

From: Newville, Josh
Sent: Monday, April 06, 2009 10:23 PM
To: 'Luke Brooks'
Cc: Maureen Mueller
Subject: RE: Deposition cuts

Luke: As discussed, we will withdraw our objection to Chuck Cross 179:20-181:9 (with the understanding that Plaintiffs will not argue that our withdrawing the objection will "open the door" to other testimony regarding settlement negotiations). Also, as I mentioned, we have cut down our Chuck Cross counterdesignations, and plan to present only the following clips:
13:5-20
32:21-33:7
49:14-50:2
50:3-50:6
67:2-9
69:13-70:10
79:23-80:2
85:24-86:10
88:18-89:8
89:24-90:6
91:13-17
96:20-97:9
103:22-24

Regards,
-Josh

From: Luke Brooks [mailto:LukeB@csgrr.com]
Sent: Sunday, March 29, 2009 5:15 PM
To: Newville, Josh
Cc: Maureen Mueller
Subject: Deposition cuts

Josh,

I write further to our conversation Friday night. We cannot agree to withdraw plaintiffs' designation of 179:20-181:9. This cut is not objectionable, we never withdrew the designation and you failed to raise the issue with Judge Guzman. In fact, after first stating that there were no remaining issues with the Cross deposition, you specifically indicated that the only issue you had on p. 179 was lines 8-19, relating to the date of the settlement, which we then discussed: "On Page 179, the testimony that we object to is Lines 8 through 19." Tr. at 662:1-2. It is not appropriate to re-raise the issue now.

Also, we note that on Posner plaintiffs may play 114:8-12, 17-22; 115:11-22, 25 and 116:1-5 in their cut.

Luke

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EXHIBIT 11

UNITED STATES DISTRICT COURT

NORTHERN DISTRICT OF ILLINOIS

EASTERN DIVISION

LAWRENCE E. JAFFE PENSION PLAN, On Behalf of Itself and All Others Similarly Situated, Plaintiff, vs. HOUSEHOLD INTERNATIONAL, INC., et al., Defendants.	Lead Case No. 02-C-5893 (Consolidated) <u>CLASS ACTION</u> Judge Ronald A. Guzman Magistrate Judge Nan R. Nolan

[PROPOSED] FINAL PRETRIAL ORDER

This matter having come before the Court at a pretrial conference held pursuant to Fed. R. Civ. P. ("Rule") 16, and

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having appeared as lead counsel for lead plaintiffs Glickenhaus & Company, PACE Industry Union Management Pension Fund, the International Union of Operating Engineers Local No. 132 Pension Plan, and the class, and

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312/692-1718 (fax)

having appeared as counsel for defendants Household International, Inc., William F. Aldinger, David A. Schoenholz and Gary Gilmer, the following actions were taken:

1. This is a certified class action brought under §§10(b) and 20(a) of the Securities Exchange Act of 1934 (the "Exchange Act"), 15 U.S.C. §§78j(b) and 78t(a), and the rules and regulations promulgated thereunder, including SEC Rule 10b-5, 17 C.F.R. 240.10b-5 and the jurisdiction of the Court is invoked under §27(a) of the Exchange Act, 15 U.S.C. §78aa. Jurisdiction is not disputed.

2. The following stipulations and statements were submitted and are attached to and made a part of this Order:

(a) Exhibit A – A comprehensive stipulation or statement of all uncontested facts, which, except where a specific objection to admissibility (as noted in Exhibit A) is upheld, will become a part of the evidentiary record in the case and which may be read to the jury by the Court or any party;

(b) Exhibit B – Statements by each party of the contested issues of fact and law;

B-1 – Plaintiffs' Statement of Contested Issues of Fact and Law

B-2 – Defendants' Statement of Contested Issues of Fact and Law

(c) Exhibit C – Description of the case to be read to prospective jurors;

(d) Exhibit D – Schedules of exhibits (other than demonstrative evidence) expected to be offered in evidence during trial;

D-1 – Plaintiffs' Exhibit List (with Defendants' objections and Plaintiffs' responses)

D-2 – Defendants' Exhibit List (with Plaintiffs' objections and Defendants' responses)

The parties plan on continuing to meet and confer in the next two weeks to reduce the objections to exhibits and the number of exhibits. The parties plan on lodging any revised exhibit lists, and a list of disputed exhibits, and will attempt to agree on joint exhibits prior to the pretrial conference. At the pretrial conference the parties will discuss with the Court the appropriate schedule for the exchange of demonstratives prior to trial.

EXHIBIT D-1

Plaintiffs' Trial Exhibit List

Number	BEGNO	ENDNO	DEPO_EXH	DOC_DATE	DESCRIPTION	TO	FROM	CC	BCC	OBJECTION	Pltfs Response to Objection
542	HHS02930534	HHS02930535	Gilmer 113	10/22/2001	E-mail string re: D restructures--DC and NY--consumer unsecured	Walt Rybak, Peter Sesterhenn	Joe Vozar			None	
543	HHS02930685	HHS02930688		4/16/2001	Report re: March	Bill Aldinger	Gary Gilmer			None	
544	HHS02930702	HHS02930704		1/9/2001	Handwritten notes w/ attached E-mail chain re: December Close	Gary Gilmer	Joe Vozar	Peter Sesterhenn		None	
545	HHS02931013	HHS02931028		8/16/1999	Household Interoffice Memorandum with attached Memorandum Subject: July Results:	Gary Gilmer	Pete Sesterhenn			None	
546	HHS02931260	HHS02931266		6/8/1999	E-mail re: HFS May 1999 Results with handwritten notes	Cheryl Wengroff	Joe Vozar			None	
547	HHS02932346	HHS02932350		9/22/1998	Forwarded E-mail Subject: Pricing	Peter Sesterhenn	Gregory Harris			None	
548	HHS02932720	HHS02932723	Schoenholz 8	2/26/1999	Memo/Notes/E-mail (Prepayment Fees)	Joe Vozar	Bob Gulik			Irrelevant (FRE 402); Confusion of Issues, Waste of Time (FRE 403)	401; 402
549	HHS02933555	HHS02933555	Sodeika 34	02/00/2002	Best Practices - HFC/Beneficial Initiatives Announced July 2001/Feb 2002					None	
550	HHS02933754	HHS02933776	Sodeika 66 DU; Robin 44 (HHS02945186-208)	8/15/2002	Forwarded E-mail (Multistate Working Group Reply to HFC)	Lisa M Sodeika; Megan E Hayden; James B Kauffman; Mark F Leopold; Kenneth H Robin; Thomas M Detelich; Robin Allcock; cmurphy@mwe.com; ddunne@hewm.com;gboudreaux@boudreauxleonard.com; nhartigan@mwe.com; gretchen@nwstrategies.net; clipsett@wilmer.com	Kathleen K Curtin [forwarded from David Huey]			Settlement/Offer to Compromise (FRE 408); Cumulative (FRE 403); Hearsay (FRE 802); Lack of Authentication (FRE 901)	803(6); 401; produced by defs
551	HHS02934046	HHS02934133	Sodeika 57		(Settlement States' Volume Information 1999-2001)					Irrelevant (FRE 402); Unfair Prejudice, Confusion of Issues, Waste of Time (requires mini-trial on collateral matters) (FRE 403); Settlement Offer/Offer to Compromise (FRE 408); Hearsay (FRE 802); Probative Value of Inadmissible Document Relied Upon by Expert Does Not Substantially Outweigh Prejudicial Effect (FRE 703)	401; 803(6)
552	HHS02937607	HHS02937611	Sodeika 68	08/22/0000	Handwritten notes re: Conference Call					Irrelevant (FRE 402); Unfair Prejudice, Confusion of Issues, Waste of Time (FRE 403); Subsequent Remedial Measures (FRE 407); Settlement Offer/ Offer to Compromise (FRE 408)	401; 402; Not 407; Not 408
553	HHS02937671	HHS02937687	Cross 12		States' Reply to HFC's Response of 7/17/02					Unfair Prejudice, Confusion of Issues, Waste of Time (requires mini-trial on collateral matters) (FRE 403); subsequent remedial measures (FRE 407); Settlement Offer/Offer to Compromise (FRE 408); Hearsay (FRE 802)	401; 402; not 407; 408; 801(c); 8063(8); 803(6)
554	HHS02937699	HHS02937699		9/3/2002	E-mail Subject: Estimated Impacts	Thomas M Detelich	Joe A Vozar	Lisa M Sodeika; Carin M Rodemoyer; Donna Taillon		Irrelevant (FRE 402); Unfair Prejudice, Confusion of Issues, Waste of Time (requires mini-trial on collateral matters); Subsequent Remedial Measure (FRE 407); Settlement/ Offer to Compromise (FRE 408)	401
555	HHS02938205	HHS02938211		7/24/2001	Compilation of articles, first article: *The New York Times* Article: Household Announces Changes in Lending Practices					Hearsay (FRE 802) to the extent offered to prove the truth of the contents of these documents, however to the extent offered to prove that these documents were publicly available, Defendants do not object.	801(c); not hearsay; 801(d)(2)

EXHIBIT 12

	1999 10-K	2000 10-K	2001 10-K	2002 10-Q
(in millions of $) Reported Net Income	1,486.4	1,700.7	1,923.5	1,024.5
Amount Attributable to Improper Lending Practices	421.7	554.6	696.3	336.4
	28.4%	32.6%	36.2%	32.8%

PDEM 040