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 Honorable Jorge L. Alonso

DECLARATION OF LUKE O. BROOKS IN SUPPORT OF PLAINTIFFS' OPPOSITIONS TO DEFENDANTS' MOTIONS *IN LIMINE*

I, Luke O. Brooks, declare as follows:

1. I am an attorney duly licensed to practice before all of the courts of the State of California. I am a member of the law firm of Robbins Geller Rudman & Dowd LLP, Lead Counsel of record for plaintiffs in the above-entitled action. I have personal knowledge of the matters stated herein and, if called upon, I could and would competently testify thereto.

2. Attached are true and correct copies of the following exhibits:

Exhibit 1: Relevant excerpts from the trial transcript from the *Household Int'l* 2009 trial;

Exhibit 2: Relevant excerpts from the transcript of the Deposition of Allen Frank Ferrell, III taken Feb. 27, 2016;

Exhibit 3: Relevant excerpts from the transcript of the pre-trial conference regarding the *Household Int'l* 2009 trial;

Exhibit 4: Relevant excerpts from the transcript of the Deposition of Bradford Cornell taken Mar. 10, 2016; and

Exhibit 5: Relevant excerpts from the transcript of the Deposition of Daniel R. Fischel taken Feb. 24, 2016.

I declare under penalty of perjury under the laws of the United States of America that the foregoing is true and correct. Executed this 6th day of May, 2016, at San Diego, California.

s/ Luke O. Brooks
LUKE O. BROOKS

CERTIFICATE OF SERVICE

I hereby certify that on May 6, 2016, I authorized the electronic filing of the foregoing with the Clerk of the Court using the CM/ECF system which will send notification of such filing to the e-mail addresses for counsel of record denoted on the attached Service List.

I certify under penalty of perjury under the laws of the United States of America that the foregoing is true and correct. Executed on May 6, 2016.

s/ Luke O. Brooks
LUKE O. BROOKS

ROBBINS GELLER RUDMAN
& DOWD LLP
655 West Broadway, Suite 1900
San Diego, CA 92101-8498
Telephone: 619/231-1058
619/231-7423 (fax)

E-mail: LukeB@rgrdlaw.com

Jaffe v. Household Int'l, Inc., No. 02-5893 (N.D. Ill.)
Service List

Counsel	E-mail address
Stewart Theodore Kusper Giovanni Antonio Raimondi THE KUSPER LAW GROUP, LTD. 20 North Clark Street, Suite 3000 Chicago, IL 60602 (312) 204-7938 Tim S. Leonard JACKSON WALKER L.L.P. 1401 McKinney Street, Ste. 1900 Houston, TX 77010 (713)752-4439	Stewart.Kusper@Kusperlaw.com Giovanni.Raimondi@Kusperlaw.com tleonard@jw.com
Counsel for Defendant David A. Schoenholz	
Dawn Marie Canty Gil M. Soffer KATTEN MUCHIN ROSENMAN LLP 525 West Monroe Street Chicago, Illinois 60661 (312)902-5253	dawn.canty@kattenlaw.com gil.soffer@kattenlaw.com
Counsel for Defendant William F. Aldinger	
David S. Rosenbloom C. Maeve Kendall McDERMOTT WILL & EMERY, LLP 227 West Monroe Street Chicago, IL 60606 (312) 984-2175	drosenbloom@mwe.com makendall@mwe.com
Counsel for Defendant Gary Gilmer	
R. Ryan Stoll Mark E. Rakoczy Andrew J. Fuchs Donna L. McDevitt Patrick Fitzgerald SKADDEN, ARPS, SLATE, MEAGHER & FLOM LLP 155 North Wacker Drive Chicago, IL 60606 (312)407-0700	rstoll@skadden.com mrakoczy@skadden.com Andrew.Fuchs@skadden.com Donna.McDevitt@skadden.com Patrick.Fitzgerald@skadden.com pclement@bancroftpllc.com zhudson@bancroftpllc.com TKavaler@cahill.com Jhall@cahill.com dbutswinkas@wc.com sfarina@wc.com

Counsel	E-mail address
Paul D. Clement D. Zachary Hudson BANCROFT PLLC 1919 M Street NW, Ste. 470 Washington, DC 20036 (202)234-0090 Thomas J. Kavaler Jason M. Hall CAHILL GORDON & REINDEL LLP 80 Pine Street New York, NY 10005 (212)701-3000 Dane H. Butswinkas Steven M. Farina Leslie C. Mahaffey Amanda M. MacDonald WILLIAMS & CONNOLLY LLP 725 Twelfth Street NW Washington DC 20005 202-434-5000 Luke DeGrand Tracey L. Wolfe DEGRAND & WOLFE, P.C. 20 South Clark Street Suite 2620 Chicago, Illinois 60603 (312) 236-9200 (312) 236-9201 (fax)	lmahaffey@wc.com amacdonald@wc.com twolfe@degrandwolfe.com ldegrand@degrandwolfe.com
Counsel for Defendant Household International Inc.	

Counsel	E-mail address
Michael J. Dowd Spencer A. Burkholz Daniel S. Drosman Luke O. Brooks Hillary B. Stakem ROBBINS GELLER RUDMAN & DOWD LLP 655 West Broadway, Suite 1900 San Diego, CA 92101 (619)231-1058 619/231-7423 (fax) Jason C. Davis ROBBINS GELLER RUDMAN & DOWD LLP Post Montgomery Center One Montgomery Street, Suite 1800 San Francisco, CA 94104 (415)288-4545 (415)288-4534 (fax) Maureen E. Mueller ROBBINS GELLER RUDMAN & DOWD LLP 120 East Palmetto Park Road, Suite 500 Boca Raton, FL 33432 (561)750-3000 (561)750-3364 (fax)	miked@rgrdlaw.com spenceb@rgrdlaw.com dand@rgrdlaw.com lukeb@rgrdlaw.com hstakem@rgrdlaw.com jdavis@rgrdlaw.com mmueller@rgrdlaw.com
Lead Counsel for Plaintiffs	
Marvin A. Miller Lori A. Fanning MILLER LAW LLC 115 S. LaSalle Street, Suite 2910 Chicago, IL 60603 (312)332-3400 (312)676-2676 (fax)	Mmiller@millerlawllc.com Lfanning@millerlawllc.com
Liaison Counsel for Plaintiffs	

EXHIBIT 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,)
)
Plaintiff,)
)
vs.) No. 02 C 5893
)
HOUSEHOLD INTERNATIONAL, INC.,)
et al.,) Chicago, Illinois
) March 30, 2009
Defendants.) 9:00 a.m.

VOLUME 1
TRANSCRIPT OF PROCEEDINGS - TRIAL
BEFORE THE HONORABLE RONALD A. GUZMAN

APPEARANCES:

For the Plaintiff:

COUGHLIN STOIA GELLER RUDMAN & ROBBINS LLP
BY: MR. SPENCER A. BURKHOLZ
MR. MICHAEL J. DOWD
MR. DANIEL S. DROSMAN
655 West Broadway
Suite 1900
San Diego, California 92101
(619) 231-1058

COUGHLIN STOIA GELLER RUDMAN & ROBBINS LLP
BY: MR. DAVID CAMERON BAKER
MR. LUKE O. BROOKS
100 Pine Street
Suite 2600
San Francisco, California 94111
(415) 288-4545

A. Yes.

Q. Does that have any significance to your opinion that Household engaged in re-aging practices to mask its two-plus delinquency numbers?

11:39:48 A. Well, the positive effect is only if the person keeps paying. But if you recall, we discussed that last week, that the way that these loans were structured made it very difficult for the people to pay because the balances kept going up with all the fees and insurance premiums being packed
11:40:09 on. And so then, they would become delinquent. Household would re-age them, pack on some more things. They wouldn't be able to pay again. Household would re-age them. So it had a negative effect on cash flow, not positive.

MR. KAVALER: Your Honor, move to strike everything
11:40:27 after the phrase as you recall, we discussed last week. It's precisely that; what we discussed last week.

MR. DROSMAN: Your Honor, I ask that he not make speaking objections.

THE COURT: Make a legal objection.

11:40:35 The objection is overruled. The answer may stand.

MR. DROSMAN: Thank you.

BY MR. DROSMAN:

Q. Finally, you were contacted by lawyers for the defendants after you were retained in this case by plaintiffs, correct?

11:40:47 A. Yes.

Q. When were you contacted?

A. I was contacted in June of 2007.

Q. And how did the defendants contact you?

A. I received a phone call and an e-mail.

11:40:57 Q. And what did the defense lawyers ask you?

A. They said they had a case that regarded lending. I can't remember the exact words. And they were looking for an expert to render opinions. And so, of course, the first thing I asked them was who were the parties. And when I realized one 11:41:19 of the parties was Household, I declined to be involved in the case.

Q. Defendants were considering you as an expert in the case?

A. Yes.

MR. DROSMAN: I have no further questions.

11:41:32 MR. KAVALER: I have one or two questions, your Honor.

THE COURT: Proceed.

RECROSS EXAMINATION

BY MR. KAVALER:

11:41:38 Q. The last call you described, Ms. Ghiglieri, did it last 30 seconds or --

THE COURT: Wait, wait. She can't hear with all that going on.

MR. KAVALER: Sorry.

BY MR. KAVALER:

A. Right.

Q. And he forwards to you, attached to this handwritten memo, a document entitled "U.S. Consumer Finance Growth Strategies Meeting with Andrew Kahr 12-18." Is that right?

01:35:52 A. That's correct.

Q. And again, U.S. consumer finance, consumer lending, those are synonymous at Household in this era; is that right?

A. That's right.

Q. Sir, do you recall attending a meeting with Andrew Kahr on
01:36:04 December 18th?

A. No, I do not.

Q. And you understood, though, that Mr. Kahr was a consultant that had been hired by Mr. Aldinger and Mr. Schoenholz; is that right?

01:36:15 A. You know, I was never quite sure who hired him, but I think Bill or Dave hired him, yes.

Q. Did you understand that, as part of his deal that he made with Mr. Aldinger, he got to report directly to Mr. Aldinger?

A. I didn't know his reporting relationship with other
01:36:29 people. He didn't report directly to me, so I guess, by process of elimination, it would have been Mr. Aldinger.

But I was not privy to that --

Q. Did you know -- sorry, sir.

A. No. I'm sorry.

01:36:42 Q. Did you know that he had been at Providian before he

Mr. Detelich and Mr. O'Han, they saw that video at the time.

Do you know that?

A. Yeah. They probably did.

Let me just make one other point.

01:50:58 Q. I am just asking you that question.

A. I don't know that they saw it in its entirety. But I think they certainly had it and they saw enough of it to know what it meant. I will say that.

Now, I only saw a few snippets of it. I don't know
01:51:14 what was in the other 57 minutes, but maybe it was all great stuff. I don't know. But I don't need to see the rest of it. What I saw was enough for me.

Q. Sir, you understand -- or do you understand that Mr. O'Han still had Mr. Hueman training people a year and a half later
01:51:30 on sales, in August of 2002?

A. I am assuming you wouldn't tell me that if it weren't true.

Q. I will show you something if you want to see it.

A. No. That's what I said. I assume -- I would also --
01:51:44 number one, I am surprised at that.

Number two, I would expect that Mr. Hueman had been retrained -- I am speculating about the whole thing, obviously.

Q. Okay. Well, don't speculate for me, Mr. Gilmer. Just
01:51:57 tell me what you know.

A. Okay.

Q. Did you understand -- when you watched this snippet of this videotape, did you understand that at the very beginning, the part that you saw when we were watching the opening
01:52:09 statements, he said that he was "Teaching our AEs and our SAEs and, hopefully, some BSMs, too, on some sales techniques, things that I do as I visit around the branches and as I gather your people together."

Did you hear him say that?

01:52:24 A. I heard that just as you heard that, Mr. Dowd. And I cringed in my seat. Absolutely. You and I are in lockstep on that.

That is exactly the kind of thing that happens in a large organization like ours if there is even the smallest
01:52:46 lapse. And that's why I was continually sending out the memos that you were kind enough to put up and hammering this home and making these videos myself.

I mean, even with all of that, from time to time we would have a bad apple slip through. It's embarrassing.

01:53:02 Q. In this situation you had a bad apple who was a DGM, right, a division general manager?

He was responsible for parts of Texas, Arizona, New Mexico, and Southern California, right?

A. I don't know the exact states that he was responsible for,
01:53:17 but he was responsible probably for 50 branches, a lot of

branches. That was a lot.

Q. Okay.

A. Absolutely.

Q. So he was out there. You understood, from watching this
01:53:25 videotape, that's how he had been training all along, right, sir?

A. All along? I don't know how long he has been with Household, however you describe "all along."

Do you know when he started to work with Household?

01:53:35 Q. No, I don't, sir. I know he was a DGM in 2001. I know that.

A. I don't either, but my hope was you would say he had only been around for six months. Maybe that was true or not true.

It doesn't matter. If it was six months or six days
01:53:47 or six hours or six years, that's what I have been talking about the whole time I am up here about control, control, control. And I blew that. I blew that. I take full responsibility for that. I didn't know it was out there, but the buck stops here.

01:54:03 Q. Sir, yesterday you talked about a net benefits test. Do you remember that?

A. Yes.

Q. And I believe you showed a memo to the jurors.

MR. DOWD: Counsel, it's Defense 209.

01:54:21 BY MR. DOWD:

right?

A. Correct.

Q. And in May of 2002, you became the director of compliance/ risk management at Household; is that right?

02:18:44 A. Correct.

Q. And that was a newly-created position at Household, right?

A. Correct.

Q. You worked as the director of compliance/risk management until September 2005, right?

02:18:53 A. Correct.

Q. And you currently work for Household's successor company, correct?

A. Correct.

Q. And that's HSBC; is that right?

02:19:01 A. Correct.

Q. Hongkong Shanghai Bank Corporation; is that right?

A. Right.

Q. And they acquired Household in 2003; is that right?

A. Correct.

02:19:10 Q. One of your duties as director of compliance/risk management was to manage the group at Household that interacted with Household's state regulators, right?

A. Correct.

Q. And one of the things this team that you managed did was

02:19:23 to draft responses to the state regulatory reports of

Q. You had Mr. Hueman fired, didn't you?

A. No, we did not.

Q. You didn't fire him?

A. No.

11:08:22 Q. Kept him on, same job title, right?

A. We did.

Q. Same salary and bonus, right?

A. Indeed.

Q. In fact, you put him in charge of training a year later, 11:08:32 didn't you?

A. No.

Q. He never trained after that?

A. I didn't say that. You asked me if I put him in charge of training, and the answer to that question is no.

11:08:43 Q. He was an executive sponsor in charge of UC- -- USCF training and communications in the summer of 2002, wasn't he?

A. I don't have any recollection of that.

Q. Let me show you a document that we received from the defendants in this case.

11:09:12 (Tendered.)

MR. BURKHOLZ: A copy to counsel.

MS. BUCKLEY: Thank you.

BY MR. BURKHOLZ:

Q. Take a look at the e-mail on the bottom from Mr. Hood to 11:09:21 Mr. O'Han and others, Mr. Hennigan.

Q. This firm, right (indicating)?
A. Yes.
Q. In fact, you still work for Household, don't you?
A. Actually, for HSBC, yes.
02:04:19 Q. They're a subsidiary of Household, correct?
A. No, they --
Q. Household is now a subsidiary of HSBC, correct?
A. Actually, the legal entity is HSBC Finance. There isn't a Household legal entity, I don't believe.
02:04:33 I work for HSBC Finance.
Q. You are a still paid a salary and bonus by HSBC North America, aren't you?
A. I am.
Q. And how much were you paid --
02:04:52 MR. BURKHOLZ: Strike that.
BY MR. BURKHOLZ:
Q. Household's branches around the country, you were overseeing those as late as a couple months ago, correct, sir?
A. I was the President of the Consumer Lending Business within HSBC Finance. 02:05:06
Q. And that included all --
A. Actually, I said "was." I am.
Q. And that includes all of the Household and Beneficial branches, correct?
02:05:15 A. That's correct.

A. What I'm telling you is that our policy said that, under -- my understanding, under all circumstances, that a collector would talk to a delinquent customer, would document those discussions on the customer's record before an account
03:54:04 was re-aged.

Q. Well, let's see what you said about that a little while later, all right, sir.

Let me ask you: Did there come a time that you changed this 10-K?

03:54:21 A. Well, as --

THE COURT: When you say this 10-K, which one are you referring to?

MR. DOWD: I'm sorry, your Honor. We're referring to Defendants' 852. I apologize to the Court.

03:54:28 THE COURT: Which is for what year?

MR. DOWD: That's December 31, 2001.

BY THE WITNESS:

A. Say again, please.

BY MR. DOWD:

03:54:39 Q. Yes, sir.

Was there a time that you reissued this 10-K to correct or to amend this disclosure about your re-age practices?

A. Well, we already talked about the fact that in the summer
03:54:55 of 2002, we reissued the 10-K. And the language that was

included in the first version and reviewed by our -- by Arthur Andersen and the language included in the second version, which was reviewed by KPMG, was the same language. I believe in 2003, the company revised the language in the 10-K in
03:55:25 connection with the HSBC acquisition.

Q. Okay. Let me just ask you to back up a little bit.

You said the language was looked at by Arthur Andersen. These aren't Arthur Anderson's financial statements, right? They're your financial statements, aren't
03:55:41 they, sir?

A. When I -- when I signed these financial statements --

Q. Sir, just answer my question. Are they your financial statements, Household's, or Anderson's financial statements?

A. They're the financial statements of Household
03:55:54 International.

Q. And Household International's financial statements are the responsibility of management of Household International to get it right; isn't that right?

A. In discharging -- yes. And in discharging that
03:56:06 responsibility, I relied on business unit and corporate office financial people and credit risk people who had more detailed knowledge than I did; and I relied on their informed professional judgment. And I also relied on the fact that our auditors would have reviewed that language.

03:56:34 Q. Okay. Sir, but they were your responsibility? You were quantified, that was attributable to improper lending practices, and compare it to the amount of revenue between 1999 -- June 30th, 1999 -- and June 30th, 2002?

A. I did.

02:46:10 Q. Okay.

And can you tell us approximately what percentage of revenue was attributable to these practices during that time period?

A. I believe it ranged from, depending on what period we're
02:46:25 talking about, somewhere between five-and-a-half percent to eight percent.

Q. And did you also look at the 3.2 billion, as it compared to net income, during that same time period?

A. I did.

02:46:40 Q. And did you prepare a demonstrative depicting that?

A. I did.

Q. Okay.

I'll show you what's been marked as Plaintiffs' Demonstrative 40. And I'd ask you to look at that, if you
02:46:51 would.

And can you explain to me what you were trying to determine straight with Plaintiffs' Demonstrative 40?

A. Just the impact of the amounts attributable to the alleged improper lending practices, as a percentage of net income that
02:47:23 the company actually reported.

Q. Okay.
And, so, for example, in 1999, what was the percentage that you determined, based on the documents that you looked at?
02:47:33 A. As you can see, it's 28 percent, roughly.
Q. Okay.
And, then, for the year 2000, 32 percent; is that right?
A. That's correct.
02:47:43 Q. Okay.
And for the year 2001, 36 percent?
A. That's correct.
Q. And, finally, for the year 2002 -- the first two quarters -- 32.8 percent?
02:47:55 A. That's correct.
Q. And, again, these amounts shown in that middle column there (indicating) -- the -- attributable to the lending practices -- are dollars of net income during these periods attributable to loan splitting, misrepresenting loan fees and 02:48:14 points, misrepresenting the interest rate, insurance packing and imposing prepayment penalties; is that right, sir?
A. That's right.
Q. Okay.
In addition to looking at internal calculations of 02:48:25 the amounts attributable to certain lending practices, did you

A. November 15th, 2001.

Q. Why were these 14 dates selected?

A. They were selected because I wanted to isolate the fraud-related disclosures that were important to investors.
02:33:55 So I had to make a series of judgments based on the event study in order to do that. I had to isolate disclosures. I had to determine whether those disclosures occurred at a time when there was a statistically significant stock price movement. And I had to be reasonably confident that the
02:34:18 fraud-related disclosure was responsible for the price movement.

Q. And have you prepared a demonstrative that summarizes the relationship between your analysis of the 14 dates and inflation?

02:34:28 A. I have.

MR. BURKHOLZ: Can we bring up Plaintiffs' Demonstrative 150.

BY MR. BURKHOLZ:

Q. Now, before we look at -- is this the demonstrative that
02:34:44 you prepared?

A. Yes.

Q. Before looking at these 14 dates, was there another set of dates that you could have picked?

A. Yes. I believe this particular analysis focuses on
02:34:59 14 dates. I have seen an analysis by Household that

identifies 166 dates.

Q. If you included those dates in your quantification, would the inflation be higher or lower?

A. It would be almost double the number that I calculated
02:35:16 here. We will get to it, but the $7.97 number.

If I included all the defendants' dates, that number would increase by another $7, so it would be virtually $15, which would make the harm and the losses to investors much greater than what I myself calculated under this first method.

02:35:39 Q. So selecting the 14 dates was conservative, in your view?

A. Absolutely. Relative to the choice of dates of the defendants.

Q. Let's look at the 14 dates.

Why is November 15th, 2001, the first date on this
02:35:51 exhibit?

A. Because that is the date that the California Department of Corporations filed suit against Household alleging that Household had engaged in systematic unfair predatory lending practices.

02:36:10 Q. Did you prepare a demonstrative related to that date?

A. I did.

MR. BURKHOLZ: Can we bring up Plaintiffs' Demonstrative 137.

BY THE WITNESS:

02:36:31 A. I don't think -- this is not the right document.

Again, market participants, professional investors
becoming increasingly skeptical of what they can rely on in
terms of what Household is telling them.

Q. And what's your -- what's the significance of the
03:27:19 Bellingham Herald article describing the contents of the
Washington DFI report and noting the widespread nature of the
predatory lending practices detailed in that report?

A. The report as the excerpt on the demonstrative indicates
that the Washington regulators concluded that the abusive
03:27:43 predatory lending practices were not isolated but were rather
systematic and pervasive.

And, therefore, the Bellingham Herald quotes the
report or cites the report as saying, "The report rejects any
notion that the abuses are due to renegade local
03:28:03 representatives who are violating corporate policies.
Household has created a situation in which they can completely
mislead and confuse the borrower while later providing a
plausible explanation for their actions to the department or
other regulatory agencies."

03:28:21 Basically, the Washington report is saying the same
thing as the fired branch manager, that the practices are not
isolated, they're coming from the company and they're
pervasive.

Q. And is the market, your understanding that the market is
03:28:36 learning more information about the Washington DFI report at

this time?

A. Exactly, because it's starting to be leaked more and more into the press, and now it's disclosed and discussed in this Bellingham Herald article.

03:28:51 Q. Okay. And did you prepare a demonstrative for our next date, September 3rd, 2002?

A. I did.

MR. BURKHOLZ: Can we bring up 146, please?

BY MR. BURKHOLZ:

03:29:07 Q. And is this the demonstrative you prepared for September 3rd, 2002?

A. I did.

Q. And you reference a Sanford Bernstein report of September 3rd, 2002 and an American Banker article of September 10th, 03:29:20 2002?

A. Correct.

Q. Okay. Let me show you what we've marked as Plaintiffs' 1431, which is the Sanford Bernstein analyst report, and 1402, which is the American Banker article of September 10th.

03:29:39 Those are the two documents that you took excerpts out of for your demonstrative?

A. Correct.

MR. BURKHOLZ: Your Honor, can we move those two exhibits in, 1431 and 1402, subject to the limiting 03:29:50 instruction.

THE COURT: They'll be admitted with the limiting instruction.

(Plaintiffs' Exhibits 1402 and 1431 received in evidence with a limiting instruction.)

03:29:56 BY MR. BURKHOLZ:

Q. What were the significance of the Bernstein report and the American Banker article to your opinion?

A. The Bernstein report and the -- well, let me start with the Bernstein report.

03:30:05 That was the first detailed analysis of the effect of the Washington report on Household's growth strategy and its ability to continue to pursue the same practices that had been responsible for the growth strategy in the first place.

And what the demonstrative indicates at the top is 03:30:36 that the Bernstein analysts, having reviewed the Washington report, have --

Q. Let me cut you off there for a second.

A. Sure.

Q. When you say reviewed, what kind of analysis did this 03:30:49 analyst do with that report in the exhibit that you have in front of you?

A. Quite a detailed analysis. There was a lot of leakage before this, but no real detailed analysis of exactly what the report said and, more importantly, what the effect of the 03:31:03 report would be on Household's profitability, its ability to continue its growth strategy.

Q. Did this analyst look at the impact of Household changing its practices on how much money they could make in the future?

A. That's exactly what they did.

03:31:21 Q. Did he look at it in detail?

A. Looked at it in great detail. And, again, it's not just my opinion, but it was commented on at the time, that that's what the significance of this particular report was.

Q. Okay. Why don't you continue on, and let's look at the 03:31:36 second and third parts of that report. Can you explain the significance of that?

A. Yes, that right at the beginning, you see that the Bernstein analysts lowers their growth estimates for Household based on the Washington report. "Household will likely need 03:31:55 to abandon its target EPS," earnings per share, "growth rate of 13 to 15 percent to a range of 10 to 12 percent as a result of sales practices reform in its branch-based real estate lending business.

"Our assumption of a long-run growth rate of 10 03:32:14 percent for the branch-based real estate portfolio may prove to be at best case zero or even negative growth could occur, and then the combined impact of sales practice reform, the suspension of the stock buy-back program and the accounting restatement announced on August 14th is an estimated 15 cents 03:32:37 in 2002 and 40 cents in 2003.

"As a result, we are lowering our EPS," earnings per share, "estimate for 2002 to $4.48 from $4.63 versus a consensus of $4.57, and for 2003 to $4.96 from $5.36 versus consensus of $5.14."

03:33:04 Q. And was -- is Bernstein a respected analyst entity?

A. Yes, very much so.

Q. Okay. And would market participants consider this report important?

A. Yes, they would, and they did, as indicated by the next
03:33:20 excerpt that's in the bottom part of the demonstrative.

Q. And what is the significance of the American Banker article to your opinion?

A. Well, they're commenting on exactly what you just asked me about, how important the Bernstein article -- the Bernstein
03:33:35 report was, analyzing the Washington Department of Financial Institutions report.

And the American Banker article a week after refers to the Bernstein report and states that "For the first time an equity analyst has put some hard numbers behind concerns that
03:33:59 Household International's lending troubles would reduce its earnings."

So really the first time, rather than just stating that Household's growth strategy might have to change, an analyst is saying exactly how much it would have to change and
03:34:13 what the financial impact of the lowered growth would be for

investors in the future.

Q. And had some analysts in the summer 2002 tried to estimate the impact of the Washington DFI report as parts of it were leaking out?

03:34:28 A. Yes, but this is really the first time that somebody really did it in a concrete way in a way that was disseminated to the public.

Q. Okay. And did you prepare a demonstrative for the next date, September 23, 2002?

03:34:42 A. I did.

MR. BURKHOLZ: Can we bring up Plaintiffs' Demonstrative 147?

BY MR. BURKHOLZ:

Q. And is this a demonstrative you prepared for September 23, 03:34:57 2002?

A. It is.

Q. And the -- you cite an analyst report from CIBC of September 22, 2002?

A. Correct.

03:35:04 Q. Okay. Let me show you Plaintiffs' 1435, which is the CIBC September 22nd, 2002, analyst report.

MR. BURKHOLZ: I'd ask to move that into evidence subject to the limiting instruction.

THE COURT: It will be admitted subject to the 03:35:19 limiting instruction.

(Plaintiffs' Exhibit 1435 was received in evidence with a limiting instruction.)

BY MR. BURKHOLZ:

Q. Now, what was the significance of this CIBC report on
03:35:24 September 22, 2002, to your opinion?

A. The significance of this was, again, this is a report that's analyzing the effect of the Washington Department of Financial Institutions report on Household's profitability, on what the likely effect of alteration in Household's lending
03:35:49 practices will have on its profitability and on its stock price.

And you also see the -- again, the residual price change of minus $1.52, which, again, is the price taking into account movements in the market and the overall industry on
03:36:09 that particular day.

Q. What is the reference to the resolution of the heightened investigations and pending lawsuits?

A. Well, if you're in the perspective of this particular analyst, they're trying to figure out what's going to happen
03:36:32 in the future.

You have all of these lawsuits and complaints that have been filed against Household, many more regulatory and governmental investigations, the Washington Department of Financial Institutions report is now public, and nobody knows
03:36:52 what's going to happen, what the effect on Household will

ultimately be.

So as a result, if you go back to the top of the demonstrative, the analyst talks about how concerns about these investigations, about the effect of the Washington 03:37:11 report caused the analysts to lower their price target for Household from $57 to $36, which is a really major negative shift because of the concern about what the ultimate effect is going to be of all these investigations and lawsuits and regulatory pressure on Household to change its predatory 03:37:38 lending practices.

Q. And when you talked about the concern, are you talking about how much money Household will have to pay for any settlement as well as how much money they're going to make in the future? Is that what the analysts are looking at?

03:37:48 A. I think there's some concern about how much money Household will have to pay, but much more important than what Household will have to pay is what the effect will be of abandoning its predatory lending on its profitability and its growth prospects for the future.

03:38:03 That's really what the analysts were more focused on, although obviously the amount is also relevant. But what's more relevant is Household's business strategy, the relationship between predatory lending and aggressive accounting in that business strategy, and whether pressure 03:38:21 from investigations, lawsuits, et cetera, will force Household

Q. Would there be inflation on that date if there was no finding that the August 16th, 1999 10-Q was false or misleading?

A. No, no, that the -- well, it would depend, I guess, on 03:53:16 whether it was an earlier disclosure that was found to be false and misleading. It's hard to separate one from the other.

But so long as there is a disclosure that Household made that was false and misleading because it did not provide 03:53:31 accurate information about its predatory lending practices, its re-aging policies, its credit card accounting, the ability to sustain its growth strategy in the future, the inflation would be this particular amount based on my calculations.

Q. Okay. Now, in your opinion, the $7.97 of inflation that 03:54:01 you calculated, does that capture, in your opinion, the amount of inflation that was in Household's stock price?

A. No.

Q. And why not?

A. Because what I did was I focused on individual 03:54:15 disclosures, but that's in some sense not a completely realistic analysis because it's not as if there was only 14 disclosures during the relevant period.

There was a cascade of negative information that came out about Household, particularly after negative -- 03:54:36 particularly after November 15th, 2001, when market participants, investors, analysts became to increasingly doubt Household's denials and started to really question whether or not Household's disclosures were accurate, whether its accounting was accurate, whether its lending practices were 03:54:59 consistent with governing regulations.

There was, as we get a little bit later in the period, tremendous amount of leakage of information about the Washington Department of Financial Institutions report, about the possibility of a settlement, about the need for Household 03:55:21 to reform its sales practices and the possible effect that would have on Household's profitability, and I believe that cascade of negative information had an effect, a negative effect, on Household's stock price in addition to the effect of the 14 disclosures that I originally quantified that we 03:55:44 just went through.

Q. Do you have the Bellingham Herald article, that Exhibit 1429?

A. Probably better if you give me another copy of it because I have so many documents. I could search for it, but if you 03:55:57 have another copy, that would be better.

What's the date of it?

Q. I have a copy.

A. Thank you.

I have it.

03:56:30 Q. Okay. Is this an example of the type of leakage that you were talking about?

A. Yes. In fact, the article discusses the very leakage that I just described.

Q. Okay. And what in the article is significant to your
03:56:42 opinion regarding leakage?

A. Well, if we just highlight the first half of the page on the first page of the article. The first paragraph talks about the Washington report, the state investigative report on Household.

03:57:08 Then it talks about how it's been suppressed by -- for three months as a result of a court order that Household obtained; then describes, because the article's been now leaked, a -- what the article refers to as a blistering assessment of the Household's loan practices in Washington and
03:57:37 elsewhere in the state.

And then it goes on to talk about what the report accuses the company of, misrepresentations and dishonest statements, failure to provide customers with accurate disclosures, coaxing borrowers into signing without reading
03:57:56 the documents that they're signing, talking borrowers into refinancing at disadvantageous interest rates based on misleading them, adding costly insurance premiums.

But then the next paragraph is really what is supportive of what I said a minute ago. It talks about how
03:58:19 Household's attorneys went to court to obtain a restraining

order blocking release of the report; but in recent weeks, copies of the report have been leaked to every news organization that has followed the HFC story, including the New York Times, Forbes Magazine, American Banker Magazine, and 03:58:41 the Bellingham Herald.

And the point is that my 14 specific disclosures don't pick up all this leakage going on behind the scenes to all of these news organizations about the consequences to Household of this report.

03:58:58 And, again, the same is true with respect to rumors about the settlement, about rumors about the effect of sales practice reform on Household's profitability and its growth strategy, and that's why I think that my first quantification doesn't fully capture the inflation in Household's stock 03:59:18 price.

Q. Okay. Before we get a little further into leakage and your leakage analysis, did you prepare a demonstrative that compared how Household's stock price went down from your first date, November 15, 2001, until the end of the relevant period, 03:59:34 October 11, 2002, to the inflation that you found, the $7.97?

A. I did.

MR. BURKHOLZ: Okay. Can we look at -- bring up 152, please.

BY MR. BURKHOLZ:

03:59:46 Q. Is this a demonstrative that you prepared?

A. Yes.

Q. And can you explain the demonstrative to the jury?

A. Yes. This is a comparison of Household's stock price decline from November 15th, 2001, my first fraud-related 04:00:05 disclosure, the date of the California Department of Corporations suit, to October 11th, 2002, when the settlement and the reform of sales practices is announced, and the red bar is the amount of the decline in Household's stock price. $32.70 was the decline from I think it's, you know, somewhere 04:00:35 around 60 to somewhere in the 20s, but the exact amount of the decline is $32.70.

And I compare that with the amount of inflation that I calculated based on my 14 specific disclosures, which is the blue bar, $7.97, and obviously $7.97 is a much smaller number 04:01:01 than $32.70. So in my first method of the decline in price of $32.70, only $7.97 of that $32.70 decline I attribute to improper inflation, and the rest is attributable to other factors under this first method.

So you can see the vast majority of the stock price 04:01:31 decline I do not count as inflation under my first method.

Q. And it's your opinion that the $7.97 is -- doesn't fully capture the inflation that was in Household's stock price before this time period?

A. Correct. It captures the 14 specific disclosures, but it 04:01:50 doesn't capture the pervasive leakage of all of the

accusations and the findings in the Washington report, consumer groups, the possibility of more regulatory investigations, the effect on Household's -- rumors about the effect on Household's lower profitability as a result of
04:02:13 reform of its sales practices, any analysis of specific disclosures in a situation where there's so much leakage, the specific disclosures can't fully capture all of the decline that's attributable to fraud-related information.

Q. And did you prepare -- compare Household's stock price
04:02:34 decline during this period we're looking at to what it identified as its peer group?

A. I did.

MR. BURKHOLZ: Okay. And can we look at -- bring up demonstrative 136, please?

04:02:47 Let's highlight that.

BY MR. BURKHOLZ:

Q. Is this a demonstrative that you prepared?

A. Yes.

Q. Can you explain it to the jury?

04:02:56 A. Yeah.

Again, this is very important because, as I indicated earlier, you can't really analyze a stock price in the abstract. You have to know how it compares to how the market did and how the industry that it's a part of did.

04:03:12 And what I did was I looked at Household's disclosures to see what benchmark Household itself identified as the market index and the industry index that its performance should be compared against.

And Household identified the Standard & Poor's 04:03:36 Financial Index and the Standard & Poor's 500 Index, a much broader index of the overall market.

So during this period when Household declined by $32.70, I wanted to compare how Household performed versus the indexes that Household itself said it should be compared 04:03:58 against, and this is what this graph indicates.

First of all, the full red bar is Household's performance during this period. The $32.70 decline translate into a decline of 53 percent in Household's stock price during this period.

04:04:21 But, again, I wanted to see how that compared with the market and the industry to be consistent with my overall analysis that you can't ever analyze stock prices in isolation, you have to compare them to the market in the industry.

04:04:38 So if you look at the two lines going across, they represent the performance of the S&P Financials Index and the S&P 500 Index, which, again, I did not choose those. Household itself chose them as the relevant benchmarks to assess its performance against.

04:04:58 And you can see that the Household -- the S&P

Financials Index declined by approximately 20 percent. The
S&P 500 Index declined by approximately 25 percent, but
Household declined by more than twice that amount. It
declined by 53 percent during this period, which, again, gave
04:05:19 me confidence that Household's decline was not just
attributable to normal market and industry fluctuations, but
was attributable to new negative information coming out about
Household that is easily understandable in light of the
cascade of negative information that was coming out during
04:05:40 this period.

Q. And was the $7.97 inflation that you found -- what was the
relationship between that and what you were finding in this
analysis?

A. The $7.97 number is smaller than the amount of the -- of
04:05:59 Household's decline that exceeded the decline of the indexes
that Household itself compared itself to. So my analysis was
conservative again in that respect.

Q. And I want to show you the proxy that Household filed, 14A
proxy. It's Exhibit 1275 dated May 14, 2002.
04:06:23 Is this a document that you used in preparing this
demonstrative?

A. Yes. Again, I didn't want to perform any comparisons of
Household to indexes that Household itself didn't compare
itself to, so under the governing regulations of the
04:06:45 Securities and Exchange Commission, companies have to identify

Legg Mason article we looked at -- report we looked at in December, right?

A. Yeah, and many others. In other words, disclosures by third parties is not the same as disclosures by the company 04:16:17 itself.

In a situation like this, disclosures by third parties are given less weight; and, therefore, investors were not fully informed for that reason.

But that effect is compounded by the fact that 04:16:30 Household, throughout the period, is denying that there's any problem, so that even with respect to the third-party disclosures, which are less important than disclosures by the company, those disclosures are being discounted through much of the period until the very end because of management 04:16:50 denials.

By the very end, the denials of management are systematically disregarded by many analysts and market participants.

In addition to that, I came across a lot of 04:17:06 information that regulators concluded, a lot of exam reports, state and federal exam reports that Household had that were not disclosed to investors, and that was yet another reason that I concluded that investors didn't have full information.

MR. BURKHOLZ: Your Honor, I'm ready to get 04:17:32 into another document.

THE COURT: Cross-examine.

MR. KAVALER: Thank you, your Honor.

CROSS-EXAMINATION

BY MR KAVALER:

11:46:39 Q. Good morning, Professor Fischel.

A. Good morning.

Q. My name is Tom Kavaler. I represent the defendants.

A. We met before actually.

Q. Briefly, I think.

11:46:48 And I'm going to ask you some questions today. I'm going to try to -- try to understand what you said on direct and explore how it applies to some other aspects of the case that I'm interested in. I would appreciate it if you would answer the questions I ask you and just those questions.

11:47:04 Can you do that?

A. I will do my best, sir.

Q. Excellent.

Now, you have an extensive background in this area in connection with disclosures and their impact on stock price,
11:47:16 don't you?

A. I do.

Q. You are widely regarded as if not the preeminent, one of the preeminent experts in this field; are you not?

A. That's very kind of you to say. I hope that's the case,
11:47:28 but I accept your gracious compliment.

Q. And your work has been cited by the Supreme Court, correct?

A. It has.

Q. And, in fact, when we were looking for an expert, we 11:47:39 contacted you to see if you were available, but you had already been hired by these folks, correct?

A. You were nice enough to contact me to try and hire me in this case, but I was already retained, yes.

Q. And you've conducted a substantial number of event studies 11:47:55 in connection with various cases over the years?

A. I have.

Q. An event study is a well-established methodology for analyzing loss causation in securities fraud cases?

A. Correct.

11:48:05 Q. In fact, an event study is widely regarded as the gold standard by both courts and economists for evaluating the economic aspects of a case like this?

A. In connection with -- in combination with other economic evidence, I would say that's correct.

11:48:22 Q. And you conducted an event study in this case?

A. We did.

Q. And, in fact, the results are one of the documents marked in evidence?

A. Correct.

11:48:29 Q. And you used your event study to analyze and detail the movement.

Q. And under your leakage model, the inflation varies throughout the relevant period?

A. Correct, from the first day to the last day. It varies
03:41:12 every day.

Q. And then counsel was quizzing you on some of the specific disclosure dates. I want you to go back to the September 23, 2002, date, which is tab 16 in your binder.

A. Okay. I have it.

03:41:29 Q. And he asked you whether or not that date related to predatory lending. And I think you said it did. But you didn't look at the actual report. Can you look at the second page of the report?

A. I have it.

03:41:51 Q. Okay. Do you see the first paragraph -- at the end of the first paragraph on the second page, 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
03:42:08 have also been a drag on the stock.

A. Correct, I see that. The correct answer would have been this disclosure related both to predatory lending practices as well as a re-aging, not just to predatory lending.

Q. And, finally, it's your opinion that the leakage model is
03:42:26 a better estimate of inflation from Household's false

statements as alleged by the plaintiffs than your specific disclosure model?

A. Yes, because of all the evidence of the leakage of the Washington department of financial insurance report, as well
03:42:41 as all the leakage of the settlements, the possible settlements, and all the criticism of Household's predatory lending practices, as well as its re-aging policies.

MR. BURKHOLZ: Nothing further at this time, your Honor.

03:43:00 THE COURT: Recross.

MR. KAVALER: Briefly, your Honor.

(Brief pause.)

THE WITNESS: Be careful.

RECROSS EXAMINATION

03:43:05 BY MR. KAVALER:

Q. Anything happens a lot of lawyers that will throw their cards at my body.

Let me just pursue what you just told Mr. Burkholz. He directed your attention to November 12, 1999. Let's look
03:43:32 at Plaintiffs' Exhibit 1397, page two. That's your list there.

A. 13 -- which --

Q. 1397 is this one, the one with the columns.

A. Okay. Let me find it. I've got 1395.

03:43:55 Q. The one you and I were looking at all day.

MR. BURKHOLZ: I have a copy.

MR. KAVALER: We can put it up on the board. Can we have the switch, your Honor?

THE COURT: Sure.

03:44:05 BY MR. KAVALER:

Q. Let's look at the date Mr. Burkholz directed you to, November 12, 1999. And the artificial inflation there is 7.97, correct?

A. Correct.

03:44:18 Q. Just like it is in every other entry on that page?

A. Correct.

Q. And every entry on the page before?

A. Correct.

Q. And every entry right up until November 15, 2001?

03:44:27 A. That's right.

Q. Okay. Now, if I understood what you just said, you're saying the jury should take this chart, 1397, and in the column where you, the expert, the person quoted by the Supreme Court, the person who wrote the book in this area literally -- you did write a book in this area, didn't you? 03:44:49

A. I did. And you're just too kind with your compliments.

Q. You're the man, Professor.

What you wrote in this column was 7.97 on July 30, 7.97 on August 2, 7.97 on August 3, 7.97 on August 4, 7.97 on August 5, 7.97 on August 6, 7.97 on August 9, et cetera, all 03:45:12

Q. Okay. And then you looked at the information that we just looked at to determine what wasn't consistent with Household's peers, right?

A. That's not my recollection.

01:30:04 Q. You didn't do that, right?

A. No, I think it's -- I think it's in the summary. There's -- they answer their comment there, as I recall. So I think if we go later in this document, we'll have an answer to that.

01:30:17 Q. Where Household's policies were not consistent with its peers?

A. Yeah, I believe there's a short comment on that is my recollection if we could find it.

Q. So March 12th, 2002, was significant for a reason other 01:30:33 than the fact that KPMG provided you with this benchmarking study, right?

A. Well, it was a board meeting.

Q. And there was a 10-K that you filed on that day?

A. I didn't remember it was filed exactly on that day, but --

01:30:47 Q. You provided your annual report to investors on that day, didn't you, sir?

A. I didn't remember that, but I'll accept that.

Q. You signed that report, didn't you?

A. Absolutely.

01:30:55 Q. And you reviewed it before you signed it, didn't you?

A. I did.

Q. You looked at every page, didn't you, sir?

A. Well, I looked at every -- mostly, yes.

Q. Were there some pages you skipped, sir?

01:31:03 A. No, I looked at every page.

Q. Okay. Why don't I show you what's been marked as -- in evidence as Defendants' Exhibit 852.

A. Are we done with the other one?

Q. For the time being. You can put it aside.

01:31:38 You understand that this was the 10-K that Household filed on March 12th, 2002, is that right?

A. I do.

Q. Okay. And you signed it, you said?

A. Yes, I did.

01:31:51 Q. And if you'd turn with me, would you, to page ending 798.

Are you on page 798?

A. I'm almost there.

Q. Okay.

A. I'm at 798.

01:32:25 Q. You see the second paragraph of text, do you see that?

A. I do.

Q. And it reads, "Our policies for consumer receivables permit reset of the contractual delinquency status of an account to current, subject to certain limits, if a

01:32:43 predetermined number of consecutive payments has been received and there is evidence that the reason for the delinquency has been cured."

Do you see that?

A. I do.

01:32:53 Q. And there Household was setting forth its re-aging policies, right?

A. That's one of them.

Q. I'm sorry?

A. Yeah, that's one of them, I assume.

01:33:02 Q. What do you mean that's one of them?

A. One of the statements in there. I assume there are more than one statement in the whole document.

Q. That was the policy that Household told investors that you used to re-age loans, right?

01:33:12 A. That's what it says.

Q. Okay. You needed two things, correct?

A. That's what it says.

Q. You needed consecutive payments, right?

A. That's what it says.

01:33:20 Q. And consecutive, you understand that means more than one, don't you, sir?

A. I think I do.

Q. Okay. So at least two, right?

A. Right.

01:33:26 Q. Okay. And then you told investors that the reason for the

delinquency has been cured. You wouldn't re-age a loan unless that happened, right?
A. That's what it says.
Q. Well, that's what you told investors, right?
01:33:36 A. Well, I signed the document, so I'm accountable for what's in it; but I have to say that in reading that, I didn't micromanage what those little pieces said.
I relied on the input from the people who do this every day and the process we put in place; but I'm accountable
01:33:54 because I signed it, but I can assure you that I didn't, you know, I didn't focus on the detail of this.
Q. You didn't focus on the detail -- you didn't focus on the detail of this re-aging, is that your testimony, sir?
A. That's correct, like I read -- what I focused on are the
01:34:13 large financial issues the most and the C and D we do to the investment community, and I look at the rest and I read the rest; but I certainly don't, you know, look at that in detail and try to contrast it with something to see if it's right.
Q. Okay. So you weren't focused on the re-aging policies
01:34:30 when you put together the 10-K, right?
A. I wasn't focused on the details of that. I relied on our team to do it. We have a full financial team. We have a full back-up of people who do this, and it's looked at by our outside auditors as well before I sign it. And so I relied on
01:34:47 the expertise of people who do this for a living, but I'm

accountable because I signed it.

Q. This was the nitty-gritty, right, sir? Is that right?

A. Look at the size of the report. Do you expect me to know every word of the report and memorize it?

01:35:01 Q. Well, for $24 million, sir, aren't you expected to know what's in the report?

A. I know what's in the report generally, but I'm not -- I'm not knowledgeable about these kinds of details to the nth degree. I'm just not knowledgeable to this level.

01:35:13 Q. Right, because you just went out and commissioned a big benchmarking study through KPMG, right?

A. And I got a response that was helpful to me and the board, yes.

Q. Right, and you didn't read, according to your testimony, 01:35:24 some of the report that you received from KPMG?

A. That's correct, that's correct. I went with the high-level view.

Q. Right. Some of the report that would have been directly relevant to this particular 10-K, right, sir?

01:35:33 A. Yes.

Q. Okay. So you also said that you had to have evidence that the reason for the delinquency had been cured, right?

A. That's what it says.

Q. And you didn't tell investors that you actually re-aged 01:35:46 with one payment, did you?

A. Not there.

Q. You didn't tell investors that you actually re-aged automatically, did you?

A. It doesn't say that.

01:35:55 Q. Okay. You know that this was materially false and misleading, don't you?

A. I understand it was incorrect at the time.

Q. My question is, sir, you understand that this is materially false and misleading, correct?

01:36:09 A. You could say that.

Q. No, sir. I'm asking you a question.

Do you understand that this is materially false and misleading?

A. I'll accept that characterization.

01:36:21 Q. Is that a yes, sir?

A. Yes.

Q. Let's take a look at a document that's Exhibit 1267 for identification, Plaintiffs'.

You know what this is, right, sir?

01:36:54 A. Yes, I do.

MR. DROSMAN: This is Plaintiffs' Exhibit 1267. We move it into evidence if it's not already in.

It's in evidence, your Honor. I apologize.

BY MR. DROSMAN:

01:37:09 Q. This is your 10-K/A, right?

A. Well, the stock certainly dropped --

Q. Okay.

A. -- from December on.

Q. The truth came out about predatory lending starting in
02:44:12 2001, didn't it?

A. Well, again, I don't agree with the term predatory lending for Household.

The stock dropped. I'll agree with that.

Q. Okay. And the truth comes out about the restatement on
02:44:23 August 14th, 2002, right?

A. There was a restatement.

Q. Okay. And the truth begins coming out about Household's re-aging practices, right?

A. There was more information about that.

02:44:34 Q. And the stock starts sliding, doesn't it, sir?

A. The stock certainly slid.

Q. Okay. And it drops to $22 a share in October 2002.

A. That sounds right.

Q. So it starts at 42, and you end at 22, right?

02:44:53 A. Yeah, that's true. But in the eight years I was there, it virtually tripled even after that number.

So it was a bad last six months, but we had a pretty good run for shareholders who were there.

Q. And then the stock drops to 22 bucks, and you sell the
02:45:09 company, don't you?

A. We sold the company.

MR. KAVALER: Objection, your Honor. Beyond the relevant period.

MR. DROSMAN: Your Honor, there was discussion
02:45:15 yesterday about 2003, so I'm not sure what he's talking about.

MR. KAVALER: What I'm talking about is the question seeks events that occurred after the end of the period we're talking about in this lawsuit.

THE COURT: I'll overrule the objection to that
02:45:28 question.

BY MR. DROSMAN:

Q. You sold the company for HSBC, right?

A. Yes, we did.

Q. And you sold the company for about $28 a share, is that
02:45:40 right?

A. I believe it was over 30, actually.

Q. You believe it was over 30?

A. I thought it was $30 and something, yes.

Q. Okay. So somewhere in that range, right?

02:45:49 So you testified yesterday that you lost it all. You did really poorly, right, with that stock drop?

A. I lost a lot of money with the stock drop, that's correct.

Q. Okay. But you had something called a golden parachute, didn't you?

02:46:01 A. I did.

paragraph there, Ms. Madura talks about seven of the 27 complaints relate to this effective rate; is that right?

(Brief pause.)

BY THE WITNESS:

A. It talks about the -- we -- seven of the 27 complaints mentioned refer to the fact that the borrower was quoted or promised a 7 or 7-1/2 percent.

BY MR. DOWD:

Q. Right. Then it goes on to use the phrase effective rate and give an example of it; is that right?

A. She talks about the offices computing an effective rate.

Q. Okay. And so you heard about this effective rate complaint; and you knew about seven of them in May of 2001, right?

A. Yes.

Q. Okay. Did you engage -- or you showed us a report from the summer of 2002 that you did with Mr. Kavaler, Defendants' 465. Do you have a report like this from, say, May or June of 2001?

A. No.

Q. Ma'am, one thing that did happen in May or June of 2001 was the branch purge; is that right?

A. I know that we conducted a purge, if you call it that, but I don't remember exactly what the date was. But, yes.

Q. Okay. I didn't --

A. We went through --

Q. I didn't call it a purge. You called it a branch purge, didn't you?

A. I don't think I called it that, but --

Q. Okay.

A. That's fine.

Q. I'll show you what's been marked as Plaintiffs' 573. I'd ask you to take a look at that if you would, ma'am.

A. Okay.

(Tendered.)

BY MR. DOWD:

Q. And, Ms. Sodeika, that's a copy of an e-mail exchange between yourself and Tom Detelich, dated March 14 and March 15, 2002; is that right?

A. Yes.

Q. Okay.

MR. DOWD: I'd offer Plaintiffs' 573, your Honor.

THE COURT: It will be admitted.

BY MR. DOWD:

Q. And in your e-mail, you talk about effective rate; is that correct? That's the subject of your e-mail?

A. Yes.

Q. Okay. And don't you use the phrase there, "Was that with the branch purge sometime last summer?"

A. Yes, I did.

Are we ready to proceed?

MR. KAVALER: Yes, your Honor. The defendants call Dr. Mukesh Bajaj.

(Witness sworn.)

09:14:07 MR. KAVALER: Your Honor, we have a jury binder of exhibits that were previously approved by plaintiffs' counsel. May we pass it out?

THE COURT: Yes.

MR. KAVALER: Thank you, your Honor.

09:14:32 (Brief pause.)

MUKESH BAJAJ, DEFENDANTS' WITNESS, SWORN

DIRECT EXAMINATION

BY MR. KAVALER:

Q. Good morning, Dr. Bajaj. You're the one we've all been 09:15:17 waiting for, the last witness.

Would you state your name for the record, please?

A. Good morning, counsel. My name is Mukesh Bajaj.

Q. And what is your educational background, sir?

A. I got an undergraduate degree in chemical engineering from 09:15:31 the Indian University of Technology in Delhi, India. And I got interested in social sciences, so I joined the MBA program at the University of Texas at Austin. And then I developed an interest for financial economics, and I enrolled in the Ph.D. program at University of California, Berkeley. I graduated 09:15:53 with a Ph.D. in finance in 1988.

Q. So would it be right to call you Dr. Bajaj?

A. You can call me Mukesh or Dr. Bajaj.

Q. Okay.

A. Would you let me know if I'm at the right distance from
09:16:08 the mike, please?

MR. KAVALER: Can everyone hear him? Okay.

BY MR. KAVALER:

Q. I'll call you Dr. Bajaj. We'll leave it to your friends to call you Mukesh.

09:16:17 Do you have any experience, Doctor, involving liability on damages in securities fraud cases?

A. Yes, counsel. I've been engaged in dozens of such matters over the years.

Q. And have you ever testified in court previously?

09:16:32 A. Yes, I've testified on about 45 matters.

Q. And have you been retained by both plaintiffs and defendants over the years?

A. Yes.

Q. And have you ever worked for any government agencies?

09:16:45 A. I have been frequently engaged by Internal Revenue Service, by the Department of Justice, by U.S. Attorney's Office, by the Securities and Exchange Commission, by Franchise Tax Board of California and by Dallas City Appraisal District.

09:17:07 Q. And what is your current position, sir?

A. I'm senior managing director and I head the securities practice of LECG, which is an international consulting firm focused on expert services.

Q. Do you teach any courses at the university level?

09:17:25 A. Yes, I teach at University of California, Berkeley in their master's program. I've done that continuously since 1997.

Q. So would it be all right if I called you Professor Bajaj?

A. That would be fine, too.

09:17:44 Q. Okay. Do you also conduct research in the same areas as you teach?

A. Yes. I have maintained an active research program for the last 25 years. And a lot of my research is focused on empirical analysis of capital market data to understand how, 09:18:08 when market receives new information, it gets impounded into stock prices. And I have published many articles involving the use of event study technique that we've been listening about in this case quite a bit.

Q. And are those scholarly journals in the field of finance?

09:18:33 A. Yes. I've published in some of the most prestigious academic journals like the Journal of Finance, Journal of Financial Economics, as well as many well-regarded applied journals.

Q. Has your work been cited from time to time?

09:18:51 A. Yes, my work has been extensively cited.

Q. And does your research and writing relate to the impact of information on the price of the stock of companies?

A. Yes.

Q. Okay. And did we engage you to give an opinion in this
09:19:11 case?

A. You engaged me to examine some economic evidence in this case to formulate my opinions.

Q. Okay. And were you sitting in the courtroom last week when I interviewed -- spoke with Professor Fischel?

09:19:22 A. Yes, I was.

Q. I believe he's sitting here today. There he is. He's watching you.

It's pretty normal for experts in cases like this to watch each other?

09:19:32 A. Yes. I happen to know Professor Fischel a little bit and happy to see him again always.

Q. Okay. Now, you listened to my questioning of Professor Fischel as I walked him through the analysis he did of the various days, and we crossed out some days in red on those
09:19:50 charts.

Do you remember all of that?

A. Yes, I do remember.

Q. Did you form an opinion at that point as to what was going on between me and Professor Fischel, what point I was making?

09:19:59 A. Well, I believe I understood the point you were making, yes.

Q. What did you take away from that?

A. Well, I understood your point to be that Professor Fischel's analysis leads him to conclude that there was a 09:20:19 certain amount of inflation that purportedly came out of Household's stock during a period when he believed the market learned corrective information. And in his specific disclosure model, for example, that inflation he quantified at $7.97 on November 14, 2001.

09:20:50 Now, plaintiffs have alleged, if I recall correctly, 22 false statements between July 30 and November 14, 2001. So while plaintiffs have alleged there were 22 lies told by Household to the market, none of those lies has any effect whatsoever on how much inflation was present in Household's 09:21:27 stock price as of November 14.

So how could that $7.14 in inflation that he quantified as a matter of logic be related to any of the lies that plaintiffs have asserted? In fact, the same amount of inflation was present on the very first day of the relevant 09:21:53 period. So the only logical inference from an economic perspective is the inflation Professor Fischel concluded must have come about as a result of things that happened before the relevant period and then it was maintained throughout the period.

09:22:15 Think about it in another way. Professor Fischel

said, well, it's for the jury to find which of these 22 lies were, in fact, misstatements. But whether the jury finds one of these 22 lies were, in fact, a lie or all 22 or some combination thereof, there are actually four million different
09:22:44 permutations and combinations that the jury could find.

Regardless of what the jury finds, according to Professor Fischel, inflation on November 14, 2001, was exactly 7.97 which existed before any lie was told. I think that's the point you were making.

09:23:03 Q. All right. And does that make any sense to you?

A. From what I understand this case is about, it does not make any sense to me.

Q. Let's forget the questions I asked Professor Fischel the other day, and let me ask you this: Did you review Professor
09:23:20 Fischel's analysis independently and come to your own conclusions?

A. Yes, I did.

Q. And what conclusion did you draw about the validity of Professor Fischel's analysis as applied to the facts of this
09:23:33 case that these plaintiffs have put before this jury?

A. So I have examined all of the economic evidence available in this matter, hundreds of analyst reports, tens of thousands of press stories, stock price data, what I gather from the economic industry about the industry, Household and its
09:24:02 competitors. And based on my review of all the economic

evidence, I concluded that there is absolutely no economic evidence that Household's stock price was ever inflated during the relevant period.

Q. Now, you say you examined thousands of documents. Did you
09:24:21 do this all by yourself or did you have help?

A. No, I was very ably assisted by a lot of my good colleagues at LECG.

Q. How large a team did it take to do this analysis?

A. Well, over two and a half years or so that we've been
09:24:38 engaged, there must be 25-odd colleagues who worked significantly on this matter, and collectively they worked for about 10,000 hours.

Q. And did you use computers to assist you in this work?

A. Sophisticated computers, econometric packages and other
09:25:02 statistical programs and a variety of other tools, yes.

Q. Is that why we hired you in the first place, because you have to be an expert with sophisticated abilities and skills and assistance to do this kind of analysis?

A. To examine the evidence carefully, I believe that
09:25:18 expertise is helpful, yes.

Q. Okay. Now, is it your understanding that plaintiffs put on Professor Fischel to show that the alleged misrepresentations by Household caused the investors to suffer loss?

09:25:37 A. Yes.

Q. And what does someone, given that assignment, need to show in order to make that case? What does an expert have to bring forth to make that showing?

A. Well, from an economic perspective, the first thing you
09:25:53 have to establish is the alleged falsehoods led to the stock price being inflated.

Second aspect of your analysis has to establish that when the market learned the truth, learning of that truth resulted in stock price declining, thereby causing economic
09:26:25 harm to investors who purchased the stock at an inflated price due to earlier falsehoods.

Q. Can we refer to those two concepts today for shorthand purposes as an up leg, which is the inflation going in, and a down leg, which is the inflation coming out?

09:26:43 A. Yes.

Q. Okay. Did Professor Fischel show this jury an up leg, the inflation coming in?

A. There was nothing in his analysis to that effect.

Q. Is there any relationship in your mind between the
09:26:59 exercise I went through of crossing out a lot of statements with my big red marker and an up leg?

A. Well, I thought that was the point of your examination, that Professor Fischel's analysis does not show that any of the alleged falsehoods ever created any inflation in
09:27:23 Household's stock price, at least until November 15, 2001. I

believe there are two dates subsequent to November 15, 2001, when Professor Fischel claims Household's misrepresentations resulted in stock price being inflated.

Q. So at least up until November 15, 2001, even if you assume
09:27:48 he showed a down leg, if he didn't show an up leg, he didn't fulfill the assignment he had to fulfill?

MR. BURKHOLZ: Your Honor, objection, leading.

THE COURT: I'll allow it. Don't lead, please.

MR. KAVALER: Yes, sir.

09:27:59 BY THE WITNESS:

A. Well, my understanding is that even if you quantified the amount of inflation that preexisted in the stock price by looking at what happens when market learns the truth, the whole point of what is called loss causation analysis from an
09:28:26 economic perspective is to link the negative effect of stock price decline when market learned the truth to specific falsehoods that are alleged in the case.

Otherwise, you haven't fulfilled the objective of loss causation analysis, namely, showing that there was a
09:28:51 relationship between plaintiffs' losses and what's alleged to be false. You have to link what you call the down leg to specific falsehoods that are asserted in this case, which you call the up leg. Unless you establish that link, you haven't shown economic evidence that plaintiffs' allegations caused
09:29:18 anybody any loss.

BY MR. KAVALER:

Q. Now, I spent a lot of time with Professor Fischel talking about the up leg. I didn't spend much time on the down leg. So let me ask you: Did Professor Fischel show the down leg
09:29:31 correctly?

A. No. As I pointed out in my detailed reports in this case, there are several methodological flaws in Professor Fischel's analysis. And most of the time when he believes market learned the truth on a certain day, he's actually got the
09:30:00 wrong date. He's looking at stale information rather than new. So in my opinion, Professor Fischel has not reliably shown what you describe as the down leg.

Q. And this up leg and down leg are measuring the movement of something called inflation?

09:30:20 A. Correct.

Q. And would you tell us what you mean by the term inflation in the context of this lawsuit.

A. Well, inflation in most simple terms and very commonsensically could be understood as the overpricing of the
09:30:39 stock that results from a lie that the plaintiffs assert.

Q. All right. When you say the stock -- did I understand you just to say that for the stock to be inflated is the same as to say the stock is overpriced?

A. Well, stock can be overpriced without there being a lie,
09:31:08 in which case you would not call it inflation, because nobody

is perfect. It's -- the market doesn't know what a stock should be exactly priced at on any given day. Stock prices are very noisy. They go up and down for all kinds of reasons.

In fact, any day a company's stock trades on the 09:31:28 Exchange, if it goes up, that's because some people have formed an opinion that the stock is a good buy at its current price. They think it's undervalued and they'd like to buy it. And for every buyer there's a seller, somebody thinking this stock is a bad hold at this price; it's going to go down. 09:31:55 That's why they're selling.

So people form expectations and opinions about what's going to happen to a stock all the time, which makes stock prices move. And sometimes due to market expectations changing, we may determine with the benefit of hindsight maybe 09:32:12 some stocks were overpriced. Like after the Internet bubble burst, everybody realized, hey, these stocks were way overpriced.

But the crucial distinction here is that we are talking about overpricing that results from defendants' lies, 09:32:31 and that is the job of economic analysts to determine how much was the stock overpriced as a result of defendants' lie; that's the up leg concept.

Q. Now, did Professor Fischel -- who did -- whose job did Professor Fischel say it was to determine by how much the 09:32:52 stock was overpriced on any particular day?

A. Well, what I heard him say again and again is it's for the jury to determine whether plaintiffs' allegations are true that the defendants lied. And I agree with him on that. That's the jury's job. The jury listens to the fact 09:33:13 testimony. The jury listens to a lot of witnesses, looks at the record and determines whether any of the alleged misstatements and omissions are, in fact, lies.

But then Professor Fischel curiously told this jury, once you've determined that the first lie happened on a 09:33:32 certain date, I have given you a table which says there was zero inflation prior to that date and there was exactly $7.97 inflation for all days subsequent to that date. And that is a very curious statement and not economically logical.

Because, think about it. You have 27 -- I'm sorry -- 09:33:58 22 different misstatements that are alleged. What if the jury determines 21 of the 22 were not falsehoods at all? Only one of the 22 was wrong. Does that mean that one single misstatement caused the same amount of inflation, 7.97, compared to if the jury determines all 22 were false?

09:34:23 What if the jury determines that, yes, there was a falsehood but there is a gradation here? There was just a little bit of a lie, not much of a lie. How does the jury apportion how much of 7.97 belongs to that small lie versus a big lie?

09:34:41 So I just don't understand the economic logic of the approach that Professor Fischel asked the jury to follow.

Q. Now, you told us that you've testified in the past for plaintiffs. When you testify for plaintiffs, do you come up with a number?

09:34:54 A. Yes. If I'm asked to determine damages, it's my obligation to come up with a number that ties specifically to specific allegations in the case.

Q. From an economic perspective, Professor, in your opinion, did Professor Fischel do his job in this case?

09:35:13 A. Well, I regard him highly. I wouldn't want to say he didn't do his job or anything like that. I believe his analysis is flawed and not reliable for this case.

Q. What causes an -- in economic theory, Professor, what causes a stock price to become inflated or overpriced in the 09:35:31 context you're using those terms here?

A. If a company lies and that lie is considered material or important or significant by the market, then that lie can result in the stock price becoming inflated.

Q. Can you give us an example, a hypothetical, of inflation 09:35:52 causing -- of a lie causing inflation in the price of a stock?

A. Yes. So, you know, these days people are very concerned about global warming. So let's say a car company comes up with an announcement which says, you know, we have a revolutionary new engine, not very expensive. You can put 09:36:13 that engine in your big SUVs for only a couple hundred dollars; and if you do that, you'll have zero emissions, you'll get 200 miles to a gallon, and this will really be a revolutionary development in the car market.

And let's say before that statement were made, that 09:36:35 company's stock was trading at $100 a share. We see that statement being made and the stock price goes up by $20 a share. In my hypothetical, if the company's statement was false, the jury finds in a proceeding like this later that the company made a false statement that day, the jury will then 09:36:55 have an objective basis to determine that on the day of the company's announcement of this engine, $20 of inflation came into the stock price. That's your up leg.

Q. All right. Could a company's stock price also become inflated because of something the company failed to disclose 09:37:16 at a particular time, in other words, an omission?

A. Yes, indeed.

Q. And tell us how that would work in your same hypothetical.

A. Okay. So in the same hypothetical, let's say the day the company made the announcement, it didn't lie. It really had a 09:37:35 research program going and it truly believed that it has this revolutionary engine. So the statement was truthful when made. Nobody was trying to deceive anybody, and the stock went from $100 to $120.

Let's say that happened on January 1, 2008. And 09:37:56 let's say six months later, the company learns that the technological breakthrough it was counting on is not going to happen. So now the company knows that this engine ain't going to work.

And let's say on that day, the company has a legal
09:38:19 obligation to disclose that information to the market, but it keeps quiet about it, fails to tell the market the truth. In this example, that omission has created an inflation, and the amount of inflation is how much the stock price would have dropped had the company truthfully made the announcement that
09:38:46 it was legally required to do.

So you can have a stock price becoming inflated because of an affirmative misrepresentation or a lie that makes it go up after adjusting for market and industry; or you can have inflation when the company fails to tell the truth,
09:39:08 thereby preventing a decline in stock price, assuming it had a duty to tell that truth.

Q. So in both cases, Professor, there's an identifiable event that causes the stock to be overpriced?

A. Yes. There has to be, for proper loss causation analysis,
09:39:30 an identifiable event which maps into a quantified quantum of inflation, whether it is an omission or it is a misrepresentation.

Q. From an economist's perspective, Doctor, is there an important difference between telling a lie that causes
09:39:48 inflation and omitting to make a statement that causes

inflation?

A. There's no fundamental difference as we just explained.

Q. So would a proper expert analysis identify either the misstatement or the omission that gives rise to inflation in
09:40:03 either event?

A. A proper economic analysis, whether it is about omission or misrepresentation, will tie the amount of inflation determined by the economic analysis to what was it that caused the inflation, what specific lie, what specific omission
09:40:24 caused how much inflation.

Q. So in that case, why can't the jurors just do what Professor Fischel suggested they do, pick the first statement that they believe to have been false and make that the date on which the stock price became inflated?

09:40:41 A. Well, assuming jurors don't believe my analysis, which would be the easy way out, they'd have to do a lot of work themselves to actually do all the statistical analysis to determine how much a particular misstatement or omission affected the stock price to create inflation.

09:40:59 Q. Professor Fischel has not provided them with those -- that data?

A. Well, the only way Professor Fischel's analysis is relevant is if the jurors believe 100 percent of the plaintiffs' claim is correct and there are no methodological
09:41:18 flaws in Professor Fischel's analysis and he hit it right on

the head and came with the right number. And even then I think there is a crucial piece of analysis that is missing from Professor Fischel's quantification.

Q. And what's that?

09:41:36 A. Professor Fischel repeatedly said that I have given you my estimate of inflation that existed on the first day of the relevant period, July 30, 1999. And then between July 30, 1999, and November 15, 2001, for about a year and a half, while there are 22 separate lies being asserted by the plaintiffs, inflation does not change by one single cent. 09:42:10

So what did this inflation -- where did this inflation come from? Economic logic tells us, whether we call something an inflation or not as a result of legal subtlety, the $7.97 overpricing in the stock must have come from what happened before the relevant period. Or why would it be there on the first day of the relevant period and never change? 09:42:38 So --

Q. Doctor --

A. -- if his inflation came from before the class period, then it's my understanding that such inflation may not be considered for purposes of damages in this case pursuant to this Court's ruling. 09:42:52

Q. Professor, is there a similar problem with calculating the amount of the inflation as among the three separate subject matters, that is, predatory lending, re-age and restatement, 09:43:11

or does Professor Fischel's analysis cover that adequately?

A. No, it's the same problem with regards to the fact that plaintiffs have alleged three categories of lies, and Professor Fischel has not told us how much of his quantified
09:43:33 inflation comes from which of these three categories of lies.

Q. Okay. Is there a similar problem for days after November 15, 2001, in Professor Fischel's analysis?

A. After November 15, 2001, Professor Fischel's analysis looks at specific dates when he believes market learned the
09:44:01 truth or plaintiffs' misrepresentations added to inflation that preexisted even the relevant period, but there are several methodological flaws with that part of the analysis.

At least in principle, that analysis is based on what an economist would be consider the reliable ways of thinking.
09:44:27 Whether he executed it correctly or not is something that we differ on, obviously.

Q. Let's look at Plaintiffs' Exhibit 1397 if we can. That's Professor Fischel's inflation chart.

Now, the plaintiffs claim that there was a
09:44:42 misrepresentation on September 2, 2002, when a Household spokeswoman said that she was not aware of any pending enforcement actions or settlement talks. Let's look at September 2.

How would Professor Fischel's chart work if the jury
09:44:55 finds that's the first misrepresentation?

A. September -- I'm not able to see the heading of this chart and I haven't got it memorized.

Q. There it is. There's the heading.

A. Okay.

09:45:13 Q. Professor, you can look at the screen in front of you or at the big screen or we can get you a copy of this document.

A. That's fine. I understand now what the columns are.

Q. Okay. Go down to September 2, please.

A. I see.

09:45:31 Q. Or September 3, I guess.

A. It must be, because September 2 was not a trading date.

Q. Right.

A. So the effect of that alleged misstatement would have been felt in the stock price on the next trading day of September

09:45:47 3.

Q. So what Professor Fischel would say is the jury should put zeroes on every day before September 2?

A. That is correct.

Q. Does that work?

09:45:57 A. Well, then the misstatement did not create any inflation. There's negative inflation on that day according to Professor Fischel, right?

Q. That's my question. What does a minus sign mean there?

A. That means the stock was underpriced as a result of this

09:46:18 alleged lie. It was correctly priced before. The lie is supposed to inflate the stock price, but his analysis shows that it actually ended up deflating the stock price.

Q. So if the jury accepts his invitation to pick a date and they pick this one and then they accept his invitation to put
09:46:37 zeroes instead of the 7.97s for every entry before here, and they get to this date and they've done exactly what Professor Fischel told them to do, they just applied their judgment and they found the September 2 false statement -- I'm sorry -- the September 2 statement is false and it's the first false
09:46:55 statement, that's exactly what he told them to do, right?

A. Right.

Q. Then you have the false statement creating negative inflation?

A. That is correct.

09:47:04 Q. Does that make any sense to you?

A. No. It's very curious.

Q. But they've done everything exactly the way he told them?

A. I would assume so, yes.

Q. So they didn't make a mistake in my hypothetical?

09:47:18 A. No. Obviously, this means the misstatement had the opposite effect of what plaintiffs thought it did.

Q. Does that make any sense to you?

A. It makes no economic sense.

Q. But I just want to be clear. In the hypothetical I'm
09:47:30 asking you, the jury would have done exactly what Professor

Fischel told them, pick a date, replace all the numbers before it with zeroes, look at my chart for the inflation and we're there, correct?

A. That's correct. That's what he said.

09:47:43 Q. But it would give you a ridiculous result; it would show negative inflation?

A. Well, it would be a curious result, of course.

Q. But it wouldn't be the jury's fault?

A. I mean, I don't know what I would do if I were a juror in

09:47:59 that situation.

Q. Okay. Let's get to the bottom line. Is it realistically possible for a jury or for me or for anyone who is not an economist like you are with 10,000 hours of staff help and sophisticated computers to calculate how much inflation

09:48:24 resulted from a particular statement?

MR. BURKHOLZ: Objection, compound, leading.

MR. KAVALER: Let me rephrase the question.

BY MR. KAVALER:

Q. Is it possible to do what Professor Fischel suggested,

09:48:34 take this chart, cross out some days, put in zeroes and figure out the right number?

A. I don't think that would lead to an economically sensible result at all.

Q. To lead to an economically sensibly result, would you have

09:48:55 to do a regression analysis?

A. Yes.

Q. Would I be able to do a regression analysis here at the lectern? I have a pencil and I have some papers. Can I do it?

09:49:09 A. Counsel, I have a very high degree of confidence in you, so I'm reluctant to say you cannot do something, but it would be hard.

Q. Very hard. In part because a regression analysis requires a computer?

09:49:22 A. Yes. You need sophisticated statistical programs to do a proper analysis.

Q. Okay. All right. Well, instead of me trying to do it, I'm sure you've done it. You have all these sophisticated tools. So help us out.

09:49:44 After reviewing all the economic evidence in this case, when do you think Household's stock price became inflated as a result of a false statement?

A. As I said, counsel, I looked very carefully and I found no evidence that Household's stock price was ever inflated during 09:50:09 the relevant period. It doesn't mean Household's stock price didn't decline for part of the period. Like the rest of the market and other finance companies, consumer finance companies in particular, there was time when Household's stock declined a lot. But I did not find any evidence that any of that 09:50:31 decline was a result of previous inflation.

In fact, Professor Fischel's own analysis, when corrected, leads to the conclusion that Household's stock price was weighed down by headline risk. And as that headline risk became worse, stock kept on getting punished more and 09:50:57 more. And in the end when Household alleviated this headline risk by buying peace with attorneys general, the stock price went up over two days by 33 percent, which is the largest history -- largest increase in history of the stock ever since it was a public company.

09:51:24 And all the economic evidence is consistent with Household's stock price never being inflated for a single day during the relevant period. And Professor Fischel's own analysis, when reasonably corrected, supports that conclusion.

Q. Now, can anything other than a lie cause inflation?

09:51:53 A. Inflation is a term of art in a proceeding such as this where overpricing that results from a lie is called inflation. So as I said, you can have a stock being overpriced or underpriced with the benefit of the hindsight.

If you look at all the stocks that lost a lot of 09:52:21 money yesterday and there was no news, well, with the benefit of hindsight we can say, yeah, the day before yesterday, they were overpriced. But inflation comes into consideration when it is a misrepresentation or omission, namely, a lie that creates overpricing.

09:52:44 Q. So if I understand correctly, inflation is different than just the price of the stock going up and down?

A. Absolutely. That's a crucial distinction in a case like this to keep in mind.

Q. Okay. Maybe it would help if you would walk us through
09:53:05 what might happen when a stock -- a company's stock price becomes inflated. Have you prepared a demonstrative that would help you to illustrate this point?

A. Yes, I have.

Q. Can we see DDX 568-01, please.

09:53:23 Now, Professor Fischel -- I'm sorry. Professor Bajaj, could you explain to us -- could you explain to us what this demonstrative is showing us, please.

A. Yes. So in this demonstrative, if you look at the vertical axis --

09:53:40 Q. What is that? Where am I looking?

A. That's on the left-hand side of the chart.

Q. Where it says dollars of inflation?

A. You'll see zero, five, ten, 15 and $20 labeled on the chart. That axis measures inflation.

09:54:00 So going back to our hypothetical car company example, if the company's stock was trading at $100 a share and it told a lie and the stock went up by $20, this chart shows $20 of inflation came in. So stock price would be 120, but inflation is $20.

09:54:22 Q. Let me stop you there. I don't see the hundred on this

chart. Where's the hundred?
A. Because in my axis I have not measured stock price. I have only measured overvaluation as a result of a lie, namely, inflation.
09:54:36 Q. So we're just going to measure the inflation?
A. Yes.
Q. The stock price can be anything it wants to be?
A. Stock price could be $50, $100, $2, $300, whatever.
Q. Why does the line that goes up -- the red line with the
09:54:51 arrow, why does it start at zero?
A. Because before there is a lie, there is no inflation. That goes to your up leg concept. You have to demonstrate that there was a lie and that made stock price inflated.
Q. So for this exercise, the chart always has to begin at
09:55:13 zero?
A. Yes.
Q. Okay. Sir, I'm sorry I interrupted you. Let's continue. What's the next step on your chart?
A. Well, suppose a lie is told on January 1, 2008. Going
09:55:29 back to our automobile example, a $100 stock became 120; and for the next six months, the stock may go from 120 to 500 or it may drop to 10.

Investors would either make a lot of money or lose a lot of money. But none of their gains and none of their
09:55:52 losses have anything to do with economic harm that the jury

has to determine in this particular case. As long as the market did not learn the truth about the original lie, that inflation remains constant even though stock price may go up or down.

09:56:16 So what we have to do in economic analysis is to separate changes in stock price that result from any factor other than a lie or a correction of the lie. We have to focus on change in inflation, not change in stock price.

Q. What happens next after this second stage?

09:56:41 A. So in this hypothetical, when the market learns the truth that the company had lied, there was no such engine, and stock price drops, that's when inflation has come out of the stock.

And the measure of economic harm that is at issue in this case is the loss investors suffered if they held the 09:57:11 stock when it was inflated and suffered the consequences of that inflation coming out of the stock. The rest of their gains and losses have nothing to do with this case or a similar case.

Q. Professor, I noticed that your chart both begins and ends 09:57:30 at zero. Is that a coincidence?

A. No. Because before there is first actionable misstatement, there must be zero inflation. And I apologize for the jargon. Before there is a lie that the Court has ruled can be considered for purposes of this case, by 09:57:56 definition, the stock is not inflated. And after the market has learned the truth, which is at the end of the relevant period, all the truth is out and inflation is zero.

So in a proper analysis, you begin with zero inflation and you end with zero inflation. So an investor who 09:58:16 had purchased before there was any inflation and held the stock until after all the inflation was out has not been harmed. Only investors who have been harmed are those investors who purchased while the stock maintained an inflation and they held until after the inflation came out.

09:58:38 Q. Let's look at one of Professor Fischel's inflation charts. Can we see Plaintiffs' Demonstrative 151, please.

Does Professor Fischel show inflation starting at zero?

A. Not in the range of his chart. So on the first day of the 09:58:59 relevant period, Professor Fischel shows $7.97 of inflation.

Q. In other words, Professor Bajaj, over here on the left side, I think you called it the left axis. Let's put your chart and this chart next to each other. Can we do that?

Okay. Do you see here on the left side of your 09:59:21 chart, your up leg starts at zero and goes up?

A. Correct.

Q. Where is Professor Fischel's analogous up leg showing the first time a false statement put inflation into the price of Household's stock?

09:59:36 A. There is nothing in Professor Fischel's analysis that tells us how that inflation came in. It couldn't have magically appeared. There must be some economic falsehood, some lie. And the only reasonable interpretation is there was $7.97 of inflation because of lies that existed before July 10:00:02 30, which we have never been told about what those lies were so that we could examine whether those lies, in fact, resulted in stock price going up after adjusting for market and industry factors.

Q. As a professional economist, Professor, what is your 10:00:19 opinion of the significance of the fact that Professor Fischel's chart doesn't start at zero; it has no up leg whatsoever?

A. Well, the only way to interpret this chart is the inflation Professor Fischel quantifies existed through 10:00:34 November 15, 2001, pertained to some untold lies and misrepresentations and omissions that happened before July 30. Each and every one of the 22 lies that plaintiffs claim happened between July 30, 1999, and November 15, 2001, did not change his inflation quantification one bit.

10:01:08 Q. And you're just assuming there were lies, right?

A. Well, if there were, in fact, lies, then economic evidence would have shown some sort of an impact. And that's what you were doing when you were examining Professor Fischel. His event study does not show any economic impact of those 10:01:28 misstatements that are alleged by the plaintiffs, so they did not change his inflation.

Q. So what does that tell you? Does that mean his study is wrong, or does it mean there are no lies? What does it mean?

A. Well, what that tells you is the study is unreliable and, 10:01:42 further, as we will discuss more, the plaintiffs' entire theory of the case is not consistent with economic evidence. The market always knew about what plaintiffs allege. Household had a duty to tell the public, failed to tell the public, the public did not know, and when it found out, the 10:02:08 stock price went down. There is simply no evidence that's consistent with those allegations.

Q. Okay. Let's focus on your model again. Do Household's stock prices -- let's go back to your model -- from 1999 to 2002 fit with this model?

10:02:24 A. No, it did not.

Q. Have you prepared a demonstrative to illustrate that point?

A. Yes, I have.

Q. Can we see DDX 551-01, please.

10:02:36 Professor, explain to us what this shows us.

A. So as we were looking at Professor Fischel's inflation chart, Professor Fischel says inflation existed on the first day of the class period or it would exist whenever the jury thinks there was an actionable disclosure defect. He has not 10:03:01 shown us how that inflation got into the stock price. What were the specific misrepresentations and omissions and how did they affect the stock price to create the inflation?

He assumes the existence of the inflation based on what he found during tail end of the relevant period when 10:03:26 Household's stock price went down along with the rest of the industry, and he assumes that decline must be because there was inflation earlier.

Q. Let's go on to the next slide, please.

Professor, please walk us through this one.

10:03:42 A. So this segment says during the period July 30, 1999, to November 15, 2001, when there were 22 separate lies according to the plaintiffs, there was not any change in inflation. None of them had any effect on the inflation, didn't increase it by a cent, didn't decrease it by a cent.

10:04:10 Q. Does that make any sense to you?

A. It makes no economic sense to me.

Q. Let's go to the next slide.

What does this show us, please?

A. Well, curiously in this case, plaintiffs are asserting 10:04:21 that all of Household's lies were about three categories that we've been hearing about and plaintiffs have asserted in their complaints and other filings when the market learned the truth about those three categories of lies.

So if, in fact, there had been inflationary lies, you 10:04:44 would expect when market learns the truth for stock price to come down. For each and every one of the dates when plaintiffs claim market actually learned the truth, we find no evidence of stock price decline.

In fact, as we were just saying, their major 10:05:06 allegation on predatory lending, which they say was revealed right at the end of the relevant period, resulted in the largest stock price increase in the history of this company as a publicly traded company.

Q. And is that what this final chart shows us?

10:05:23 A. That is correct.

Q. And that would not be true if the theory of the case made sense?

A. I think that right there tells you that there is no loss causation in this case. There is something wrong with the 10:05:33 plaintiffs' theory of the case when confronted with economic evidence.

Q. Okay. Didn't Mr. Dowd in his opening show the jury a big chart demonstrating how Household's stock went down overall, and you're saying Household's stock price didn't go down? Am 10:05:50 I missing something here?

A. No, I'm not saying Household's stock price didn't go down at all. Household's stock price suffered terribly between November 15, 2001, and October 11, 2002, when the relevant period ends. But think of what the time period was in our 10:06:08 economic history.

November 15 is right after 9/11 when the economy, which was already weakening, started to suffer more. And we've heard a lot of testimony that Household's customers were medium- to low-income working people, who are among the first 10:06:32 to be affected by weakening economy. They tend to lose their jobs. They don't have enough savings so they can't pay their bills. That was not a good time for Household. So Household as well as other consumer finance companies were facing a rough time in the marketplace.

10:06:51 And then we had December 3 when Enron imploded. We had a couple of months of the most difficult time in our economic history between December 3 and October of 2002 when corporate America be -- came under great deal of suspicion. After Enron's meltdown, we had Global Crossing implode. We 10:07:21 had WorldCom implode. We had Adelphia implode. We had Tyco almost not make it.

So people were reacting to a lot of innuendo and rumor, and corporate America was not believed. There was Sarbanes-Oxley Act enacted. And in this environment, 10:07:42 Household was in an industry that had been growing explosively.

Lending to middle- to low-income Americans didn't practically exist until 1995. And starting in 1995 and over this relevant period, this was becoming a big market. I cite 10:08:03 to a Fed study in my report how subprime sector was exploding.

And as the economy, as the industry was becoming larger, regulators were thinking about what are good practices to lend to these consumers? How are they going to regulate them?

Certain states and cities started enacting their own 10:08:29 legislations; whereas, lenders like Household preferred to work with national regulators so they could use their national scale to their advantage. And over this period of time, over and over again, in hundreds of analysts' reports, you will see statements like headline risk is the bane of subprime lenders.

10:08:57 And during this period, Household's stock price suffered. So did other consumer finance companies' stock price. The question is, was that decline related to market learning truth about the earlier fraud? Decline is not the issue. It's whether the decline was related to revelation 10:09:18 about truth about the earlier fraud.

Q. Let's see if we can put that in some context. Are some investments riskier than other investments?

A. Yes.

Q. Do you have a demonstrative that you prepared to 10:09:27 illustrate this concept?

A. Yes.

Q. Can we have DDX 820-01, please.

What is this, Professor Fischel -- Professor Bajaj? That's two.

10:09:40 A. This demonstrative shows what rate of return on an annualized basis you could get if you wanted to --

A JUROR: Talk into the mike.

BY THE WITNESS:

A. I'm sorry. Thank you.

10:09:55 So investors have a choice to make. We can invest our money in relatively safe investments or risky investments. And there's a spectrum of investments with different degree of risk and different expected return.

What we teach our students in our finance classes is 10:10:20 the safest investment you can imagine is short-term U.S. treasury bills. And what this chart shows you is that if you invested in one-month treasury bills, you would never have had a dime of loss going back to 1996. This is as close to a risk-free asset as you can get. Of course, you wouldn't have 10:10:44 made much of a return.

And when you do see a little bit of a respectable return, that was in a very high inflation environment. So adjusting for inflation, you basically tread water. You might as well put your money under a mattress if you want it to be 10:11:00 totally safe. That's the U.S. treasury bill.

BY MR. KAVALER:

Q. Professor, where did you get this information from? There's a source note on the bottom. Where did this come from?

10:11:02 A. This is an accepted source for such data, Ibbotson SBBI

Yearbook, and it's a standard reference for compilation of
return data.

Q. What about stocks? Do you have a demonstrative that shows
us how stocks compared to government bonds over the same time?

10:11:21 A. Yes, I have.

Q. Can we see DDX 820-02, please.
What are we looking at now, Professor?

A. Well, if we were looking at very calm, classic waters,
here we are seeing a storm, right? This is what would happen
10:11:36 if you had put your money in a well-diversified portfolio of
large U.S. company stock. On a year-by-year basis going back
to 1926, in good years, you might get over 50 percent return.
But in bad years, you can lose up to 40 percent of your
investment, historically speaking.
10:12:00 And this is a well-diversified portfolio of large
company stocks, and you can see this is a much riskier
investment. And individual stock, it's this chart on
steroids.

Q. Again, where does this data come from?

10:12:15 A. This data, again, comes from the same source that I talked
about, Ibbotson's Yearbook.

Q. A commonly consulted reference?

A. Yes. It's the standard and well-accepted reference for
such data.

10:12:30 Q. What about investment in Household stock? Was that any different?

A. As I said, investment in a single stock is this particular chart you're looking at on steroids. It's much riskier.

Q. Let's look at that. Let's look at Plaintiffs'
10:12:43 Demonstrative 132.

And this, I believe, is the chart that Mr. Dowd showed us in the opening. What does this tell you with regard to the charts we just looked at?

A. Without additional context, it tells me nothing other than
10:13:03 this is a risky investment. It did well for a while and it -- then it did poorly.

Q. So this shows us the price of Household stock declining?

A. It shows price of Household stock going up for part of the period and going down for part of the period.

10:13:22 Q. Does -- I'm sorry.

A. And the period it went down, in light of what we talked about the economic environment, is not at all surprising.

Q. Does it tell us anything whatsoever about inflation?

A. It has nothing to do with inflation.

10:13:35 Q. Nothing to do with it.

In preparing your analysis, Professor, that you're testifying about here today, did you identify other consumer finance companies as a first step to conducting your analysis?

A. Yes, I did.

10:13:50 Q. How did you do that? How did you identify these consumer finance companies?

A. So there is an industry code assigned by the government to various publicly traded companies based on what is their major line of business. It's called GCIS code. And according to 10:14:11 Standard & Poor's, Household belonged to a certain GCIS code along with six other companies that traded over the relevant period.

So I looked at those six companies with the same GCIS code as a first step in my statistical analysis to put 10:14:37 Household's stock price movements in context.

Q. And that's a code provided by the United States government?

A. Yes.

Q. And Standard & Poor's tells you what companies fall within 10:14:49 that code?

A. Yes. And this is a very, very, very well-accepted and commonly used methodology to start to look for comparable companies.

Q. And how did Household's stock price perform relative to 10:14:59 other consumer finance companies during the same time period?

MR. BURKHOLZ: Objection, vague as to time.

MR. KAVALER: I'll specify.

BY MR. KAVALER:

Q. During the period between July 30, 1999 -- I'll do even 10:15:14 better than that.

Did you look at how Household's stock price performed during the period from July 30, 1999, to October 11, 2002, in relationship to the other companies which fall within this government code called GCIS and are identified as being
10:15:33 consumer finance companies?
A. Yes, I did. And what I found is Household's stock price was right in the middle of the pack.
Q. Do you have a demonstrative that shows that?
A. Yes.
10:15:42 Q. Can we see DDX 405, please.
Okay. Tell us what this chart is designed to show.
A. Well, this chart shows what would happen if you invested a hundred dollars in Household stock on July 29, 1999, the day before the relevant period, and you held it until the end of
10:16:08 the relevant period. Unfortunately, over this relevant period, you would have lost about 34 and a half percent of your money.
Q. That's --
A. Your -- I'm sorry.
10:16:18 Q. I apologize. Go ahead.
A. I was just going to say, your hundred dollars becomes $65 at the end of the period.
Q. A bad result?
A. A bad result.
10:16:26 Q. But you said Household was in the middle of the pack?

A. Yes.

Q. Do we have the capacity to see the rest of the pack on this chart?

A. Yes.

10:16:34 Q. Show us the rest of the pack, please.

What does the chart show now, Professor?

A. Well, the first thing I would point out is the red line, and you'll see the label on the right-hand side, S&P 500. You'll see if you had invested $100 in the most well-diversified U.S. large company stocks that investment 10:16:55 professionals recommend you do -- that's S&P 500 portfolio, it's the proxy for the market, it's about 80 percent of the market value of all publicly traded companies -- you would have $62.29 left of your hundred dollars.

10:17:19 Q. So Household performed better than the S&P 500 during the time period we're looking at?

A. Household did better than the market over the relevant period; not by much, but it did better.

Q. What about the rest of these companies?

10:17:34 A. Of the six consumer finance companies that share the GCIS code with Household, Providian, AmeriCredit and Capital One did worse than Household. Had you invested $100 in Providian instead of in Household, you would have lost over 90 percent of your money. You would have less than $1 left at the end of this period. 10:17:56

With AmeriCredit, you would have $47 left. With Capital One Financial, you would have $63 left or almost 64, as compared to with Household, 65.50.

But three consumer finance companies did better than
10:18:16 Household. MBNA did better. Cash America did better. Cash America broke even, made a positive 1 percent return. And Countrywide did the best. They had a 25 percent return.

But the other thing I want to point out, just going back to our previous point, you know, the reason these trends
10:18:38 are not as clear, the $65 going from $100 looks almost like a flat line, is there's no way to scale this chart to show that. 35 percent decline to most people would look like a pretty significant decline.

Look at the volatility in these individual companies.
10:19:00 Look at the green line AmeriCredit. This is what it means to invest in individual stocks. They go up and down a lot. And Household was right in the middle of the pack during this time period.

Q. And so does that mean that other finance companies also
10:19:20 lost money during the same time period?

A. Well, three did, three didn't. And also it depends on when you invested. Like we talked about AmeriCredit doing worse than Household. But what if you were lucky enough to buy just before a big run-up and you happened to sell at the
10:19:37 top of the run-up? You would have made a lot of money.

Q. Did you prepare a demonstrative listing the factors that, in your opinion, affected Household's stock price during the relevant period, by that I mean the same time period we just looked at?

10:19:51 A. Yes, I did.

Q. Can we look at DDX 553-01, please.

Can you describe to us, Professor Bajaj, what these factors are? These are the factors that in your opinion affected Household's stock price during the relevant period.

10:20:05 A. Yes. The first is market and industry factors, and we talked about it a little bit. After the NASDAQ bubble started to burst in the beginning of 2000, Federal Reserve --

Q. I'm sorry. The what bubble?

A. NASDAQ stock prices.

10:20:22 Q. What is NASDAQ?

A. These are high-tech company stocks that are traded on a marketplace called NASDAQ, national association of dealers or something, but it's high-tech stocks. The Internet stocks are most identified by -- with NASDAQ.

10:20:39 Q. I'm sorry to interrupt. Go ahead.

A. So we remember the beginning of 2000, market prices started to crash in the stock market; and Federal Reserve started to cut interest rates very rapidly. And that -- other things being equal, the interest rate cuts, per se, is a good

10:20:58 thing for finance companies. Because when interest rates --

short-term interest rates go down, they can borrow the money that they use to lend out more cheaply.

We also talked a little bit about this being a time period when the industry as a whole was facing explosive
10:21:16 growth. It was also a period when the industry was facing a changing regulatory environment.

Larger consumer finance companies wanted to have national level legislation so they could standardize their products. They didn't have to worry about what legal risk
10:21:41 they faced in what jurisdiction. They were better positioned because of their nationwide technology.

And Household was mentioned in analyst reports to be better than its competitors during this period. When a lot of mom-and-pop businesses that lent to subprime lenders were
10:22:00 making mistakes, facing regulatory sanctions, some going out of business, people thought Household was -- had a competitive advantage because it had a large company culture. It had seasoned management. It had technology infrastructure, so it could navigate the regulatory waters better than its
10:22:19 competitors.

There's a lot of talk in analyst reports about that being a favorable factor during part of the relevant period. And then the headline risk started growing. And after a while, Household was the only large stand-alone player left in
10:22:36 subprime market because Citigroup bought its biggest

competitor, First Associates.

So consumer activists started to get very focused on Household. One of Professor Fischel's exhibits quotes a consumer activist as saying, We will not rest until 10:22:57 Household's subprime customers are treated the same way as conforming loan customers.

Well, you can't lend to subprime customers on same terms that banks give to conforming loan customers so you can stay in business.

10:23:13 Q. Professor, what's a conforming loan and what is a conforming loan customer?

A. These are people with very good credit, very good income, good savings that are usually very rate sensitive and are very creditworthy with major banks and other depository 10:23:29 institutions.

Q. Sometimes called prime customers?

A. Those are prime customers.

Q. Okay.

A. So headline risk became a big factor. And as you see us 10:23:38 talk about various analyst reports and what the market was learning, you will see evidence of headline risk affecting Household's stock price.

There were other non-fraud related firm specific factors, and then there were days when nothing happened and 10:23:57 stock price moved a lot. If I remember correctly, in

Professor Fischel's event study, the largest negative return happens on a day when he finds no news. That's just changing investor expectations. It happens all the time. Nothing wrong with that finding.

10:24:14 Every day of the week investors have new expectations about stock. And sometimes market analysts change their expectations, not because they've discovered something new. But based on what is already public, they may become less bearish on a stock or more bearish or less bullish or more 10:24:38 bullish. And sometimes their opinions impact stock price because certain investors follow these analyst recommendations.

Q. Did you find any economic evidence that Household's stock price was affected by fraud?

10:24:52 A. As I said before, and I'm sure we'll examine this evidence carefully, there is absolutely no economic evidence that Household's stock price was affected by fraud during this relevant period.

Q. Okay. Now, did you evaluate what information was 10:25:13 available to the market about the risks you've just enumerated?

A. Yes.

Q. And you mentioned stock analysts in this case who wrote up various reports that we've seen. Did analysts also discuss 10:25:25 these risks that you're talking about?

A. Yes.

Q. Why don't we take a look at what some of those analysts said about headline risks. Let me show you a Paine Webber analyst report. Well, let me show you Defendants' 10:25:40 Exhibit 232.

A copy to counsel. A copy for you, Professor.

(Tendered.)

BY MR. KAVALER:

Q. Is this one of the documents you looked at in formulating 10:25:47 your opinions here in this case?

A. Yes, I did, counsel.

MR. KAVALER: I offer Defendants' --

MR. BURKHOLZ: Your Honor, I object to this document. It's not listed in his expert report as a document.

10:26:08 MR. KAVALER: Your Honor, I'm told it's in his event study. It's specifically called out in his event study, which is listed in and attached to his expert report.

MR. BURKHOLZ: He lists all the documents he's relied upon in Exhibit 2 to his report.

10:26:23 MR. KAVALER: Let me ask him, your Honor.

THE COURT: It's 10:25. Let's take our morning break.

MR. KAVALER: Okay.

THE COURT: And we'll discuss it during the break.

10:26:30 (Jury out.)

THE COURT: You may step down, sir.

What do we have here?

MR. KAVALER: If you give us a minute, your Honor, when we come back, I'll ask him if it's in his event study. 10:27:07 I'll have him point to where it is. If that satisfies counsel, so be it. If not, we'll move on.

THE COURT: All right. Ten minutes.

MR. KAVALER: Thank you, your Honor.

THE CLERK: The court is in recess for ten minutes.

10:27:19 (Recess taken.)

THE COURT: Okay. Where do we stand with the objection?

MR. KAVALER: We fixed it. Everything is okay.

THE COURT: No objection?

10:47:56 MR. BURKHOLZ: No objection.

THE COURT: Okay. Bring the jury out.

MR. KAVALER: Thank you for that, your Honor. The break was very helpful. We straightened the whole thing out.

(Jury in.)

10:49:55 THE COURT: We're ready to proceed again.

MR. KAVALER: Thank you, your Honor.

I think the last thing I said was I offer Defendants' 232 in evidence, your Honor.

THE COURT: No objection?

10:50:05 MR. BURKHOLZ: No objection, subject to the limiting instruction, your Honor.

MR. KAVALER: I agree with that, your Honor.

THE COURT: Okay. It's admitted subject to the limiting instruction.

10:50:16 BY MR. KAVALER:

Q. Okay. Let's look at this one. Professor Bajaj, do you see where it says, The political/legal risk facing subprime lenders appears to be steadily growing?

A. Yes, I do.

10:50:29 Q. And then it goes on to say that, In recent weeks and months, we've seen sanctions against Advanta, Delta Financial and other subprime lenders?

A. Yes, I do.

Q. And then it says, Further, we hear continued rhetoric from 10:50:44 Washington about predatory and discriminatory lending.

Do you see that?

A. Yes, I do.

Q. And then it says, Our ongoing concerns are we are unable to forecast either the timing of government/legal decisions or 10:50:56 the ultimate earnings impact of these decisions.

Do you see that?

A. Yes, I do.

Q. And there are several other quotes to the same effect?

A. Indeed.

10:51:08 Q. Is that what you were referring to earlier when you talked about the market's awareness of headline risk?

A. Yes.

Q. And the date on this document is December 3, 2001?

I'm sorry. Wrong document.

10:51:31 The date of this document is June 23, 2000?

A. That's correct.

Q. Let's look at another one. This is Defendants' 289.

A copy for counsel. A copy for you, Dr. Bajaj.

(Tendered.)

BY MR. KAVALER:

Q. Is this another document that you looked at in formulating your opinion that you're testifying about here today?

A. Yes, I did.

MR. KAVALER: Offer Defendants' 289, your Honor.

10:52:14 THE COURT: Admitted.

BY MR. KAVALER:

Q. This is a UBS Warburg report from November 16, 2001?

A. Yes, it is.

Q. Another analyst report?

10:52:22 A. Correct.

Q. And if you'll turn to the second page, third bullet, it says, We believe the more immediate danger to Household's stock price stems from the headline risk and association, justified or not, with predatory lending.

10:52:53 Do you see that?

A. Yes, I do.

Q. Is that one of the things you were referring to?

A. Indeed.

Q. And is this one of the things that supports your view that
10:53:01 it was headline risk and not fraud that caused Household's stock price to decline in 2002?

A. Yes.

Q. Let me show you another document, Defendants' 357.

A copy for counsel. A copy for you, Professor Bajaj.

10:53:25 (Tendered.)

BY MR. KAVALER:

Q. Is this another analyst report that you relied on in formulating your opinions that you're giving here today?

A. Yes, I did, counsel.

10:53:34 MR. KAVALER: Your Honor, I offer Defendants' 357.

MR. BURKHOLZ: Same limiting instruction, your Honor.

MR. KAVALER: Agreed.

THE COURT: Admitted with the same limiting instruction.

10:53:42 BY MR. KAVALER:

Q. This is a Bear Stearns report dated December 3, 2001?

A. Yes.

Q. And the heading is, Is the biggest risk in subprime lending headline risk.

10:53:54 Do you see that?

A. I do.

Q. And turn to the second page, first full paragraph there. It says, The real risk of subprime lending appears to be headline risk.

10:54:14 Do you see that?

A. Yes.

Q. Is that another piece of information that you relied on in coming to your conclusion that what was affecting Household during the relevant period was headline risk and not fraud?

10:54:27 A. Yes.

Q. Are there others as well?

A. There are many, many, many more.

Q. Let's talk briefly about an event study.

To do this -- an event study is a method of analysis?

10:54:43 A. Yes. It's a widely recognized and accepted method of analysis.

Q. And to do this kind of an analysis -- withdrawn.

For what does one use an event study in connection with what we're talking about here today?

10:55:01 A. Well, as the name implies, event study is a statistical technique to study the impact of an event on stock price of a company after adjusting for market and industry or other unrelated factors.

Q. And what is your goal -- withdrawn.

10:55:24 Did you do an event study to come to your conclusions in this case?

A. Yes, I did.

Q. And what is the goal of the event study that you performed in this case?

10:55:34 A. Well, the goal in an event study was to see if there is any relationship between plaintiffs' allegations and investors' losses.

Q. And do you use a tool called a regression analysis in conducting an event study?

10:55:54 A. Yes. Regression analysis is a tool that is used to conduct an event study.

Q. And in order to conduct an event study, do you need to perform a careful review of all of the economic evidence available?

10:56:07 A. That is correct.

Q. Now, did Professor Fischel conduct an event study in this case?

A. He did.

Q. And have you had an opportunity to review and study his event study? 10:56:16

A. Yes, I did.

Q. In your opinion, is the event study that Professor Fischel conducted a proper event study?

A. In my opinion, his event study is subject to very serious methodological flaws. 10:56:31

Q. Let me ask you a hypothetical.

Let me not.

Let me ask you in this context, let's see if I can understand the process. If a company announces on January 1, 10:57:04 2010, next January, that it's going to open a new factory and that day its stock price increases by 5 percent, can I conclude that the market increased the value of 5 by -- 5 percent due to the decision to open a new factory?

A. No, you cannot.

10:57:20 Q. Why not?

A. Well, that's why you need an event study. In the hypothetical that you gave me, if the company announces that it's going to open a new factory, and let's say it's a computer company, and the stock price goes up by 5 percent, 10:57:42 before you attribute that 5 percent increase in stock price to that announcement, you have to remove effect of other unrelated influences on the stock price.

So if this is a computer company and you find, based on historical study of how this company's stock price co-moves 10:58:09 with other computer companies, that on average when an index of computer companies goes up by 1 percent, this company's stock price goes up by 1 percent and vice versa.

Now, armed with this historical pattern, this historical relationship that you determine through regression 10:58:33 analysis, in your hypothetical, I would look at the 5 percent stock price increase that happened on the same day that the factory news came into the market, and I'll see what happened to other computer companies' stock. And if an index of computer company stock went up by 3 percent on the same day, 10:58:59 then I say, wait a minute, on average this company goes up one for one with other computer companies; and on this particular day, other computer companies went up by 3 percent, so 3 percent of the 5 percent increase that we are talking about is due to market or industry factors.

10:59:20 So the part of stock price increase that I can associate with this factory announcement is not 5 percent, but 2 percent. This is the abnormal return after correcting for market and industry. And before I conclude that even this 2 percent increase can be linked to announcement of the factory, 10:59:49 I have to see whether there was something else announced. Let's assume not. Then I have to see whether this 2 percent is significant enough, is it large enough, or is it within the range of random noise that happens on a day-to-day basis in stock prices.

11:00:09 And the regression analysis that allows me to benchmark this company's stock price with other computer companies also gives me a threshold level of movement which is considered significant. So the regression analysis might show that it's really the case that this company's stock price 11:00:35 moves over and above computer index by 2 percent.

And the threshold level that statisticians usually use and financial economists use is typically 5 percent. In other words, when abnormal return is large enough that there is less than 5 percent chance that it is just a random 11:01:02 fluctuation, then we will consider it significant.

So there are several steps I would need to take in order to determine what was the impact of the announcement of a new factory in your hypothetical. I'll start with 5 percent. Based on regression analysis in my hypothetical, 3 11:01:25 of the 5 percent is due to industry factors. That leaves me 2 percent. And then I will see whether this 2 percent number is unusual enough or significant enough. And if it is, then I will say the impact of the factory's announcement on this company's stock is 2 percent, not 5 percent. And if it is not 11:01:52 significant, I would say there is no evidence that this announcement significantly changed this computer company's stock price at all.

Q. Is it your opinion, sir, that Professor Fischel's event study gave him unreliable results?

11:02:08 A. Yes.

Q. Do you have an opinion as to why that is?

A. Well, there are two or three main reasons why I believe he got unreliable results.

Q. Please list them for me.

11:02:24 A. Okay. So, one, remember when we were talking about the computer company example? If the announcement was made on January 1, 2008, let's say, and you have to do a regression analysis to see what's the normal relationship between this stock price and the computer industry, you have to pick a 11:02:51 period of time over which you measure what is the average relationship between the stock price and the computer industry. In the jargon of economists, it's called the estimation window.

So you do your regression analysis over an estimation 11:03:12 window to determine what is the normal relationship between this stock and the market and the industry.

And in my opinion, Professor Fischel made a mistake in the estimation window he picked.

Q. What did he pick?

11:03:29 A. Well, since you do white board so well, I think it would help if you just draw the relevant period on a white board, counsel.

Q. I'll just draw a straight line. And we'll just label -- this is July 30, 1999. And this is October 12, 2002.

11:04:08 You mean like that?

A. Yes. This is the relevant period, right.

Q. Okay.

A. Now, typically when you do event studies, you pick estimation window so it is close enough to the event that you 11:04:29 are studying. You don't want to find out that this company moved relative to industry in a certain way five years back and whatever your regression was may not be relevant now, so you can reach an erroneous conclusion. So you want to pick your estimation window to be near enough. And you want to 11:04:51 pick your estimation window so the relationship between the company and the market is a reasonable descriptor of the period you are going to study.

And people do this typically in two ways. One, people look at period just preceding the event. So if your 11:05:16 first event that you want to study is August 16, 2000, what you might do is you study one-year period before the beginning of the relevant period ending July 30, and you estimate regression. And it's a reasonable inference that whatever interrelationship you study describes how the stock price is 11:05:45 related to market and industry on the event date of October 16.

Q. And what period did Professor Fischel pick here for his estimation window?

A. Well, Professor Fischel picked a period right in the 11:06:02 middle of this estimation window, starting November 14, 2000, and ending November 14, 2001.

Q. Have I done this approximately right?

A. Yes.

Q. Okay. And is that the usual approach?

11:06:25 A. It's not the usual approach. And in this case -- what's more important is that in this case, it leads to two serious methodological problems with this event study.

Q. What are those?

A. Well, if we look at Professor Fischel's own charts, you 11:06:46 will find the estimation window that he picked was very unusual.

Over that one-year period, Household's stock price went up by about 25 percent, when Standard & Poor's 500 Index, which is his market measure, went down by about 17 and a half 11:07:15 percent. I may not remember it exactly, but it's approximately that. And the industry index that he relied on, Standard & Poor Financial, went down by about 6 and a half percent.

So now what Professor Fischel is doing is he's 11:07:35 looking at about 250 data points. There are about 250 trading dates in a year. And he's telling his computer, take 250 data points on Household stock return day by day, market return on S&P 500 and Standard & Poor Financial return. Household's stock price index is trending up, market is declining and 11:08:05 industry is declining.

Household outperformed Standard & Poor's 500 by over 40 percentage point in this one-year period. And it outperformed its industry index by over 30 percent in this period.

11:08:30 So the only way a computer can make this data fit is

it spits out an equation which says, on average, when Household's stock price goes up, Standard & Poor's market index goes down. That's the only way computer can fit this data. That's what the dumb computer does in a regression
11:08:56 analysis. It finds the best possible fit.

And because the market went down a lot and the company stock went up a lot, built into Professor Fischel's regression model is a prediction that more the market goes down, higher S&- -- higher Household stock price should be.

11:09:18 And now when he takes that regression equation and he applies it to various purported corrective disclosures after this period, it creates a bias.

Q. When you say after this period, Professor, you mean after November 14, '01?

11:09:38 A. Yes.

Q. So he derives some kind of a formula over here in this area shown by the circle, the estimation period, and he uses it out here?

A. That is correct, subsequent to this period.

11:09:48 Q. What -- this is the estimation period. What do we call this period?

A. He calls it his corrective disclosures period.

Q. Is this where he finds the down leg?

A. This is where he says the fraud is being learned by the
11:10:01 market, the down leg, yes.

Q. So this is the down leg. And this is the estimation period.

Okay. Please continue.

A. So, you know, what happens here is, we talked about how 11:10:22 starting November 15, 2001, to October 12, 2002, the end of the relevant period, was a bad time in the market. S&P 500 did poorly. Most stocks did poorly.

But now Professor Fischel is working with a model that makes him predict that, other things being equal, worse 11:10:50 the market does, better Household should have done. And, of course, over this period, that 40 percent overperformance, superior performance related to S&P that was true during his estimation window doesn't happen.

So as a result, he is biasing his measure of how 11:11:12 poorly Household is doing on any day that he studies Household's stock price reaction. He's putting too high a benchmark and, therefore, concluding Household's stock price declined by a lot and it is significant, even though it was not. This bias makes him find inflation coming out of the 11:11:36 stock when, in a proper regression analysis, he would not have so concluded. So that's one of the important biases that results from wrong choice of estimation window.

Q. When you use the word bias in that answer, you don't mean bias the way we use it when we talk about someone is biased 11:11:56 against someone? It's an economic term?

A. Oh, not at all. I didn't mean to imply that at all. This is a statistical term of art where your model is biased. I don't mean to suggest Professor Fischel is in any way, shape or form biased. He's a respected scholar. I have high regard
11:12:14 for him. It's just that his method is biased.

Q. It's a mistake?

A. It's a mistake, yes.

Q. People make mistakes?

A. Well, I know I do.

11:12:24 Q. Okay. Is there a second mistake that Professor Fischel made?

A. Yes. There is a second implication of his picking the wrong window.

Q. And what's that?

11:12:35 A. The period that he picks for his estimation window was relatively calm period for Household. It's like you go to the ocean. Some days are very calm days; and, you know, if you'll see a five-foot wave, you'll say, wow, this is a big one. And there are other days when ocean is very stormy and almost
11:13:04 every other wave will be more than five feet. Or, you know, in Chicago in the middle of the winter, 30 degrees would be considered balmy and nice and hot. And if you use that benchmark to judge what happens in the summer, you'll find every day in the summer very abnormally hot.

11:13:24 So what happens is because of his estimation window, he ends up setting too low a bar for what he considers to be a significant price movement. And he does that in two ways. Remember, I told you typically statisticians say a reaction is not significant unless there's 5 percent or more chance that 11:13:55 it's not just a random occurrence. Professor Fischel picks a 10 percent threshold rather than 5 percent.

That choice, combined with the fact that his estimation window is unusually quiet for Household, except normal returns didn't vary as much -- this was a good time for 11:14:21 Household -- means he judges too many of his specific disclosure dates significant; whereas, under a proper threshold, he would not have found them significant. So that's the second of the three errors in his regression analysis.

11:14:37 Q. And what's the third one?

A. Well, the third one is this: You want to adjust for market and industry factors when you study a particular stock price movement by carefully picking the right benchmarks.

And what he did in picking the two indices is normal 11:15:06 and fine as a starting point. Most people compare a company's stock price to a broad-based market index. Professor Fischel testified that Household itself in its proxy statement compared itself to Standard & Poor's 500. Nothing wrong there. I have no quarrel with his choice of S&P 500 there.

11:15:28 Of course, he should have noticed why is he

predicting a negative coefficient on S&P 500, meaning more the market went -- goes down, higher Household should go up. Well, that's not the reason Household compares itself to S&P 500. He might have been alerted to his estimation window
11:15:50 being wrong perhaps, but leave that aside.

He picks the S&P 500. And then he picks a broad-based financial index called Standard & Poor's Financials, which have over 80 companies, if I remember, most of whom were not in consumer finance business. And he says,
11:16:10 well, Household uses that comparison too in its proxy statement; so that's fine and good.

But what is missing in his regression equation is a benchmark that's close to Household's business. That's the consumer finance business.

11:16:26 Q. Let me stop you there a minute. Let's go back to DDX 405.

This is the one we looked at earlier. Is this what you're talking about, the Consumer Finance Index?

A. Yes.

Q. And you think this would have been a better index to use
11:16:40 as a comparison?

A. Well, I would say in all the tests I did statistically, every time, model tracked the data better. And the performance of the model on technical measures that you typically use to see how good your model is improved when you
11:17:02 added an index of consumer finance companies in addition to

Standard & Poor 500 Index and S&P Financial Index that he
used.

I don't say that he chose the wrong indices. In
fact, in my report, I used the same two indices. But I added
11:17:21 a third one, which is consumer finance companies because the
economic environment during this time that explained
Household's return was being felt by consumer finance
companies that had similar clientele to Household.

So I thought S&P 500 for broad market-based
11:17:44 influences, Standard & Poor Financial for broad financial
sector, and then an index of these six consumer finance
companies for consumer finance business would make a better
model.

Q. All three of these indices include Household; is that
11:18:01 right?

A. Yes. But I took care to exclude Household from these
indices because otherwise you end up comparing Household
against itself. It doesn't matter a whole lot in this
particular case because Household was a very small part of S&P
11:18:19 500 and a very small part of S&P Financials; but it was a
significant part of consumer finance companies. So I
constructed the Consumer Finance Index without Household in
it. And I also adjusted S&P index and S&P Financial Index to
make sure that I take out the influence of Household in those
11:18:44 indices.

Q. So would you say that your analysis is slightly more sophisticated than his?

A. Well, I believe it is more precise.

Q. Precise.

11:18:53 A. And it gives you a better picture of what is happening. And there is a measure that statisticians use to know how good their model is. It's called R-square. And my R-square was significantly higher than his R-square.

Q. I'm not going to ask you what R-square is.

11:19:13 Let me ask you this: Your Ph.D. is in economics and finance?

A. Yes.

Q. Do you know what Professor Fischel's Ph.D. is in?

A. Well, I understand his formal training is as a lawyer.
11:19:31 But I'm not going to sit here and say he's not an accomplished scholar. He's a very smart man. He's contributed a lot to use of economics in law. He's very well-qualified.

Q. Agreed. But you had to study a lot of technical stuff like R-squared that lawyers don't study in law school?

11:19:49 A. Well, I know some law school courses go into pretty sophisticated econometrics. I do not know whether he studied econometrics or not.

Q. In any event, your analysis was more precise, in your opinion, than his?

11:20:06 A. I believe my analysis is more precise, yes.

Q. Because you added the most appropriate comparative schedule, which is the other finance companies?

A. Yes. And I chose a more appropriate estimation window.

Q. Okay. Did you prepare a demonstrative which compares
11:20:29 Household's returns to the various stock indices you mentioned for a particular day during the relevant period?

A. Yes.

Q. Let's look at DDX 750-02.

What does this chart show us, Professor?

11:20:44 A. Well, this chart shows you, through an example of a specific disclosure date in Professor Fischel's analysis as to how shortcomings of his regression analysis cause him to conclude that inflation came out of Household's stock price; whereas, in fact, there was nothing abnormal about this day at
11:21:15 all in a properly specified regression analysis.

Q. Tell us what day we're looking at here.

A. If you look at the bottom, it is looking at -- it says it's -- we are looking at September 3, 2002, which is one of his specific disclosure dates.

11:21:32 Q. Okay. And tell us -- walk us through this chart, Professor, and tell us what it shows us.

A. So this was a day that was a pretty bad day in the market. As you can see, S&P 500 Index declined by more than 4 percent. That's pretty unusual. It was a bad market day. And S&P
11:21:56 Financials Index declined by almost 5 percent, 4.9 percent.

And these are some of the largest financial companies. So it was not a good day for financial companies in general.

Now, remember I told you Professor Fischel's regression model contains these two indices, Standard & Poor's 11:22:16 500 and S&P Financials. So in his model when it's a bad day for S&P Financials, he says, well, I expect Household to do poorly too because it is positively related to S&P Financials.

So the minus 5 percent that you see on S&P Financials causes him to predict that Household's stock price should have 11:22:45 gone down on this day by some amount. But he has a negative coefficient on his market index, S&P 500 portfolio.

Because of that odd result, this being a very bad day in the market, it causes him to revise upward his prediction of how Household should have done. So other things being 11:23:12 equal, on a bad market day, he would predict Household's stock price should go up, when we know it didn't go up. It actually declined by 7.62 percent.

So Professor Fischel's prediction was it would go down because it was a bad day for S&P Financials. It would go 11:23:37 up because it was a bad day for the market. And overall, he predicted that on this day, Household should have declined by around 4 percent; and it declined by 7 and a half. He says that 3 and a half percent of difference is abnormal return. And given his low threshold of judging significance, he says 3 11:24:05 and a half percent is significant.

And this is why I conclude on this day, the news that came into the market about Household significantly affected it negatively after adjusting for market and industry. And I conclude inflation came out of the stock price. But this 11:24:25 mistaken conclusion is because of shortcomings in his event study.

Q. Okay. And you've added the Consumer Finance Index here?

A. Yes.

Q. And how does that change what we're looking at?

11:24:37 A. So there are two reasons why I found that there was nothing abnormal on this day.

One, in my model, I don't have this odd prediction that when market goes down, Household should go up. My model says when market goes down, Household is likely to go down. 11:24:57 And that's why Household compared itself to the entire market. So that's one difference between Professor Fischel's event study model and mine.

And, second, I found that Household moved together on average with Consumer Finance Index. And you'll see what 11:25:15 Consumer Finance Index did that day. It went down by almost as much as Household did, by 7 and a half percent.

So based on these two differences, I found that Household's 7 and a half percent drop that day was within the range of what you would have expected; and the market did not 11:25:37 learn anything significant on September 3.

Q. Now, did you prepare a demonstrative, Professor, illustrating how Household compared to other companies in the Consumer Finance Index on that day?

A. Yes, I did.

11:25:48 Q. Can we see DDX 751-02, please.

Professor, is this that demonstrative?

A. This is the demonstrative.

Q. And what does this show us, please?

A. It shows each and every company in Consumer Finance Index 11:26:03 had a down day that day. Cash America by very little. But most companies declined by at least 4 percent. All the rest declined by at least 4 percent. Countrywide, over 4 percent decline; AmeriCredit, over 4 percent decline; Capital One, 6 and a quarter percent decline; MBNA, 8.76 decline, more steep 11:26:30 than Household; Providian, 10.39 percent decline, much more steep than Household. Household was behaving like other consumer finance companies on that day. This was not an unusual day for Household.

And what you will find on Professor Fischel's 14 11:26:50 specific disclosure dates, most of the time when he says Household's stock price declined significantly and I say no, which happens on most of the days, if you draw charts like this, if you look at data like this, you will find Household was behaving like other consumer finance companies were 11:27:13 behaving. So that's the reason he misses the fact that the declines were not extraordinary, and he ends up concluding a lot more often than he should have, according to me, that Household's stock price declined significantly when the market learned certain news.

11:27:35 In my regression analysis, most of his days are not statistically significant.

Q. Let's talk a little bit about specific issues confronting Household and the rest of the consumer finance industry during the relevant time period.

11:27:56 Did you consider those issues in conducting your analysis?

A. Yes, I did.

Q. And are you aware that Mr. Dowd in his opening statement suggested that Household was focused on growth?

11:28:07 A. Yes.

Q. Are you also aware that Mr. Aldinger testified that he disagreed with Mr. Dowd?

A. Yes. I read that transcript.

Q. Did you investigate the issue of growth in the industry

11:28:19 during the relevant period?

A. Yes. As I had said in my report, it was indeed a period when this subprime lending industry became very big, relative to where it had started.

As I was saying earlier, before 1995, if you were not

11:28:44 what is called a prime customer, you couldn't get credit to buy a house or buy a car easily. You had to go to hard-money lenders, who were predatory.

Starting in 1995, companies like Household moved into the sector for residential lending and grew rapidly. The 11:29:11 whole industry grew very rapidly. But it is incorrect to say Household grew more rapidly than the industry. In fact, according to the Fed study that I talked about in my report, if you looked at top 25 players in this space, which is called B and C lending as against prime lending or A lending, if you 11:29:40 look at top 25 players over the years in question, Household's ranking on growth was always between 20 and 25. It was not growing faster than other players in this industry. It was actually growing much slower than other players in this industry.

11:30:02 Q. Are you able to rank Household vis-a-vis other players in the consumer finance industry during the relevant period in terms of growth?

A. Yes.

Q. And where does it rank?

11:30:14 A. Well, as I said, among B and C lenders referenced in the Fed study, Household always ranked between number 20 and 25 out of 25, at the bottom of the pack.

Q. I guess I should have asked you this earlier. I apologize.

11:30:31 What's a B and C lender?

A. B and C lender is a term of art for nonconforming loan providers; whereas, A paper is considered conforming loans. These are Freddie Mac, Fannie Mae underwritten guideline type of loans that banks and mortgage bankers make to wealthier
11:30:54 customers.

Q. Where would a bank like Wells Fargo be?

A. Well, Wells Fargo is a very big bank; and they are in all kinds of things. But they're primarily known to be A paper lenders.

11:31:07 Q. Let's turn to the two models that Professor Fischel produced.

Can you briefly tell us what they are?

A. Yes. He uses two models. First one he calls an event study approach, not an event study, but an event study
11:31:27 approach. It's his so-called leakage model. It is not an event study. There is not an event in that model.

The second model he uses is an event study. He calls it a specific disclosure model.

Q. And did you come to any conclusions about either of these
11:31:48 models?

A. Yes, I did.

Q. And what were those conclusions?

A. Well, I believe his specific disclosure model is more consistent with how event studies are generally performed in a
11:32:06 setting such as this. But as I testified, it is subject to

certain methodological flaws that make Professor Fischel reach erroneous conclusions.

His leakage model, from economic perspective or from statistical perspective, is deeply flawed and unreliable and 11:32:30 has nothing to do with what is at issue in this case, in my opinion.

Q. Let's start with that one, his leakage model. Can you expand upon what you just said and tell us why you came to that opinion?

11:32:42 A. Well, in leakage model, Professor Fischel says, well, maybe the market learned certain news over a period of time. So one of his disclosures that he considers, for example, is November 15, 2001, CDC lawsuit. That's his first corrective disclosure. And it is indeed true that that was not the only 11:33:21 day that the market heard about CDC lawsuit. That lawsuit was actually filed and the market knew about it on November 9. And even in Professor Fischel's event study, nothing happened on November 9.

So if you want to consider leakage, if you say, well, 11:33:45 maybe I did not find a significant price reaction on November 15, is because market had learned part of the story on November 9, even though in this case, market had learned all of the story on November 9. Then I can understand that you take this leakage and consider whether the market price 11:34:08 reaction on November 9 and November 15, 2001, put together was statistically significant. He actually did that in one place in his report.

On December -- on October 10th and 11th, the last two days in the relevant period when Household stock price went
11:34:29 way up upon settling with attorney general, in his report, he says, well, on October 10th, the news had leaked out. I agree with him, the news had leaked out. And he looked at how the market reacted on 10th and how the market reacted on 11th. And he concluded correctly so, that on those two days
11:34:51 together, considering the leakage and considering the news, the market price reaction was significantly positive.

But in his leakage model, he does none of that. What he does is he takes his regression equation over his estimation window, which, of course, as we discussed earlier
11:35:13 is predicated on an odd result that if the market goes down, Household should go up; and then he uses that model to see how Household performed each and every day after November 15, 2001, until the end of the relevant period, whether there was any event or not, whether there was any news or not, whether
11:35:35 the news had anything to do with the fraud or not, he just added it all up. And he says, that's my quantification of inflation coming out of the stock due to leakage. No statistical test of significance. No careful evaluation of whether there was an event or not.

11:35:54 There are lots of days when the market reacts very negatively and there is no news in his event study. And he adds it all up, and he calls it leakage-based quantification of inflation. That's not accepted methodologically at all.

Q. Let me ask you about that. So you're saying that this
11:36:14 method, the leakage method, is not a recognized method in the field of economics for conducting an event study?

A. Absolutely not. It has nothing to do with what we are here for, which is to find how much the stock price declined because of market learning the truth about the purported
11:36:33 fraud. It has no linkage with any of the purported fraud.

Q. But Professor Fischel says that he relies on some professor at UCLA, Professor Cornell, to support his approach.

Have you looked at Professor Cornell's work?

A. I know his work well, and I know Professor Cornell well.

11:36:50 Q. And does his work support Professor Fischel's method here?

A. Absolutely not.

Q. Let me ask you this: If he doesn't identify any days when anything special happened in his leakage model, special in the sense that it was related to the alleged fraud, how does he
11:37:09 come up with inflation figures that he says are fraud related?

A. Well, all he has measured is underperformance in Household's stock price between November 15, 2001, and end of the relevant period, based on his faulty regression model. That has nothing to do with fraud per se.

11:37:35 Q. Is that the same problem we were looking at over here on the white board; he's got this estimation period where he's got the wrong high bar, I think you said it was, and now he's comparing the price of the stock in a declining stock market and that's giving him the result?

11:37:48 A. Yes.

Q. Okay. And is this -- is this leakage model that Professor Fischel used capable -- can you use it to distinguish stock price movements that might be attributable to fraud from other movements that have nothing to do with fraud?

11:38:13 A. By construction it cannot separate such sources of movement.

Q. It's just going to measure decline?

A. It's the kitchen sink.

Q. All right. Let's talk about his other model, the specific
11:38:30 disclosures model. That, at least, is a model you recognize?

A. The methodology is well-accepted. I have differences with Professor Fischel about how that methodology was implemented.

Q. We'll get to how he implemented it in a minute.

Let's start with the basic methodology. Please tell
11:38:50 us how that kind of a specific disclosure model is supposed to work to measure inflation.

A. Okay. So let's go back to what you were talking about, a typical pattern in these cases. There's an up leg. Inflation comes in. And there is a down leg when market learns the
11:39:11 truth and inflation goes up.

Now, you can conduct economic analysis in one or both of the following ways: You can look at the plaintiffs' allegations. Lie number one was told on date number one. And you can quantify inflation on that date number one. Whether 11:39:41 it is a misrepresentation or it's an omission, you can use well-accepted statistical techniques and methods to say I now know as an economist the company lied, stock price was inflated by 50 cents a share on lie number one.

And you can quantify inflation by adding up all the 11:40:08 inflation that came into the stock price on all the dates that lies were told.

In addition to this methodology, or depending on facts and circumstances sometimes instead of this methodology, you might say it's more reliable for me to measure how much 11:40:30 inflation came out of the stock when the market learned the truth. That's the approach Professor Fischel has adopted. It's factually incorrect. It's methodologically incorrect. But in principle, there's nothing wrong per se in adopting that approach.

11:40:52 But if you are quantifying inflation, as an economist whose work is going to be the basis of award of damages, you've got to link the amount of inflation you have quantified to specific lies that are at issue in this case.

And as we discussed earlier, Professor Fischel, by 11:41:21 looking at certain disclosures after November 15, 2001, has concluded that as of November 14, 2001, there was $7.97 of inflation. But there is nothing in his work that can tell us how much of that 7.97 is because of lie number one or lie number 40 that plaintiffs allege in that case.

11:41:53 In fact, the oddness of the result is during July 30, 1999, to November 15, 2001, when 22 lies were told, according to the plaintiffs, that inflation does not change one cent. How could the inflation he determined be -- in any reliable way be tied to the fraud plaintiffs allege has been committed 11:42:20 in this case?

That is the major shortcoming of Professor Fischel's specific disclosure model at a conceptual level, rather than methodological levels.

Q. You told us a few minutes ago, Professor Bajaj, that the 11:42:36 information related to plaintiffs' claims was already known to investors before, I think you were talking about November 15, 2001. Does that apply to Professor Fischel's specific disclosures model, the one we're talking about now?

A. Yes, it does.

11:42:51 Q. Why?

A. Well, Professor Fischel, as I was saying, is a respected scholar in use of economics for legal proceedings. And I am a fan of some of his writings in the area. And in his own writings, Professor Fischel has said that markets are 11:43:21 efficient. He's assumed that Household traded in an efficient market.

Q. What does an efficient market mean, sir?

A. An efficient market is one where market reacts to news.
It does not wait a week or two to react to stale information.
11:43:41 An efficient market is one where investors are awake and
paying attention to what they are learning. And market
imbibes news into stock prices immediately.

Q. What does immediately mean? In a minute, in a second, in
an hour, in a day, in a week, in a month?

11:44:00 A. There are thousands of academic papers, some of which I
have written, in the -- testing market efficiency. One social
scientist says it's the most-tested hypothesis in all of
social science. And you know what these papers show?

Q. What?

11:44:23 A. When companies announce earnings of prices, for example,
the game is over within five minutes or less. If your broker
calls you and says, hey, company announced positive earnings,
it was more than the market expected, and if it is going to
take you more than a minute to place a trade, the game is
11:44:42 over. The market has already reacted to it because there are
people on the floor of the Exchange, you know, who are tied to
the tape, who will immediately put the order before the price
reflects the positive news to earn a little bit of profit.
Because of these active traders, market imbibes content of
11:45:01 news into stock prices very quickly.

Now, for actively-traded companies, like Household, followed by dozens of analysts, it might mean minutes. And for some upscale company that hardly ever trades or certain kinds of announcements which are very difficult to understand 11:45:22 and interpret and that as a team we will return to when talking about Household's restatement, it may be a two-day period. But market -- in parts, market imbibes the value of the news when it is news before it is stale information.

In this particular case, Professor Fischel says he 11:45:46 did not find any evidence of market learning about Household's fraud prior to November 15, 2001.

We will see a chart today which will show there were hundreds of announcements earlier in the class period. It was not a secret in the market that Household was in the subprime 11:46:15 business, that subprime business was subject to attack.

Just sit back and think about the fact, we've heard in this case Household had over three million customers that were residential customers. And when you combine credit card and other businesses, it had 48 million customers. If 11:46:37 Household's business practices were illegal, could that remain a secret when one in every seven Americans is Household's customers that deal with Household, they experience those practices firsthand, they are -- they have friends, they have brokers, they themselves are investors. Record is replete 11:47:02 with --

MR. BURKHOLZ: Your Honor, I move to strike this. This is a narrative not responsive to the question at hand, which goes to market efficiency.

MR. KAVALER: I'll ask another question, your Honor.

11:47:12 THE COURT: Ask another question.

BY MR. KAVALER:

Q. Professor Bajaj, from an economic perspective, why does it matter whether the same information that Professor Fischel has picked for a particular day was already known to the market,

11:47:25 say, a week earlier? What difference does that make?

A. Because if it was known a week earlier, you cannot attribute market price reaction to that information. It must be due to something else.

Q. In other words, if Household makes an announcement on day

11:47:42 one, the market reacts on day one?

A. It should.

Q. And if it makes the same announcement on day ten, should it make any difference?

A. None whatsoever.

11:47:50 Q. Let me give you a more specific example.

If Household discloses a certain fact on July 22, 1999, by when would you expect the market to react to that?

A. If that was a trading day, I would expect by the end of the trading day for that fact to be reflected in stock prices,

11:48:08 assuming the announcement took place at least a few minutes before the trading day ended.

Q. And then if Household made the same exact precise announcement or disclosure again on August 16, 1999, would you expect there to be any market reaction?

11:48:22 A. No.

Q. Why not?

A. Because in an efficient market, market doesn't react to stale information.

Q. And you and Professor Fischel agree that Household traded

11:48:40 in an efficient market?

A. Yes, we both agree on that.

Q. So was -- in your opinion, was Professor Fischel correct in considering information that was already known to the public, what you call stale information, as part of his

11:48:55 analysis?

A. No, he was incorrect.

Q. Why?

A. Because in an efficient market, that piece of news, when it was news, would have been reflected in the stock price.

11:49:09 Q. Previously?

A. Previously.

Q. The first time it was announced?

A. Yes.

Q. Have you prepared a demonstrative to illustrate this

11:49:19 point?

A. Yes, I have.

Q. Let's have DDX 703-01, please.

Have I got the right demonstrative here?

A. Yes.

11:49:41 Q. I have? Okay. Sorry. I have the wrong tab in my book then.

All right. Please explain what we're looking at here.

A. So Professor Fischel said in his report and clarified 11:49:55 repeatedly that the methodology he followed is looking at what he considered to be fraud-related disclosures; and if they were significant, he considered them in quantification of his inflation.

And that is flawed methodology because, as I said, 11:50:25 there is information, and that dog did not bark. The point is, if Household announces something or the market learns something about Household and you see no market reaction, and then that information is repeated when it's stale information and you see a market reaction, you should look hard for why 11:50:50 that market reaction happened. It was not to stale information. It is either because of some other news or it's random noise.

So there is a statistical bias -- and, again, I don't mean this in a derogatory sense, to clarify. As a term of 11:51:12 art, there is a statistical bias in his methodology. And that is explained by this exhibit.

So if you told me you are a champion at tossing coins, you can always get heads, I said, okay, Mr. Kavaler, prove it to me. And you took out the coin and you tossed it a
11:51:29 hundred times. And I noticed sometimes you record your results and other times you just toss it again before recording your results. And then you come to me and say, see, 50 times I tossed heads. I tell you, Mr. Kavaler, you haven't proven anything because the other 50 times when you didn't
11:51:52 record your results, you tossed tails. You've got to consider that evidence in totality of evidence to know whether you're a champion head-tosser or not.

So Professor Fischel ended up ignoring information when the market heard something and didn't react. And that's
11:52:13 a significant source of bias in his results.

MR. KAVALER: Your Honor, I'm about to move into a topic -- a discrete topic, which I can either start now or break for lunch and start after lunch. The topic is lengthy, and I won't finish it in the ten minutes left before lunch.

11:52:32 THE COURT: We can break now. Let's take our lunch break now. Let's resume at 1:00 o'clock, ladies and gentlemen.

MR. KAVALER: Thank you, your Honor.

(Jury out.)

11:53:05 THE COURT: You may step down, sir.

We'll recess until 1:00 o'clock, folks.

(Trial recessed until 1:00 p.m. of the same day.)

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,)
)
Plaintiff,)
)
vs.) No. 02 C 5893
)
HOUSEHOLD INTERNATIONAL, INC.,)
et al.,) Chicago, Illinois
) April 28, 2009
Defendants.) 1:00 o'clock p.m.

TRANSCRIPT OF TRIAL PROCEEDINGS
BEFORE THE HONORABLE RONALD A. GUZMAN

APPEARANCES:

For the Plaintiff:

COUGHLIN STOIA GELLER RUDMAN &
ROBBINS LLP
BY: MR. SPENCER A. BURKHOLZ
MR. MICHAEL J. DOWD
MR. DANIEL S. DROSMAN
MS. MAUREEN E. MUELLER
655 West Broadway
Suite 1900
San Diego, California 92101
(619) 231-1058

COUGHLIN STOIA GELLER RUDMAN &
ROBBINS LLP
BY: MR. DAVID CAMERON BAKER
MR. LUKE O. BROOKS
MR. JASON C. DAVIS
MS. AZRA Z. MEHDI
100 Pine Street
Suite 2600
San Francisco, California 94111
(415) 288-4545

APPEARANCES: (Continued)

For the Plaintiff:	MILLER LAW LLC BY: MR. MARVIN ALAN MILLER 115 South LaSalle Street Suite 2910 Chicago, Illinois 60603 (312) 332-3400
For the Defendants:	CAHILL, GORDON & REINDEL LLP BY: MR. THOMAS J. KAVALER MS. PATRICIA FARREN MR. DAVID R. OWEN MS. JANET A. BEER MR. JASON M. HALL MR. JOSHUA M. NEWVILLE MS. KIM A. SMITH MS. SUSAN BUCKLEY MS. YAFIT COHN MR. MICHAEL WERNKE 80 Pine Street New York, New York 10005 (212) 701-3000
Court Reporter:	NANCY C. LaBELLA, CSR, RMR, CRR Official Court Reporter 219 South Dearborn Street Room 1222 Chicago, Illinois 60604 (312) 435-6890 Nancy_LaBella@ilnd.uscourts.gov

THE CLERK: 02 C 5893, Jaffe vs. Household.

THE COURT: All set for the jury?

MR. KAVALER: Ready, your Honor.

THE COURT: Bring them out, please.

(Jury in.)

MR. KAVALER: Thank you, your Honor.

MUKESH BAJAJ, DEFENDANTS' WITNESS, PREVIOUSLY SWORN

DIRECT EXAMINATION - Resumed

BY MR. KAVALER:

01:07:38 Q. Professor Bajaj, you were here when Professor Fischel testified. So, you know that he walked us through his 14 dates and he had an exhibit, Plaintiffs' Demonstrative 150. I think we'll put that up and look at it, again.

Can you see that, okay?

01:08:05 A. Yes, I do.

MR. KAVALER: Can you all see that?

Your Honor, can you see that or should I tilt it a little bit?

THE COURT: That's fine.

01:08:13 MR. KAVALER: Okay.

BY MR. KAVALER:

Q. You understand these to be the dates that Professor Fischel picked?

A. Yes.

01:08:20 Q. Okay.

Let's start with the first one, November 15, 2001. And you were here for Professor Fischel's testimony about that?

A. Yes, I was.

01:08:33 Q. Okay.

Let's look at Plaintiffs' 1405.

MR. KAVALER: And, ladies and gentlemen, this is Tab 1 in the jury notebook.

Copy for you, counsel.

BY MR. KAVALER:

Q. This is a copy for you, Professor Bajaj.

(Document tendered to counsel and the witness.)

BY MR. KAVALER:

Q. It's a little bit light, a little hard to read. Let's
01:09:00 look at the fourth paragraph.

It says, "'Household and Beneficial are 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
01:09:19 of state consumer protection laws,' the lawsuit said."

Do you see that?

A. Yes, I do.

Q. That's referring to a lawsuit by the California Department of Corporations?

01:09:29 A. Yes.

Q. And this is a news release -- a news story -- that appeared on November 14, 2001; is that right?

A. This is something that appeared on Bloomberg --

Q. Okay.

01:09:47 A. -- on November 14, 2001, after the market closed, at 5:16 p.m.

Q. Okay.

That's what 7:16 means up there?

A. 17.

01:09:57 Q. 17:16?

A. Right.

Q. Okay.

And Professor Fischel picked this as his first disclosure date, did he?

01:10:01 A. Yes.

Q. All right.

And he says that it disclosed information which caused inflation to be removed from the Household stock price?

A. Yes.

01:10:09 Q. Did you analyze this date, as well?

A. Yes, I did.

Q. Okay.

And did you identify an earlier article which contained the same information?

01:10:19 A. Yes.

Q. Let's look at Defendants' 615.

MR. KAVALER: A copy for counsel.

BY MR. KAVALER:

Q. A copy for you, Professor.

01:10:35 (Document tendered to counsel and the witness.)

BY MR. KAVALER:

Q. What is Defendants' 615?

A. This is the press release that I found dated November 9, 2001, Friday, which announces the same lawsuit.

01:10:51 Q. Okay.

MR. KAVALER: I offer 615, your Honor.

MR. BURKHOLZ: No objection.

THE COURT: It will be admitted.

(Defendants' Exhibit No. 615 received in evidence.)

01:11:07 MR. KAVALER: And this is also contained in Tab 1 of your notebooks behind the blue divider.

BY MR. KAVALER:

Q. And this article says, "The state sued Household Finance Corp. of California and its Beneficial California, Inc., unit 01:11:27 today for more than $8 million, accusing both of a pattern of abusing lending practices -- " "abusive lending practices."

Do you see that?

A. Yes, I do.

Q. Okay.

01:11:35 What is the significance of the fact that you found an earlier article -- that is, earlier than the one Professor Fischel relied on -- which contains the same information?

A. Well, the market would have reacted to this lawsuit when it was news, not when it was stale information. And even in 01:11:56 Professor Fischel's event study, there is no significant reaction to this particular announcement.

Q. On November 9?

A. On November 9.

Q. Right.

01:12:05 And what is the significance, in your opinion, of the fact that the same article -- the same content -- is contained --

MR. KAVALER: Well, withdrawn.

BY MR. KAVALER:

01:12:13 Q. Do you view these articles as conveying the same information to the marketplace?

A. Indeed.

Q. And what is the significance of the fact that Professor Fischel is using the second -- the later of these dates, the 01:12:23 November 14 article -- and not the November 9 article?

A. Well, to the extent Professor Fischel found market reaction or that Household's stock price declined significantly on November 15th -- which in my event study is not significant, but leaving that aside; to the extent he 01:12:50 found that stock price declined significantly on November

15th -- it couldn't be because of this news. This was old information. It could be something else or it could be random noise. We cannot attribute the price reaction to this news the way he does.

01:13:09 Q. So, if we're going through this list of 14 disclosure dates trying to see which ones allow us to attribute price reaction to the news as Professor Fischel suggests they do, this one is not one that satisfies that requirement?

A. Yes.

01:13:26 Q. So, we cross it off the list.

Let's go to the next one.

You were here when Professor Fischel discussed a news article dated December 3, 2001, reporting on Household's accounting practices; is that right?

01:13:46 A. Correct.

Q. All right.

MR. KAVALER: Let's look at Plaintiffs' 1409, which is in evidence.

And this is Tab 2 in your binder, ladies and gentlemen. 01:13:57

A copy for counsel.

BY MR. KAVALER:

Q. A copy for you, Professor Bajaj.

(Document tendered to counsel and the witness.)

BY THE WITNESS:

A. Thank you.

BY MR. KAVALER:

Q. Does this article disclose any information about Household's re-age practices?

01:14:18 A. I did not see those words in this article.

Q. Okay.

Does it disclose Household's accounting issues -- any Household accounting issues?

A. Yes. It discusses certain accounting practices of

01:14:31 Household.

Q. Okay.

And this is the -- what's the date of this article?

A. It is December 1, 2001, which is a Saturday.

Q. And in what publication does it appear?

01:14:46 A. It is in Barron's.

Q. Barron's is a magazine?

A. Yes.

Q. If you look at Page 4, look at the seventh full paragraph, it says, "It's easy to dismiss Ryan's criticisms as quibbles

01:15:15 as Household's management is wont to do. After all, Household disclosed all the changes, albeit often in the small print of financial filings."

Do you see that?

A. Yes.

01:15:25 Q. Okay.

At the time that the Barron's article came out, Professor, did you identify any analyst commentary addressing this article?

A. Yes.

01:15:37 Q. All right.

MR. KAVALER: And let's look at Defendants' 259.

A copy for counsel.

BY MR. KAVALER:

Q. A copy for your, Professor.

(Document tendered to counsel and the witness.)

BY MR. KAVALER:

Q. Is this one of the items of analyst commentary you found addressing the Barron's article?

A. Yes, I did.

01:15:59 MR. KAVALER: I offer 259, your Honor.

MR. BURKHOLZ: No objection subject to the limiting instruction.

MR. KAVALER: I agree with that.

THE COURT: Admitted, subject to the limiting instruction. 01:16:06

(Defendants' Exhibit No. 259 received in evidence.)

BY MR. KAVALER:

Q. And the title of this article is, "Ridiculous Bashing by Barron's."

01:16:12 Do you see that?

A. Yes, I do.

Q. And if you look at page ending 692, it goes on to say, "The cover article on this weekend's Barron's bashed Household on accounting issues, almost all of which have been aired 01:16:27 before and most of which are inaccurate."

Do you see that?

A. Yes, I do.

Q. All right.

And it goes on to say, "Both Barron's and Business 01:16:35 Week carry articles bashing Household this week, both of which are largely reprints of a report previously published by a short-selling boutique."

Do you see that?

A. Yes, I do.

01:16:46 Q. Let me just stop you and ask you, what is a short-selling boutique?

A. So, while most investors in the stock market buy stock in the hope that stock price will go up and they will make money, there are certain investors who attempt to make money by 01:17:06 selling stock short. Namely, they borrow shares that they do not own from their broker and sell those shares in the marketplace hoping that stock price will drop and they will be able to buy those shares back at a cheaper price to return them to their broker and make money in this manner.

01:17:33 And, of course, for most investors, their interests are aligned to see stock prices go up. Short sellers are treated with a lot of suspicion on Wall Street because they profit if stock prices go down.

So, companies and analysts often view short sellers'
01:17:59 statements with suspicion as if they might be designed to drive the stock price down for their personal gain.

Q. Let's go back to the Barron's article. Professor Fischel picked that as his second disclosure date here. It says, "Barron's Article."

01:18:15 Do you see that (indicating)?

A. Yes.

Q. Okay.

And he claimed that this article disclosed information which caused inflation to be removed from
01:18:21 Household's stock price; am I right?

A. That was his conclusion.

Q. Did you analyze this disclosure event, as well?

A. Yes, I did.

Q. And did you identify a previous report which contained
01:18:32 similar information?

A. Yes, I did.

Q. Let me show you Defendants' 516.

MR. KAVALER: A copy for counsel.

BY MR. KAVALER:

01:18:40 Q. A copy for you, Professor.

(Document tendered to counsel and the witness.)

BY MR. KAVALER:

Q. Is this one of the reports you identified?

A. Yes.

01:18:51 MR. KAVALER: I offer 516 in evidence, your Honor.

MR. BURKHOLZ: No objection. Limiting instruction.

MR. KAVALER: I agree with that.

THE COURT: Admitted with a limiting instruction.

(Defendant's Exhibit No. 516 received in evidence.)

01:19:00 MR. KAVALER: All right.

This is also, ladies and gentlemen, in Tab 2 of your binder, again, past the blue subdivider behind Tab 2.

BY MR. KAVALER:

Q. And what is this, Professor?

01:19:09 A. Well, this is one of the reports authored by William Ryan when he was with the short-selling boutique Ventana Capital, Inc. And the Barron's article that Professor Fischel cited was largely a reprint of allegations made in Mr. Ryan's Ventana Capital report, which was published several weeks earlier. 01:19:44

Q. Let's get the date of that. Is there a date on the cover, October 12, 2001?

A. Yes.

Q. And Professor Fischel was talking about a Barron's article on December 3, 2001? 01:19:51

A. That is correct.

Q. And you found the substance of both reports to be the same?

A. Yes.

01:19:59 Q. So, whatever the consequences for Household's stock price are of this information coming into the market, the market would have reacted on or about October 12?

MR. BURKHOLZ: Objection. Leading.

BY MR. KAVALER:

01:20:11 Q. Would the market have reacted --

MR. KAVALER: Withdrawn.

BY MR. KAVALER:

Q. Would you expect the market to have reacted to the information in the Ventana Capital account story about 01:20:20 Household, or not, within a reasonable time after October 12, 2001?

A. Yes.

Q. Would you expect the market to react, again, when the same information is re-published by Barron's on December 3, 2001?

01:20:30 A. Not for purposes of any news. And I should also point out that, according to my event study, the market did not significantly react on December 3rd. The price reaction was not significant on that day.

Q. Let me show you another exhibit, which is Defendants' 517.

01:20:53 MR. KAVALER: A copy for counsel.

BY MR. KAVALER:

Q. A copy for you.

(Document tendered to counsel and the witness.)

BY MR. KAVALER:

01:20:59 Q. It's another Ventana Capital report.

Did you review this article, as well, in preparing to give your opinions, Professor?

A. Yes, I did.

MR. KAVALER: I offer 517 -- Defendants' 517 -- your Honor.

THE COURT: Admitted --

MR. KAVALER: The same limiting instruction, I would imagine.

THE COURT: Admitted with the same limiting instruction. 01:21:20

MR. KAVALER: Thank you, your Honor.

(Defendant's Exhibit No. 517 received in evidence.)

MR. KAVALER: Ladies and gentlemen, this is the next blue tab behind Tab 2 in your binders.

BY MR. KAVALER:

Q. And this one is dated October 18, 2001; is that right, Professor?

A. That is correct.

Q. All right.

01:21:33 And if you turn to page ending 183 in the first

paragraph, it says, "As noted in our original 'sell' recommendation, we believe Household, at a minimum, is set up for a dramatic decline in the quality of the company's earnings and at most a potential reduction in earnings
01:21:51 estimates and/or credit-related charge."

Do you see that?

A. Yes, I do.

Q. And do you see in this Ventana Capital report where Mr. Ryan is directing investors to consider Household's public
01:22:02 SEC filings of securitization documents for additional information about the company's account management policies?

A. It is saying that Ventana Capital reached its conclusions based on Mr. Ryan's review of Household's public filings.

Q. Does this give you any view as to whether analysts were
01:22:25 talking about public disclosures of Household's account management policies that were disclosed in these securitization prospectuses?

MR. BURKHOLZ: Objection. Leading.

THE COURT: Sustained.

BY MR. KAVALER:

Q. What conclusion do you draw from seeing this reference to securitization practices in this Ventana Capital report of October 18, 2001, Professor?

A. Well, Mr. Ryan's criticisms were based entirely on his
01:22:47 review of Household's publicly-filed financial statements and

securitization prospectuses, as he very clearly discusses in his reports. So, he, himself, was relying on information that was publicly available years ago.

Q. And in his recommendation based on those --

01:23:10 MR. KAVALER: Withdrawn.

BY MR. KAVALER:

Q. And based on his review of those public documents, does he recommend a buy, a hold or a sell?

A. He is recommending a sell.

01:23:17 Q. And what is the significance of the fact that you found these two analyst reports dated October --

MR. KAVALER: Withdrawn.

BY MR. KAVALER:

Q. Is it your opinion, Professor, that these two analyst
01:23:31 reports dated October 12 and October 18 convey the same information to the marketplace as the December 3 Barron's article?

A. Yes.

Q. What is the significance, in your opinion, of the fact
01:23:41 that you found these two analyst reports dated October 12 and 18, 2001, which convey the same information as the Barron's article dated December 3, 2001, in connection with the validity of Professor Fischel's choosing December 3 as one of his 14 dates?

01:24:01 MR. BURKHOLZ: Objection. Leading.

THE COURT: Sustained.

BY MR. KAVALER:

Q. Do you have an opinion about the significance of Defendants' 516 and Defendants' 517 with regard to the 01:24:14 inclusion by Professor Fischel of December 3rd on his list of 14 dates?

A. Yes. I believe --

Q. What's that opinion?

A. -- because there was no news on December 3rd, December 3rd 01:24:28 cannot be properly considered a disclosure date. Besides, in a properly-conducted event study, the market reaction on December 3rd was not significant. So, Professor Fischel's report considered December 3rd as a disclosure date in error.

Q. Do you have a demonstrative that makes the -- helps you 01:24:51 demonstrate the point you just made?

A. Yes, I do.

MR. KAVALER: Let's see DDX 559-04, please.

BY MR. KAVALER:

Q. Professor, tell us what this demonstrative shows us.

01:25:02 A. So, if you look at the right-hand side, the Barron's article refers to Mr. Ryan's opinion -- "We believe Household, at a minimum, is set up for a dramatic decline in quality of company's earnings and at most a potential reduction in earnings estimates and/or credit-related charges -- " charge, 01:25:33 in the singular.

And if you see on the left-hand side, same opinion is expressed by Mr. Ryan on October 12 and October 18. On October 12, Mr. Ryan says, "We believe Household, at a minimum, is set up for a dramatic decline in quality of 01:25:53 company's earnings and at most a potential reduction in earnings estimates and/or credit-related charges."

And the opinion he expresses on October 18th is, again, almost verbatim the same.

Q. Professor, did Mr. Ryan's statements on October 12 or 01:26:12 October 18 have any impact on the market price of Household stock?

A. The stock did not react significantly on those dates.

Q. Do you have an opinion as to the significance of these two earlier publications -- I already asked you that. I'm sorry.

01:26:35 So, on the basis of what you just said, is it appropriate for Professor Fischel to be counting the December 3rd Barron's article as one of his 14 days or not?

A. It's not appropriate.

Q. So, I should cross it off this chart?

01:26:50 A. Sure.

Q. All right. Let's look at the next one, the third day, December 5, 2001, reporting on comments Bill Aldinger made at a conference on December 4.

MR. KAVALER: Let's look at Plaintiffs' 1433.

01:27:20 A copy for counsel.

BY MR. KAVALER:

Q. A copy for you, Professor.

(Document tendered to counsel and the witness.)

BY MR. KAVALER:

01:27:28 Q. What is this, Professor?

A. This is an article I found on conference in -- that was published in American Banker on December 5, 2001.

Q. And did it form part of your opinion in this case?

A. Yes.

01:27:49 MR. KAVALER: Your Honor, I offer -- this is Plaintiffs' 1433. I offer it in any event. Plaintiffs' 1433, your Honor. The same limiting instruction.

THE COURT: It's admitted with the same limiting instruction.

01:28:01 (Plaintiff's Exhibit No. 1433 received in evidence.)

MR. KAVALER: And, ladies and gentlemen, this is Tab 3 in your binder today.

BY MR. KAVALER:

Q. Now, what's the date of this article, Professor?

01:28:06 A. The article is dated December 5, 2001.

Q. And you see on the first page there, it says, "The Chairman and Chief Executive of Household International stepped forward Tuesday with a rebuttal of accusations that his consumer finance company is playing accounting tricks to 01:28:23 mask bad loans, saying repeatedly that his company has a good balance sheet and a conservative approach."

Do you see that?

A. Yes, I do.

Q. Okay.

01:28:31 Now, Professor Fischel picked this article for his third disclosure date claiming that it disclosed information which inflated Household's stock price; is that right?

A. That is correct.

Q. Did you analyze this disclosure, as well?

01:28:44 A. I did.

Q. And had the investors found out about this information previously?

A. Yes. In fact, right after the Barron's article, there were several analyst reports that anticipated Mr. Aldinger's 01:29:02 remarks at a Goldman Sachs news con- -- investor conference -- on Tuesday, December the 4th. It was a well-publicized event.

And Mr. Aldinger spoke at that event between 2:30 and 3:20 Eastern. And as this article says, he gave his address on Tuesday, which is December 4th. American Banker is simply 01:29:31 reporting on what happened the previous day.

Q. Let's mark Plaintiffs' Exhibit 1248.

MR. KAVALER: A copy for counsel.

BY MR. KAVALER:

Q. A copy for you, Professor.

01:29:42 (Document tendered to counsel and the witness.)

BY MR. KAVALER:

Q. Is this a document that you considered in coming to your opinions that you're testifying about here today?

A. Yes.

01:29:46 Q. And what do you understand this to be?

A. This appears to be Mr. Aldinger's presentation at Goldman Sachs conference dated December 4, 2001.

MR. KAVALER: Your Honor, I offer Plaintiffs' 1248. I'm sorry, it's in evidence. I apologize. I don't offer it.

01:30:08 Ladies and gentlemen, it's Tab 3 of your binder behind the first blue subdivider.

I knew I had seen that before. Okay.

BY MR. KAVALER:

Q. And on Slide 9 of Bill Aldinger's presentation, which is 01:30:21 at page ending in 152, he says, "Why are Household's credit losses better?"

A. I see that.

Q. "Prudent growth rates, lower risk portfolio mix."

Do you see that?

01:30:40 A. Yes.

Q. All right.

And on Slide 26, on page ending in 160, he talks about summary, and the third bullet down is "Fortress Balance Sheet."

01:30:57 Do you see that?

A. Yes, I do.

Q. What is the significance of the fact that you located this presentation made on December 4, which is earlier in time than the American Banker article on December 5?

01:31:17 A. Well, whatever the market price did on December 5 -- and, according to my event study, it did nothing significant -- it should not be attributed to Mr. Aldinger's presentation because that news was in the marketplace the day before.

There is also another inconsistency here in Professor 01:31:41 Fischel's theory. He testified that beginning November 15th, the market stopped believing Household. And if the market stopped believing Household and Mr. Aldinger denies Barron's accusations, why would he say that would lead to stock price becoming more inflated?

01:32:08 Q. He -- in your last -- you say "why would he say." You mean Professor Fischel?

A. Yes.

Q. All right.

Have you prepared a demonstrative reflecting on the 01:32:17 interrelationship of these two exhibits?

A. Yes, I have.

MR. KAVALER: Let's look at DDX 559-06.

BY MR. KAVALER:

Q. And please tell us, Professor, what this shows.

01:32:28 A. Well, on the right-hand side, we have the American

Barron -- American Banker -- article that Professor Fischel cited as inflationary news. On the left-hand side, you have Mr. Aldinger's presentation giving the same information to the market a day earlier, when even in Professor Fischel's event
01:32:52 study the stock did not react significantly.

Q. So, if we go back to Plaintiffs' Demonstrative 150, in your opinion, is this another entry that Professor Fischel cited that doesn't support his conclusion?

A. Yes.

01:33:10 Q. Should I cross this one off, as well?

A. Okay.

Q. Let's go to the fourth day. You were here when Professor Fischel talked about a news article published after trading hours on December 11 reporting on Household's restructuring
01:33:32 practices. Let me show you -- were you here that day?

A. Yes. I think you said news article. I think you meant analyst report.

Q. I'm sorry, I might have. Let me see if I can speed this up a little bit.

01:33:44 He testified about all these days the same day?

A. Yes.

Q. And you were here then?

A. Yes.

Q. All right. So, I won't ask you that every time.

01:33:51 Let's look at Plaintiffs' 1410.

MR. KAVALER: A copy for counsel.

BY MR. KAVALER:

Q. A copy for you, Professor.

(Document tendered to counsel and the witness.)

01:34:06 MR. KAVALER: This is in evidence, your Honor.

Ladies and gentlemen, this is behind Tab 4 in your binder.

BY MR. KAVALER:

Q. And what is this, Professor?

01:34:13 A. Well, this is an analyst report issued by certain analysts at Legg Mason investment firm on 11 December, 2001, at 6:04 p.m. Eastern. It says "Part 3" in its title.

Q. That's the Legg Mason report referred to by Professor Fischel as Item 4 here on Plaintiffs' Demonstrative 150?

01:34:43 A. Yes.

Q. Okay.

And if you look at the second page, it says, quote -- last paragraph -- "We find this lenient re-aging policy disturbing, as it undermines the analytical value of the reported asset quality statistics." 01:34:56

Do you see that language?

A. Yes, I do.

Q. All right.

And what role did this report play, as you understand it, in Professor Fischel's analysis? 01:35:05

A. Professor Fischel concluded -- incorrectly so, I believe -- that the market reacted negatively to this report the next trading day, on December 12, 2001. And he, therefore, concluded some $2.39 of inflation came out of the
01:35:32 stock.

Q. And you said he concluded incorrectly. Why do you say that?

A. Because this report was Part 3 of two earlier reports with the same criticism that were issued by Legg Mason during
01:35:54 trading hours on December 11th. And even according to Professor Fischel's own event study, the market did not react on December 11th because this was old news even on December 11th.

Q. Let me show you Plaintiffs' Exhibit 318.

01:36:10 MR. KAVALER: A copy for counsel.

BY MR. KAVALER:

Q. A copy for you, Professor.

(Document tendered to counsel and the witness.)

BY MR. KAVALER:

01:36:18 Q. Is this a document you relied upon in forming your opinions in this case?

A. Yes.

MR. KAVALER: I offer Defendants' 318, your Honor -- sorry, Plaintiffs' 318. Same limiting instruction.

01:36:28 THE COURT: It will be admitted. Same limiting instruction.

(Plaintiff's Exhibit No. 318 received in evidence.)

MR. KAVALER: And, ladies and gentlemen, this is in your binder behind the next blue tab, behind Tab 4.

BY MR. KAVALER:

Q. And is this, Professor, a Legg Mason report that you're talking about?

A. Yes. This is Part 1 of the three-part report. And this one was issued at 10:50 a.m. Eastern.

01:36:55 Q. During trading hours?

A. During trading hours.

Q. And if you look at page ending in 378, the first page at the second bullet, it says, "The company's surprisingly lenient asset quality policies and the wide variation in how 01:37:16 these policies are implemented among HI's five major business lines -- partial payments, delinquencies, re-aging, rewrites, non-accruals, chargeoffs, BK-related losses -- makes us question the company's impressive performance of solid earnings growth and stable asset quality and lowers our 01:37:37 confidence going forward."

Do you see that?

A. Yes, I do.

Q. Is there still another analyst report that you're referring to?

01:37:45 A. Yes. There was a Part 2 of this report also issued during trading hours on December 11th.

Q. Let me show you Plaintiffs' 319.

MR. KAVALER: A copy for counsel.

BY MR. KAVALER:

01:37:57 Q. A copy for you, Professor.

(Document tendered to counsel and the witness.)

BY MR. KAVALER:

Q. Is this the document you're referring to?

A. Yes.

01:38:04 Q. Did you rely on this in forming your opinions?

A. Yes, I did.

MR. KAVALER: Your Honor, I offer Plaintiffs' 319 in evidence, subject to the same limiting instruction.

THE COURT: Admitted.

01:38:14 (Plaintiff's Exhibit No. 319 received in evidence.)

MR. KAVALER: Ladies and gentlemen, this is behind the next blue subdivider behind Tab 4 in your binders.

BY MR. KAVALER:

Q. And if you look at page ending in 380, the first page, 01:38:31 Professor, about four lines from the bottom, it says, "We believe the company's lenient and aggressive asset quality policies and the wide variation in how these policies are implemented among HI's five major business lines call this record into question."

01:38:46 Do you see that?

A. Yes, I do.

Q. What is the significance, in your opinion, of the fact that you found these earlier analyst reports?

A. Well, there was no news in the third analyst report that 01:38:59 Professor Fischel mistakenly attributed the Household negative stock price reaction to.

Q. Did you prepare a demonstrative that helps illustrate this point?

A. Yes, I did.

01:39:12 MR. KAVALER: Let's have DDX 559-08, please.

BY MR. KAVALER:

Q. Professor, please tell us what this shows us.

A. Well, on the right-hand side is what Professor Fischel considered to be news, for which he attributed what he 01:39:29 concluded to be negative price reaction on December 12. It says, "Lenient re-aging policy disturbing as it undermines the analytical value of reported asset quality statistics."

And on the left-hand side, we find the first of two reports issued by the same author from the same company during 01:39:53 trading hours on December 11, making the same allegations.

Q. Now, Professor, I see that both of these reports are issued on December 11. The one on the right at 6:04 p.m. and the one on the left at 10:50 a.m., and they're both Eastern Standard Time.

01:40:11 What is the significance of that time difference of about seven hours?

A. So, if you did not have the earlier reports and the only report the market had received was the one that Professor Fischel considered at 6:04 p.m. Eastern, by then stock market
01:40:31 would have closed. So, market wouldn't have had the opportunity to react to this report. And that's why you would look at what the market did on December 12th --

Q. And that's what they used?

A. -- in response to this report.

01:40:43 Q. And that's -- he used the 12th?

A. Yes.

Q. Because he's working off the 6:00 p.m. release?

A. Yes.

Q. In your opinion, what would actually have happened when
01:40:51 the first release came out at 10:50 in the morning?

A. The first one came out at 10:50, and the second one came out at 1:15 in the afternoon, both during trading hours.

Q. And what would have -- would the market have reacted during trading hours?

01:41:03 A. Yes. If it was significant, it would have reacted then.

Q. So, the one -- in your opinion, is the one Professor Fischel is relying on stale?

A. It is stale information.

Q. Should I cross it off my list?

01:41:15 A. Sure.

Q. Let's look at the next one. Day number 5, February 27, 2002. Professor Fischel says something about expansion of best practices.

He's discussing a news article there?

01:41:50 A. Or a press release. I don't recall.

Q. All right. Let's see if we can refresh your recollection.

Here's Plaintiffs' 1453.

MR. KAVALER: Copy for counsel.

BY MR. KAVALER:

01:41:58 Q. Copy for you.

(Document tendered to counsel and the witness.)

BY MR. KAVALER:

Q. Does this refresh your recollection as to what he's talking about, Professor?

01:42:06 A. Yes.

Q. Is this something you reviewed in coming to your opinion?

A. Yes, I did.

MR. KAVALER: Your Honor, I offer Plaintiffs' 1453 in evidence, subject to the same limiting instruction.

01:42:15 THE COURT: Admitted.

(Plaintiffs' Exhibit No. 1453 received in evidence.)

MR. KAVALER: Ladies and gentlemen, this is Tab 5 in your binder.

BY MR. KAVALER:

01:42:23 Q. This one on Page 1 in the first paragraph says, "Household announced today significant additions to its already extensive set of voluntary responsible consumer lending practices following on the heels of the company's best practices initiatives announced in July, 2001. Household is, once 01:42:47 again, raising industry standards for responsibly serving middle market borrowers."

Do you see that?

A. Yes, I do.

Q. And this is the article that underlies Professor Fischel's 01:43:02 fifth disclosure date, correct?

A. Correct.

Q. Did you identify any previous article containing the same information?

A. I did.

01:43:10 Q. Let me show you Defendants' 1084.

(Document tendered to counsel and the witness.)

BY MR. KAVALER:

Q. Is this one such article, Professor?

A. Yes, it is.

01:43:26 Q. And did you rely on it in forming your opinions?

A. Yes, I did.

MR. KAVALER: I offer Defendants' 1084, your Honor, subject to the same limiting instruction.

THE COURT: Admitted.

01:43:43 (Defendants' Exhibit No. 1084 received in evidence.)

MR. KAVALER: And this, ladies and gentlemen, is also in Tab 5 behind the blue subdivider.

BY MR. KAVALER:

Q. Professor, this is an article from the Chicago Tribune
01:43:52 dated, when?

A. 26th of February, 2002.

Q. And Professor Fischel's article -- or reference -- is to something dated February 27th, 2002; is that right?

A. That is correct.

01:44:08 Q. Okay.

And this article says on Page 1, "Household Finance and Beneficial, which traditionally make loans to less creditworthy borrowers, will cut loan rates a quarter percentage point for every year a borrower makes payments
01:44:22 within 30 days of the due date."

Do you see that?

A. Yes.

Q. And it continues to say, "Other reforms included caps on points and fees, a one-page plain-English disclosure form and
01:44:34 a provision that would let borrowers cancel a deal as late as ten days after getting their money."

Do you see that?

A. Yes, I do.

Q. And do you consider these reforms to be the same as the
01:44:44 voluntary responsible consumer lending practices referenced

the following day in the article Professor Fischel chose?
A. They are identical.
Q. And what, in your opinion, is the significance of the fact that they're identical?
01:44:55 A. Well, if the market had reacted to these announcements, it would have reacted on February 26th, not on February 27th. And, once again, this is also inconsistent with Professor Fischel's theory that after November 15th if Household said "We're not doing anything wrong," market stopped believing
01:45:26 them. But over here Household is advancing itself in a positive light and, according to Professor Fischel, the market is reacting positively and that is introducing inflation in the stock.
Q. Okay.
01:45:39 Did you prepare a demonstrative that illustrates why this selection by Professor Fischel was also stale information?
A. Yes, I did.
MR. KAVALER: Can we see DDX 559-12, please.
BY MR. KAVALER:
Q. Tell us what this is, Professor Bajaj.
A. Well, on the right-hand side we have the source Professor Fischel cites about company's best practices initiative as a source of inflation introduced into Household's stock price on
01:46:15 February 27th. And on the left-hand side, you have Chicago

Tribune's story reporting on this news the previous day. So, it was obviously stale information on the 27th.

Q. Based on your testimony just now, would it be correct for Professor Fischel to include the February 27th item as one of 01:46:43 the 14 disclosure dates in his survey?

A. It would not be correct for him to include it.

Q. Should I cross that one off my list, as well?

A. Okay.

Q. Let's turn to the next one. Before I do that, Professor, 01:47:06 let me ask you this: Did Professor Fischel testify that in order for inflation to enter a company's stock price, there must be an actionable disclosure defect?

A. Yes.

Q. Did plaintiffs allege any false statement that occurred on 01:47:22 February 27th that you know of?

A. I don't believe plaintiffs have asserted the statement to be false.

Q. All right.

Did Professor Fischel find any inflation on this 01:47:31 date?

A. He claimed to.

Q. How much inflation did he find, based on their demonstrative?

A. $1.64, if I'm reading it correctly.

01:47:43 Q. Is that right here (indicating)?

A. Yes.

Q. Plus 1.64. It's in black. A lot of these numbers are in red. Some are in black. Okay.

A. Okay.

01:47:54 Q. So, tell me, even if on every other date that Professor Fischel identified -- well, let me ask you this: How can his 7.97 inflation calculation be consistent with plaintiffs' fraud claims in light of the fact that he's got a significant date here where there's no claimed false statement?

01:48:17 A. Well, by definition, 7.97 cannot be the right answer because he included a date that plaintiffs don't allege any falsehood occurred. And, therefore, by definition there can be no inflation on that day.

Q. I'm sure Professor Fischel would say, "But it's a net
01:48:34 number." He's taking the 7.97, netted all these numbers. I see what he did here. I think his words were, "I gave you credit for the numbers that appear in black."

Does that change your view?

A. No. His math is wrong.

01:48:47 Q. He added this column up wrong?

A. Absolutely.

Q. Because?

A. Because the dollar sixty-four should not be there at all. It's not in plaintiffs' theory of the case. It's not in
01:48:59 plaintiffs' allegations.

Q. But that would make this number higher?

A. That's besides the point. It would make the number higher, but the number is incorrect.

Q. I'm calling to your attention a number that's bad for me.

01:49:11 A. Okay.

Q. But this number would be higher (indicating), but it would still be wrong?

A. It would be wrong, yes.

Q. Okay.

01:49:25 Let's turn to Day 6. July 26th, Bellingham Herald article. Let's look at Plaintiffs' 283, which is already in evidence.

MR. KAVALER: And, ladies and gentlemen, this is in Tab 6 of your notebook.

01:49:40 Copy for counsel.

BY MR. KAVALER:

Q. A copy for you, Professor.

(Document tendered to counsel and the witness.)

BY MR. KAVALER:

01:49:49 Q. This is the article that underlies Professor Fischel's sixth disclosure date, correct?

A. That's correct.

Q. Okay.

And let's see what it says. Look at page ending in 01:50:00 077 at the top: "But this week, Hayden said an internal company probe of the complaints had uncovered some serious problems."

Do you see that? She's talking about the Bellingham office?

01:50:13 A. Yes.

Q. "Those investigations did, indeed, show there were some customers whom we believe had legitimate confusion on the interest rate of their loans."

Do you see that?

01:50:23 A. Yes, I do.

Q. All right.

And he picked this article for his sixth disclosure date because he said this information caused inflation to be removed from Household's stock price?

01:50:33 A. Yes.

Q. All right.

And did you analyze this disclosure, as well?

A. I did.

Q. Did you identify a previous article which contained the
01:50:43 same information?

A. Yes, I did.

Q. Let me show you Plaintiffs' Exhibit 1446, which is in evidence.

MR. KAVALER: A copy for counsel.

BY MR. KAVALER:

Q. A copy for you, Professor.

(Document tendered to counsel and the witness.)

BY MR. KAVALER:

Q. The date Professor Fischel has here for Item 6 is July
01:51:07 26th, 2002.

What is the date for Plaintiffs' Exhibit 1446?

A. It is May 31, 2002.

Q. Is that earlier?

A. It is earlier than July 26th, 2002.

01:51:20 MR. KAVALER: Ladies and gentlemen, this document appears at Tab 6 in your binder.

Is that right? Yes.

Behind the blue subdivider at Tab 6.

BY MR. KAVALER:

01:51:37 Q. And if you look at the second page of this document, Professor, it says, in the sixth and seventh paragraphs, "'Some customers in Bellingham may, indeed, have been justified in their confusion about the rate of their loan,' she said. Ms. Hayden said Household took full and prompt
01:51:55 responsibility."

Do you see that?

A. Yes.

Q. What is the significance of the fact that you found a May 31 article which contains --

01:52:03 MR. KAVALER: Withdrawn.

BY MR. KAVALER:

Q. Do you view the information disclosed in the May 31 article to be identical to the information contained in the July 26th article?

01:52:10 A. Yes, I do.

Q. What is the significance of the fact that you found an article dated May 31, which contains the same article as the -- same information as the -- article dated July 26, which Professor Fischel counts as his sixth disclosure date?

01:52:26 A. Once again, Professor Fischel made the mistake of counting old information as news and a corrective disclosure.

Q. Did you prepare a demonstrative that illustrates this point?

A. Yes.

01:52:39 MR. KAVALER: Can we have 559-14, please.

BY MR. KAVALER:

Q. What does this show us, Professor?

A. On the right is the Bellingham Herald article that Professor Fischel cited as a corrective disclosure. On the 01:52:55 left is the American Banker article we just reviewed dated May 31, 2002, some two months earlier which had the same information.

Q. Based on your testimony, Professor, is it possible for Professor Fischel to have correctly included as his sixth 01:53:11 disclosure date July 26th, 2002?

A. No. He made a mistake.
Q. I'll cross this one off.
Okay with you?
A. Yes.
01:53:24 Q. Okay.
Let's go to the next date, Day 7. This is -- Professor Fischel's entry reads, "8-14-02 Financial Restatement."
You know what that's about?
01:53:39 A. Yes.
Q. And he picked this one for his seventh disclosure date because he said it revealed information to the market causing inflation to be removed from Household's stock price?
A. That is correct.
01:53:50 Q. Did you analyze this disclosure date, as well?
A. Yes, I did.
Q. Did you determine whether the restatement significantly affected Household's stock price?
A. Yes, I did determine.
01:54:00 Q. What did you conclude?
A. This event is a little complicated.
Q. Unlike the rest of your testimony.
(Laughter.)
BY THE WITNESS:
01:54:13 A. Household announced a restatement of its earnings due to

some credit card-related amortization items on August 14, 2002, and the stock, indeed, opened significantly lower. Throughout the day, there was analyst commentary indicating that this was a technical accounting matter that affected 01:54:49 different -- that reflected difference of opinion between Household's old auditor and Household's new auditor; did not indicate any malfeasance on part of Household; that the amounts involved were small relative to Household's balance sheet and income; and, in any case, this did not involve any 01:55:16 cash implications.

And a fundamental principle of finance is that in an efficient market, accounting changes that do not involve cash flow differences, the market looks through, does not react to.

And as this commentary hit the market during the day 01:55:38 on August 14th and continued after the closing hours on August 14th and into August 15th, Household's stock price continued to recover. On August 14th, it closed up from where it opened or relative to previous day's close by 29 cents. So, it hadn't declined by the end of the day on August 14th. And 01:56:03 August 15th, it went up and, if I recall correctly, significantly so, according to Professor Fischel's event study.

In any case, when you add August 14th and August 15th, the period over which market absorbed this news, the 01:56:21 market did not react negatively to this news at all, and it was not significant by anybody's event study.

Q. Do you have a demonstrative that illustrates what you just said, Professor?

A. Yes, I do.

01:56:35 MR. KAVALER: Can we see 559-16, please.

BY MR. KAVALER:

Q. What are we looking at here, Professor?

A. Professor Fischel focuses on Household's stock price reaction on August 14th, which he says is significantly 01:56:51 negative, even though in absolute terms, Household's stock price increased that day.

But what I indicate is when you look at the two-day period of August 14th and August 15th -- and I believe I recall Professor Fischel testifying here on the stand that 01:57:10 this was a controversial day, where there was a lot of analyst commentary. When you look at the totality of analyst commentary and the market understanding what this complicated accounting issue was, over those two dates, even in Professor Fischel's own event study, nothing happened. There was no 01:57:28 significant decline in Household's stock price after adjusting for market and the industry.

Q. Now, Professor, in the last few examples, you've always pointed to things being virtually immediately absorbed by the market, and here you're telling us it took two separate days 01:57:42 for the market to fully understand this. How do you reconcile those two opinions?

A. Well, I think they are perfectly consistent. It's a facts-and-circumstances issue, and that's why you need some expertise to evaluate the results of an event study.

01:57:57 Here, there must have been at least a dozen analyst reports that were received over August 14th and August 15th. And we have to remember the environment and the period over which this restatement was announced. This was in the middle of 2002. And ever since Enron's implosion on August 3rd --

01:58:22 which is Professor Fischel's Barron's date -- a lot of analysts said that a mere suggestion that some company's accounting may be questionable would oftentimes elicit an immediate negative reaction on part of the market that was -- that had heightened sensitivity after Enron to accounting-

01:58:43 related issues.

And it took a lot of back-and-forth between analysts to flush out what this restatement was about for the market to realize this was not cash flow relevant. This was not significant. This was simply a technical accounting matter

01:58:59 where two auditors disagreed. And, therefore, I believe it's appropriate in an instance like this to look at a two-day price reaction.

Q. Now, Professor, you mentioned numerous analyst reports. We've all seen those before. So, I won't waste everyone's

01:59:13 time showing them to you, again. But you've seen them.

They're all in the record. You know they're exhibits in this case?

A. Yes, I'm familiar with that.

Q. Okay.

01:59:20 So, let's go back to Professor Fischel's demonstrative, Plaintiffs' Demonstrative 150 here.

So, in your opinion, is Professor Fischel right in counting as his seventh disclosure date which caused inflation to come out of the price of Household stock August 14th, 2002?

01:59:38 A. No, he is not.

Q. So, should I cross it off the list?

A. Yes.

Q. Let's to the eighth date. This is August 16, the Forbes article. August 16 of 2002.

01:59:56 Are you familiar with that article?

A. Yes, I am.

MR. KAVALER: Give me a second here.

(Brief pause.)

BY MR. KAVALER:

02:00:42 Q. Notwithstanding what I just told you, I do need to show you one analyst report to -- from that period.

MR. KAVALER: Counsel, Defendants' 566.

BY MR. KAVALER:

Q. And one for you, Professor Bajaj.

(Document tendered to counsel and the witness.)

BY MR. KAVALER:

Q. Is this one of the analyst reports you were talking about which discussed the financial restatement?

A. Yes.

02:00:56 Q. Did you rely on this in coming to your opinion in this case?

A. Yes.

MR. KAVALER: Your Honor, I offer Defendants' 566, subject to the same limiting instruction.

02:01:07 THE COURT: Admitted.

(Defendant's Exhibit No. 566 received in evidence.)

MR. KAVALER: Ladies and gentlemen, that's at Tab 7 in your binder.

BY MR. KAVALER:

02:01:12 Q. I'm not going to spend time going through it with you, though, Professor.

Let me also show you Plaintiffs' 69.

MR. KAVALER: Copy for counsel.

This is already in evidence.

BY MR. KAVALER:

Q. A copy for you, Professor Bajaj.

(Document tendered to counsel and the witness.)

BY MR. KAVALER:

Q. Is this another document related to the -- I think I'm
02:01:42 ahead of myself. Give me a second here.

(Brief pause.)

MR. KAVALER: Okay. I'm slightly ahead of myself.

BY MR. KAVALER:

Q. So, we're up to 8, the Forbes "Home Wrecker" article.

02:02:03 Let's look at Plaintiffs' 69, which is in evidence.

MR. KAVALER: And that's Tab 8 in the jury's binder.

BY MR. KAVALER:

Q. Does this attach the Forbes "Home Wrecker" article, Professor?

02:02:20 A. Yes.

Q. Okay.

And this article is what Professor Fischel chose as Item 8 on his list?

A. Yes.

02:02:32 Q. If you go to Page 363 in the middle of the page, it says, "In July, Forbes has learned authorities from more than a dozen states descended on Household to demand refunds and reforms."

Do you see that?

02:02:51 A. Yes, I do.

Q. And Professor Fischel picked this information for his eighth disclosure date, claiming it revealed information to the market causing inflation to be removed from Household's stock price; is that right?

02:03:04 A. That's correct.

Q. Did you analyze this disclosure, as well?

A. I did.

Q. Did you identify a prior disclosure with similar information?

02:03:12 A. Yes, I did.

Q. And what did you find?

A. I found that same information was received by the market, and the market did not react.

Q. Okay.

02:03:23 What was the date of the Forbes article?

A. The date of the e-mail is August 16. The Forbes article has a date of September 2nd. But it's common practice for magazines like Forbes and Business Week to hit the newsstand prior to the date indicated on that addition. And the e-mail 02:03:54 exchange says that this Forbes article -- this Forbes issue -- will hit the newsstand on Monday, August 19th.

Q. So, the 8-16 date is the date of the e-mail, and that's the date Professor Fischel used on his chart?

A. Yes.

02:04:09 Q. Okay.

Let's look at Defendants' 74.

MR. KAVALER: A copy for counsel.

BY MR. KAVALER:

Q. A copy for you.

02:04:17 (Document tendered to counsel and the witness.)

MR. KAVALER: And this is in evidence.

BY MR. KAVALER:

Q. Is this the earlier disclosure of the same thing that you're looking at -- that you're referring to?

02:04:36 A. Yes.

Q. And this is a transcript of an earnings call that Household held on July 17?

A. Yes.

Q. Remind us what an earnings call is, Professor.

02:04:46 A. Well, every quarter when company announces -- a publicly-traded company announces -- its earnings, it typically issues a press release stating the earnings. Along with that, they host a call where analysts can call in and ask questions. They discuss their results and, then, subsequently
02:05:08 they formally file with the Securities and Exchange Commission a quarterly report presenting results of the quarter formally with the Securities and Exchange Commission.

MR. KAVALER: So, Defendants' Exhibit 74 is in your binder, ladies and gentlemen, behind Tab 8, behind the first
02:05:31 blue subdivider.

BY MR. KAVALER:

Q. Now, turn, if you will, Professor, to the page ending with 491 in Defendants' Exhibit 74, please.

And you see there it says, "On the AGs, obviously,
02:05:51 again, it's a very political issue"?

A. Yes.

Q. Okay.

Does this mean to you that you found an earlier disclosure of the same subject that Professor Fischel cited
02:06:00 the Forbes article for?

A. Yes. And there was a lot of talk in analyst reports and other commentary around this time.

Q. Now, when this was first disclosed or previously disclosed on July 17, 2002, in the analyst call, which is Defendants'
02:06:18 74, did the market react significantly to that?

A. No, it did not.

Q. Based on the opinion you just gave, does August 16, 2002, qualify under Professor Fischel's theory as one of the disclosure dates which caused inflation to come out of the
02:06:46 price of Household stock?

A. No.

Q. Should I cross it off the list?

A. Yes.

Q. Let's turn to the next one. Item No. 9 is August 27, the
02:07:07 KPW Report and the Bellingham Herald.

Let me show you Plaintiffs' 1429, which is in evidence.

MR. KAVALER: And is Tab 9 of your binder, ladies and gentlemen.

02:07:20 Copy for counsel.

BY MR. KAVALER:

Q. A copy for you, Professor.

(Document tendered to counsel and the witness.)

BY THE WITNESS:

02:07:25 A. Thank you.

BY MR. KAVALER:

Q. Look at the first page. This is a -- the Bellingham Herald from August 27, 2002?

A. Yes.

02:07:39 Q. The first page, it says, "A state investigative report on Household Finance Corp. suppressed by court order for more than three months contains a blistering assessment of the mortgage lending giant's mortgage practices."

Do you see that?

02:07:53 A. Yes.

Q. This is what Professor Fischel picked as his ninth disclosure date, saying that it revealed information to the market which caused inflation to be removed from Household's stock price?

02:08:04 A. Yes.

Q. Did you analyze this date, as well?

A. I did.

Q. Did you identify a previous article which contained similar information?

02:08:12 A. Yes.

Q. Let me show you Plaintiffs' Exhibit 1428.

MR. KAVALER: A copy for counsel.

BY MR. KAVALER:

Q. A copy for you, Professor Bajaj.

(Document tendered to counsel and the witness.)

BY MR. KAVALER:

Q. Is this an article that you looked at in forming your opinions that you're testifying here today?

A. Yes, I did.

02:08:35 Q. Testifying to here today.

MR. KAVALER: Your Honor, I offer Plaintiffs' Exhibit 1428, subject to the same limiting instruction.

THE COURT: Admitted.

(Plaintiffs' Exhibit No. 1428 received in evidence.)

02:08:42 MR. KAVALER: And, ladies and gentlemen, this is also in Tab 9 of your binder. It's behind the blue subdivider.

BY MR. KAVALER:

Q. And what is the date on this one, Professor?

A. August 26, 2002.

02:08:56 Q. The day before Professor Fischel's date, right?

A. Yes.

Q. And in what periodical did this appear?

A. This appeared in American Banker.

Q. Look at Page 1. It says, "A controversial -- I think it's

02:09:12 talking about the Washington Department of Financial

Institutions.

"A controversial report on Household International, Inc., alleges that the subprime lender violated federal and state consumer protection laws by failing to make 02:09:23 key disclosures and by using sales tactics intended to mislead, misdirect or confuse the borrower."

Do you see that?

A. Yes, I do.

Q. Let me show you Plaintiffs' Exhibit 284.

02:09:45 MR. KAVALER: Copy for counsel.

BY MR. KAVALER:

Q. A copy for you, Professor.

(Document tendered to counsel and the witness.)

BY MR. KAVALER:

02:09:50 Q. Is this another document that you looked at in formulating your opinions that you're testifying to here today?

A. I did.

MR. KAVALER: Your Honor, I offer Plaintiffs' 286 in evidence, subject to the same limiting instruction.

02:09:59 THE COURT: 286?

MR. KAVALER: 286. I apologize, your Honor. 286.

THE COURT: Admitted.

(Plaintiffs' Exhibit No. 286 received in evidence.)

MR. KAVALER: And, ladies and gentlemen, this is also 02:10:09 in Tab 9 of your binder behind a blue subdivider.

BY MR. KAVALER:

Q. And this one is dated when, Professor?

A. This is dated May 30th, 2002.

Q. And what major publication is this from?

02:10:25 A. This is from the New York Post.

Q. And it says -- page ending 737, which is the first page -- "I don't know what's in that -- " referring to the Washington report " -- but I bet it isn't complimentary of Household."

Do you see that?

02:10:39 A. Yes, I do.

Q. What is the significance of the --

MR. KAVALER: Withdrawn.

BY MR. KAVALER:

Q. Do these disclosures disclose the same information as the 02:10:46 articles that Professor Fischel is citing as his Item No. 9?

A. Yes.

Q. What is the significance of the fact that you found earlier disclosures containing the same information as Professor Fischel is using for his ninth disclosure day?

02:10:59 A. Once again, Professor Fischel mistakenly considers old information as news.

Q. He made another mistake?

A. It appears so.

Q. Okay.

02:11:10 Do you have a demonstrative that shows this point?

A. Yes, I do.

Q. Let's look at 559-20.

Please tell us what we're looking at here, Professor.

A. What we're seeing is, on the right-hand side, the
02:11:25 publication that Professor Fischel cites for his August 27th purported disclosure date. That's the Bellingham Herald article. And on the left-hand side, we see that the same information had previously been revealed by American Banker on the previous day and anticipated by New York Post several
02:11:54 months earlier.

Q. What is the significance of these facts with regard to the viability of Professor Fischel's inclusion of August 27, 2002, as his ninth disclosure date of a date which supposedly took inflation out of the price of Household stock?

02:12:14 A. Well, I don't believe that conclusion is justified.

Q. Should I strike this from the list?

A. Yes.

Q. Let's look at his 10th day. Let me show you Exhibit 1431, which is in evidence.

02:12:37 MR. KAVALER: A copy for counsel.

BY MR. KAVALER:

Q. A copy for you, Professor.

(Document tendered to counsel and the witness.)

BY MR. KAVALER:

02:12:44 Q. This is the Bernstein report that Professor Fischel talked about?

A. Yes.

MR. KAVALER: Ladies and gentlemen, this is Tab 10 of your binder.

BY MR. KAVALER:

Q. Look at Page 1, the second bullet. It says, "We believe that as a sales practice reform" -- "We believe that as a sales practice reform takes hold, Household will need to reset its long-term EPS growth target of 13 to 15 percent to 10 to
02:13:10 12 percent."

Do you see that?

A. Yes, I do.

Q. Professor Fischel picked this date -- September 3, 2002 -- as his 10th disclosure date, claiming that it revealed
02:13:23 information to the market, causing inflation to be removed from the price of Household stock; is that correct?

A. That's correct.

Q. Did you analyze this date -- or this disclosure -- as well?

02:13:32 A. I did.

Q. Did you identify a previous report with similar information?

A. Yes, I did.

Q. Let me show you Plaintiffs' Exhibit 1412.

02:13:44 MR. KAVALER: A copy for counsel.

BY MR. KAVALER:

Q. And a copy for you, Professor Bajaj.

(Document tendered to counsel and the witness.)

BY MR. KAVALER:

02:13:50 Q. Professor Bajaj, is this one of the documents that you found?

A. Yes, it is.

Q. Did you rely on this in forming your opinion that you're testifying about here today?

02:13:57 A. Yes, I did.

MR. KAVALER: Your Honor, I offer Plaintiffs' 1412, subject to the same limiting instruction.

THE COURT: Admitted.

(Plaintiffs' Exhibit No. 1412 received in evidence.)

02:14:05 MR. KAVALER: Ladies and gentlemen, this is in your binder at Tab 10, behind the first blue subdivider.

BY MR. KAVALER:

Q. All right.

Professor, what is the date of this disclosure in

02:14:18 Exhibit -- Plaintiffs' -- 1412?

A. It is August 12, 2002, and this report is time-stamped before the market opened on August 12th.

Q. Okay.

And Professor Fischel's 10th disclosure date is

02:14:31 September 3?

A. Yes.

Q. And do you see where it says, "We are lowering our target price to $53 from $63"?

A. Yes.

02:14:55 Q. "We're also lowering our long-term growth rate to 10 to 12 percent from 14 percent"?

A. Yes.

Q. "As we believe Household's loan growth rate -- " I'm sorry -- "loan growth will slow, as lending restrictions gradually take hold." 02:15:06

Do you see that?

A. Yes, I do.

Q. Is it your opinion that that is substantially the same as the information contained by Professor Fischel's 10th disclosure date item in the Bernstein report? 02:15:18

A. Yes, it is.

Q. And this one is dated August 12; Plaintiffs' 1412 is dated August 12; and, the Bernstein report is dated September 3, correct?

02:15:28 A. That is correct.

Q. What is the significance of these facts, in your opinion?

A. Once again, Professor Fischel has mistaken old information as news on September 3rd.

Q. Did you prepare a demonstrative reflecting this example?

02:15:41 A. Yes, I have.

MR. KAVALER: Can we have DDX 559-24, please?

(Brief pause.)

BY MR. KAVALER:

Q. Tell us what this says, Professor.

02:15:50 A. Again, we see on the right-hand side the Bernstein Research Report that Professor Fischel considered a corrective disclosure; but, we see the same information being received by the market on at least two earlier dates: August 12th, 2002, Deutsche Banc Report that we just discussed, as well as a 02:16:14 Morgan Stanley report that was issued even earlier on July 31, 2002.

Q. Let me show you that one. I think I missed Plaintiffs' Exhibit 1241.

MR. KAVALER: A copy for counsel and a copy for you.

(Document tendered to the witness and counsel.)

BY MR. KAVALER:

Q. Is this the Morgan Stanley report you're talking about?

A. Yes.

MR. KAVALER: Your Honor, if I didn't previously 02:16:30 offer it, I offer Plaintiffs' 1241, subject to the same limiting instruction, sir.

THE COURT: It will be admitted.

(Plaintiffs' Exhibit No. 1241 received in evidence.)

MR. KAVALER: And that appears, ladies and gentlemen, 02:16:41 in your binder at Tab 10, behind the next blue subdivider.

BY MR. KAVALER:

Q. I'm sorry, Professor, did you finish with the demonstrative?

A. Yes.

02:16:51 Q. Okay.

On the basis of the testimony you've just given, is there any basis for Professor Fischel having included the Bernstein report on September 3, 2002, in his list of disclosure dates, or dates on which disclosure caused inflation to come out of the price of Household stock? 02:17:09

A. No, that's not justified.

Q. Should I cross this (indicating) off the list?

A. Yes.

Q. The next one is No. 11. It's the CIBC report on September 23, 2002. 02:17:28

Let me show you Exhibit 1435 in evidence.

MR. KAVALER: A copy for counsel and a copy for you, Professor.

(Document tendered to counsel and the witness.)

BY MR. KAVALER:

Q. Is this the CIBC report that Professor Fischel was talking about?

A. Yes, it is.

Q. All right.

02:17:56 Page 2 at the top of Exhibit 1435, it says, "We have lowered our price target for HI from $36 -- to $36 -- from $57, as persistent headline risk should continue to pressure Household's valuation."

And it skips some words.

02:18:16 "Building concerns regarding the company's lending practices, which have been accused of being predatory in nature."

Do you see that language?

A. I do.

02:18:23 Q. Does this report reveal any new information about re-aging?

A. No, it does not.

Q. Now, Professor Fischel picked this information for his 11th disclosure date, saying that it revealed information to 02:18:37 the market, causing inflation to be removed from Household's stock price; is that right?

A. That's correct.

Q. Did you analyze this disclosure, as well?

A. I did.

02:18:45 Q. Did you identify a previous article with similar information?

A. Yes, I did.

Q. All right.

Is one of the articles you're referring to 02:18:53 Defendants' 892 -- one of the disclosures you're referring to

Defendants' 892?

MR. KAVALER: A copy for counsel and a copy for you, Professor.

(Document tendered to counsel and the witness.)

BY THE WITNESS:

A. Yes, it is.

BY MR. KAVALER:

Q. And I believe that's in evidence.

MR. KAVALER: And, ladies and gentlemen, that's at Tab 11 -- it should be at Tab 11 -- of your binder. 02:19:13

Okay. It's not at Tab 11 of your binder. Sorry.

I stand corrected. It is at Tab 11, behind the blue divider. Sorry.

BY MR. KAVALER:

Q. Okay.

And let's look at Page 1, the third bullet. It says, "We are reducing our 12-month price target on HI shares from $41 to $54, to reflect the negative sentiments that have surfaced recently surrounding HI shares specifically, as well as the financial sector in general." 02:20:28

Do you see that?

A. I do.

Q. And, then, the same page, the fifth bullet says, "In our view, the preannouncement by Americredit, ACF yesterday, along with continued concern over potential regulatory action 02:20:39

related to predatory lending, contributed heavily to the weakness."

Do you see that?

A. Yes.

02:20:48 MR. KAVALER: Your Honor, I apologize. I neglected to offer this. I offer Defendants' 892 in evidence --

MR. BURKHOLZ: A limiting instruction.

MR. KAVALER: -- with the same limiting instruction, your Honor.

02:20:56 THE COURT: Admitted.

(Defendants' Exhibit No. 892 received in evidence.)

MR. KAVALER: Sorry about that.

BY MR. KAVALER:

Q. Okay.

02:21:01 What does it mean that you found an earlier article, Professor?

A. Well, it means the material Professor Fischel cited as news, that took inflation out of the stock, was not news at all. It was old information. This was already something that 02:21:23 the public had learned about earlier.

Q. In your opinion, is the information contained in the UBS Warburg Report, dated September 18, which is Defendants' Exhibit 892, substantially the same as the information contained in the CIBC World Markets Report, dated September 02:21:42 22, which is Plaintiffs' Exhibit 1435, which forms the basis for Professor Fischel's 11th entry?

A. Yes.

Q. So, in your opinion, is he justified in claiming the 11th entry -- the September 23, 2002, CIBC report -- as a day on 02:21:58 which a disclosure took inflation out of the price of Household stock?

A. No, he is not justified in doing that.

Q. Should I cross it off the list?

A. Yes.

02:22:08 Q. Let's go to the 12th one.

This is -- Professor Fischel chose the October 4, 2002, Wall Street Journal article. It's Plaintiffs' Exhibit 1375 in evidence.

MR. KAVALER: A copy for counsel and a copy for you, 02:22:41 Professor.

(Document tendered to counsel and the witness.)

BY MR. KAVALER:

Q. What's the date of this article?

A. October 4, 2002.

02:22:52 MR. KAVALER: Ladies and gentlemen, this is Tab 12 in your binder.

BY MR. KAVALER:

Q. And this article states, "Household may be near a settlement with State Attorneys General that could total $350 02:23:07 million to $550 million, according to go a report by Wall

Street analysts."

Do you see that?

A. Yes.

I think you mistakenly said "550." It is 350 to 500
02:23:17 million.

Q. I apologize. I get my 50s wrong.

You are exactly right, 350 million to 500 million.

And he picked this information for his 12th disclosure date, claiming that it revealed information to the
02:23:31 market, causing inflation to be removed from Household's stock price, correct?

A. Yes.

Q. Did you independently analyze this disclosure, as well?

A. I did.

02:23:38 Q. Did you identify a previous article with similar information?

A. Well, actually, this article refers to a previous analyst report as the basis for this information.

Q. Go back three documents to Plaintiffs' 1241, which is the
02:24:00 Morgan Stanley report.

Is this the prior report it's referring back to?

A. No, that's an even earlier report, but I was also mentioning that the Wall Street Journal article is talking about Howard Mason's report that was issued the previous day.

02:24:26 So, there are two older sources, which provide the same information.

Q. Okay.

In any event, if there are two or three or more than that, what is the significance, in your opinion, of the fact
02:24:40 that the article he cites -- the October 4, 2002, Wall Street Journal article -- is not the first public disclosure of this same information?

A. There was no news content to the story. It was old information.

02:24:58 Q. So, then, in your opinion, is he justified in including this item as No. 12 on his list of dates, on which, in his opinion, new information came into the market which caused inflation to come out of the price of Household stock?

A. No, that's not a justified conclusion.

02:25:14 Q. Should I strike this one from the list?

A. Yes, please.

(Brief pause.)

BY MR. KAVALER:

Q. Let's look at No. 13.

02:25:34 Were you here when the professor discussed Household's announcement of its preliminary agreement with the Attorneys General on October 10 and October 11, 2002?

A. Yes.

Q. And he's got one article on the 10th and one on the 11th.

02:25:48 The first one is called, "AG Settlement Rumors" and the second one is "Ag Settlement Announced."

Do you see that?

A. I do.

Q. Let's look at Plaintiffs' 1418 in evidence.

02:26:03 MR. KAVALER: A copy for counsel.

(Document tendered.)

BY MR. KAVALER:

Q. A copy for you, Professor Bajaj.

(Document tendered to the witness.)

BY MR. KAVALER:

Q. Is this one of the articles Professor Fischel relied upon?

A. Yes.

Q. And do you see on Page 1 where it says --

MR. KAVALER: I'm sorry, this is Tab 13 in your
02:26:33 binder, ladies and gentlemen.

BY MR. KAVALER:

Q. Page 1, where it says, "One standout was Household International, which surged more than 25 percent on market talk that it could reach an agreement as soon as Friday, that
02:26:47 would settle investigations by State Attorneys General into its sub-prime lending business."

Do you see that?

A. I do.

Q. And that was on October 11?

02:26:55 A. Yes.

Q. And let me show you Defendants' 684.

MR. KAVALER: A copy to counsel.

(Document tendered to counsel.)

BY MR. KAVALER:

02:27:07 Q. And a copy to you, Professor.

(Document tendered.)

BY MR. KAVALER:

Q. Is this an article you relied upon in coming to your opinions in this case?

02:27:12 A. Yes, I did.

MR. KAVALER: Your Honor, I offer Defendants' 684, subject to the same limiting instruction.

THE COURT: Admitted.

(Defendants' Exhibit No. 684 received in evidence.)

02:27:20 MR. KAVALER: And, ladies and gentlemen, this is also in Tab 13 of your binder, behind the blue subdivider, and it's the last document in your binder.

BY MR. KAVALER:

Q. And this one says on the first page, "Household 02:27:33 International, HI, one of the nation's largest lenders to consumers, with spotty credit histories, agreed to pay up to $484 million to settle allegations of deceptive lending practices to consumers."

Do you see that?

02:27:45 A. I do.

Q. And this is the Wall Street Journal and Dow Jones News Service dated October 11, 2002?

A. Yes, it is.

Q. These are the articles Professor Fischel picked for his
02:27:58 13th and 14th entries here (indicating) --

A. Yes.

Q. -- for days that he included on his list, claiming that it returned the inflation and Household stock price back to zero, right?

02:28:11 A. Yes.

Q. And what did you determine about Professor Fischel's findings with respect to October 10 and 11, 2002?

A. Well, I think the market's reaction to these two dates, which is the largest price reaction ever in Household's
02:28:30 history as a public company, till that point, is very telling about Plaintiffs' claims.

If, indeed, as plaintiffs have claimed, the market finally learned the truth about Household's predatory lending practices, then you would expect that, upon announcement of
02:28:53 this truth, the stock price should go down.

Instead, we have almost seven -- we have almost 33 percent increase in stock price.

No question it was a very significant event. Small differences in event study, et cetera, can't change the fact
02:29:15 that the market reacted very, very significantly upon hearing

of the settlement.

What this evidence tells us, along with all the other analyst reports and everything else we are seeing, is that Household's stock price was weighed down by market's concerns 02:29:38 about regulatory developments; and, when Household alleviated this regulatory risk by settling with the Attorneys General, it paid almost $500 million to buy that peace.

But that's about one dollar a share. And Household's stock price went up over those two days by $7 a share.

02:30:05 The market is reacting to the relief -- that this regulatory headwind has now been alleviated -- and Household can continue to be in business. And its business would not be threatened.

And if you look at the analyst reports that Professor 02:30:21 Fischel has cited in his own reports -- if you look at each and every one of the analyst reports, starting November 15, 2001 -- whenever you see an analyst say, "This is our target price where Household was trading at the time," on average, their target price was 35 percent higher.

02:30:45 What does that tell us? That tells us the market was well aware of the headline risk to Household; the talk that this headline risk was weighing down Household stock price; and, when Household settled with Attorneys General to alleviate this headline risk, its stock price went up by 33 02:31:09 percent.

So, I think plaintiffs have it exactly wrong. There is no evidence that Household's stock price was ever inflated. Analysts thought Household's stock price was weighed down due to headline risk, regulatory developments that were creating 02:31:29 headwind for Household, distracting management, making it difficult for it to be in business; and, when Household did settle these allegations, even though it had to pay a lot of money, the market was relieved and the stock price went up.

The stock was never overvalued. There is absolutely 02:31:48 no evidence -- no economic evidence -- that the stock was overvalued. And truthful disclosures took inflation out of the stock, which is the basis of Professor Fischel's inflation quantification.

Q. Did you prepare a demonstrative to illustrate this point, 02:32:06 Professor?

A. I did.

Q. Let's look at DDX 559-30.

And what does this chart show us, Professor?

A. Well, this shows that market evidence on October 10th and 02:32:22 11th is totally inconsistent with plaintiffs' fraud claims in this case.

Professor Fischel has it wrong. Economic evidence shows us the opposite of what he believes it shows us.

Q. Another mistake?

02:32:42 A. I guess so.

Q. Let's look back at Plaintiffs' Demonstrative 150.

On the basis of the testimony you've just given, are entries 13 and 14 on this chart dates which probably should be included on a listing of days on which the events Professor 02:33:02 Fischel describes took inflation out of the price of Household stock?

A. No.

Q. Can I cross them off?

A. You can.

(Brief pause.)

BY MR. KAVALER:

Q. Now, Professor, we've just walk together through all 14 dates that Professor Fischel identified and we saw various issues with each of them.

02:33:37 Did you prepare a demonstrative that visually depicts those issues?

A. Yes.

MR. KAVALER: Let's look at DDX 705-01.

BY MR. KAVALER:

02:33:49 Q. Tell us what we're looking at here, Professor.

A. This is a chart I prepared where each of Professor Fischel's 14 purported disclosure dates are shown by Xs on the chart.

So, on the horizontal axis, you have calendar date;
02:34:09 and, you will see all 14 Xs appear in period November 15,

2001, forward.

And on the vertical axis is Professor Fischel's measure of abnormal return.

So, if Professor Fischel claimed that a particular
02:34:36 disclosure removed inflation from the stock, that "X" will be below the zero line. That's the abnormal return on that date was negative; namely, stock price declined after adjusting for market and industry.

And you'll see a lot of dots in the negative column
02:34:59 because, according to Professor Fischel, inflation was coming out of the stock starting November 15, punctuated by a few dates -- four dates -- when he said inflation went in.

There's the Aldinger Goldman Sachs conference date that is above zero on December 5. Then there is the
02:35:22 announcement of Best Practices date on February 27, 2002. That is shown above zero.

And the last two Xs that are shown above zero are the final two dates in the relevant period when market learned about Attorneys General settlement, and the stock price
02:35:40 exploded positively.

Q. Do you have any further example of your analysis of Professor Fischel's dates?

A. Yes. We discussed how each and every one of these dates, for the most part, represented -- or I shouldn't say "each and
02:35:59 every." Most of these dates represented stale information.

Q. All right.

MR. KAVALER: Can you go to 705-03?

(Brief pause.)

BY MR. KAVALER:

02:36:09 Q. What is this showing us?

A. So, what this shows is the effect of Professor Fischel picking the wrong dates.

If, instead of picking July 22, 2002, as his disclosure date, he had picked the earlier date when market 02:36:26 learned of this information. That would have been May 31, 2002.

And you'll see in the red dot there (indicating), May 31, 2002, is closer to the zero line.

In other words, on May 31, 2002, even in Professor 02:36:43 Fischel's own event study, the abnormal return would have been smaller in magnitude; and, hence, not significant; and, hence, it would not qualify as a disclosure date. Because, remember, his disclosure dates have to be statistically significant, according to his event study; and, May 31, 2002, is close 02:37:03 enough to zero, that it won't even show up if he had found the right date.

It wouldn't be considered a disclosure at all.

Q. Let's look at another day.

MR. KAVALER: How about 705-04.

(Brief pause.)

BY MR. KAVALER:

Q. What does this show us?

A. Once again, if, instead of picking December 3rd as his disclosure date, he had picked the earlier October 12th
02:37:24 disclosure date.

You will see the market reaction was less negative and it wouldn't have been significant; and, if would, therefore, not even be a disclosure date, according to Professor Fischel.

02:37:38 Q. Do you have a demonstrative that shows how many of his days were stale?

A. Yes.

MR. KAVALER: Let's look at 705-05.

(Brief pause.)

BY MR. KAVALER:

Q. What does this show us?

A. This shows earlier dates that we talked about, corresponding to each and every one of the 14 disclosure dates, when applicable, accept for the last two, of course.

02:37:59 And what you will see is instead of these 14 corrective disclosure in the aggregate having large negative numbers, that add up to a larger amount than the positive numbers, then maybe we could refer to the chart we've been discussing.

02:38:19 You see, on the 14 dates put together, according to

Professor Fischel, a total of $16.33 of inflation came out.

But $8.37 went in, and that's why he concludes "net 7.97" came out.

Well, when you see the negative dates moving up 02:38:39 towards zero, the net result is if you do the math, there was no inflation, according to his own methodology, if he had not chosen stale dates.

Q. Now, Professor, during the period when Professor Fischel claims inflation was being removed from the price of Household 02:39:08 stock, did most analysts that you looked at have a view as to whether Household's stock was overpriced or was being weighed down by headline risk?

A. You know, all the analyst reports -- I was keeping track, as we were discussing them today; and, I know many more have 02:39:25 been discussed over the course of last couple of weeks -- I would invite anybody to do within exercise of looking at these analyst reports; and, they sometimes have a target price and they indicate what the current price is.

Even reports that are critical -- that Professor 02:39:45 Fischel says removed inflation from the stock -- you will see a target price significantly higher than where the stock was trading. And these target prices are for 12 to 15-month period, on average.

So, analysts on average, if you do the math, take all 02:40:02 the analyst reports that Professor Fischel himself has cited

in his report, starting November 15th, 2001. On average, they
conclude Household stock's target price should be 35 percent
higher than where it was trading at the time.
And we know what happened on the last two dates. The
02:40:25 stock went up by about 33 percent.
The analysts did not consider, for the most part --
other than Montana Capital and Mr. Ryan, and a few
exceptions -- most analysts in the analyst community thought
Household was being unfairly punished in this political
02:40:48 environment, and its stock was being weighed down by headline
risk, which Household removed by settling with the Attorneys
General, creating a big pop in the stock price.
Q. Professor, in your research, aside from the 14 dates that
we looked at here on Plaintiffs' Demonstrative 150, all of
02:41:08 which turn out to be improperly counted, did you find any
initial dates that, in your opinion, Professor Fischel should
have considered?
A. Yes.
Q. How many?
02:41:17 A. Hundreds.
Q. What was your test for a date that he you should have
considered?
A. I looked for same kind of news items that Professor
Fischel said, after November 15th, resulted in the market
02:41:33 learning the truth about Household's fraud, I looked at my

event study; I search for key words, such as "predatory lending," and I looked at the analyst reports that either he cited in his report or I cited in mine, and I gave a comprehensive list of all such dates.

02:41:51 And, if I recall correctly, there are 166 of those dates. And those dates start well before November 15, 2001, which is very significant in Professor Fischel's methodology.

If you recall, his estimation window, when he estimated his regression between 11-15-2000 and 11-15-2001 --
02:42:20 and we talked about this morning -- his justification for that estimation window was he didn't find any corrective disclosures before November 15, 2001.

I found over a hundred disclosures before November 15, 2001.

02:42:39 And, you know, as I said in my report, if you pick an estimation window that precedes those disclosure dates, according to his methodology, using his own methodology, even keeping his stale dates, there will be zero inflation. You cannot show a single cent of inflation.

02:42:59 Q. Did you prepare a demonstrative to illustrate all of the dates that Professor Fischel failed to include?

A. Yes, I did.

MR. KAVALER: Can we see 799-01, please?

(Document tendered.)

02:43:13 BY MR. KAVALER:

Q. Explain to us what this shows us, Professor.

A. Red dots are dates and stories that Professor Fischel did not analyze.

BlueCrosses are his 14 purported disclosure dates.

02:43:31 Including in red dots are 27 dates that Professor Fischel discussed in his report, but did not analyze quantitatively.

And when you look at the evidence, it's very clear, so-called predatory lending and other practices were no secret 02:43:50 to the market. That was part of being in this business.

It's true that headline risk grew over this period, you'll see greater density of these stories as we go later towards the period, because regulators were becoming more and more concerned. Headline risk was increasing.

02:44:12 But it's not true that the market did not know of headline risk. There were shareholder resolutions offered at Household's annual meetings, saying that maybe we should look senior management's compensation to managing headline risk, managing risk of predatory lending acquisitions. What greater 02:44:38 proof there can be that investors knew about this risk of investing in the stock.

Q. All right, Professor Bajaj, we're almost done. Let me just ask you can couple more questions.

You told us a few minutes ago the stock went up, not 02:44:56 down, on each of the three dates the plaintiffs say marked the end of one of their major pieces of the case: Predatory lending, re-aging and restatement.

If the public learned it had been deceived by a fraud, would you expect the price to go up or down?

02:45:11 A. Down.

Q. We're talking about the price now -- the price of the market -- not just inflation.

You'd expect the price to go down?

A. Yes.

02:45:18 Q. This is ordinary common sense, something I can see, right there on the New York Stock Exchange closing price, without all this regression analysis stuff?

A. Other things being equal, yes.

Q. Okay.

02:45:28 And, yet, we saw -- we've seen throughout this -- that on each of these dates the price of the stock went up?

A. That's correct.

Q. Have you prepared a demonstrative that examines this phenomenon?

02:45:43 A. Yes, I have.

Q. Let's look at DDX 230-01.

What is this day?

A. This shows you how Household's stock price -- what Household's stock price was around April 9th, 2002, when

02:46:05 Household presented detailed statistics on its re-aging practices.

And you'll see, from the day before to the day after, stock price went up.

Q. All right.

02:46:17 Let's look at DDX 230.02.

This is the date of the restatement.

What does this one show us?

A. Well, August 14th was the restatement date.

You will see from the day before, the stock price was 02:46:32 37.80.

It closed slightly up by 29 cents on the date of the -- on the date of the restatement -- and it closed up to 39.60, the day after the restatement, as analyst commentary had continued and the market absorbed this information.

02:46:50 Q. And let's look at DDX 2230-03.

This is the Attorney General settlement. What does this show us?

A. This shows you that when Household settled with Attorneys General, its stock price went up from $21 a share to $28.20 a 02:47:09 share. That's seven times the increase on a per share basis that the settlement represented in payments by Household.

Q. And did you prepare a demonstrative summarizing these three points?

A. Yes, I did.

02:47:22 Q. Let's look at DDX 577-04.

Tell us what this shows us?

A. Well, it summarizes what we've been discussing, on April 9th, when Household -- according to the plaintiffs -- disclosed its re-aging policies at Financial Relations 02:47:43 Conference. The stock price went up.

On August 14th, when Household issued its restatement, the stock price went up -- and August 10th and 11th, when Household settled with Attorneys General -- the stock price went up.

02:48:00 Q. Professor Bajaj, is any of the economic evidence in this case in any way consistent with fraud?

A. No.

MR. KAVALER: No further questions, your Honor.

THE COURT: I think it's a good time to take our 02:48:14 break for the afternoon.

Take a 15-minute break, ladies and gentlemen.

(Jury out.)

(Brief recess.)

(Proceedings heard in open court:)

03:11:38 THE COURT: Ready?

MR. BURKHOLZ: All set.

(Jury in at 3:13 p.m.)

CROSS-EXAMINATION

BY MR. BURKHOLZ:

03:13:36 Q. Sir, you criticized Professor Fischel on market efficiency and the 14 dates that he selected saying that the information was stale, yet you were never cited like Professor Fischel was on market efficiency in the stock market by the U.S. Supreme Court in the seminal case of Basic v. Levinson, were you, sir?

03:13:57 Have you ever been cited by the U.S. Supreme Court?

A. No, sir, I haven't.

Q. Thank you. It's a "yes" or "no."

Have you ever been cited by the U.S. Supreme Court with respect to market efficiency?

03:14:05 A. No, sir.

Q. Now, Professor Fischel, plaintiffs' expert, who the defendants' counsel refers to as "wrote the book," teaches market efficiency and how you calculate inflation here at the University of Chicago and Northwestern University and cited by

03:14:22 the U.S. Supreme Court.

He is wrong in all his opinions in this case; isn't that true, sir? Isn't that your position, that he is wrong, right?

A. That is the market evidence and that is my opinion.

03:14:32 Q. That is your opinion, right, sir? He is wrong on all of his opinions, right? Yes or no?

A. Well, Counsel, as I --

Q. Is he right or wrong, sir? You can't answer that question?

03:14:42 A. Well, I testified he is wrong.

Q. Right. Okay.

Now, you will agree with me, won't you, sir, that you don't need a stock price increase on the day a company makes a false statement in order for inflation to come into that
03:14:59 company's stock price? Do you agree with that?

A. Yes, I do.

Q. Thank you.

In fact, in the Computer Associates case, another case in which you were an expert, you gave the opinion that
03:15:11 you don't have to measure a stock price increase in order to estimate inflation, right?

You did that in that case, right?

A. Well, what I did in that case was estimate inflation on the way in by looking at other companies --

03:15:30 Q. Sir, that wasn't my question, sir.

My question was, in that case you didn't measure the stock price increase in order to estimate inflation, right? You didn't do that, right?

A. Counsel, if I may answer?

03:15:42 Q. It's a "yes" or "no," sir. Did you do it?

I asked you the question at your deposition and you answered it.

A. Well, I think a "yes" or "no" answer would be misleading, so --

03:15:51 Q. I don't want you to mislead anybody here.

MR. BURKHOLZ: I will withdraw the question, your Honor.

BY MR. BURKHOLZ:

Q. Now, you will agree with me, sir, that a company does not
03:16:00 need to admit it committed fraud for inflation to come out of the stock price?

A. As a general proposition that could be true, yes.

Q. Okay.

In fact, there are a number of ways in which
03:16:12 inflation can come out of a company's stock price. It can come out through a company admission. It can come out from information from third parties, such as analysts or the media. Isn't that correct, sir?

A. Not necessarily.

03:16:24 Q. Okay. Sir, your deposition was taken in this case, right?

A. Yes.

Q. And you gave an oath to tell the truth in the deposition, right?

A. Of course I did.

03:16:32 Q. Okay. Let's look at your deposition at Page 43, Lines 5 through 21.

(Said videotape was played in open court.)

BY MR. BURKHOLZ:

Q. That was your testimony that day, right, sir?

03:17:46 MR. KAVALER: I'm going to move to strike. That's not proper. He said the same thing on the stand that he said in his deposition.

THE COURT: I will allow it.

MR. BURKHOLZ: Thank you, your Honor.

03:17:52 BY MR. BURKHOLZ:

Q. Now, it's your opinion in this case that even if this jury finds that Household made false statements, there is still zero inflation, right, sir? That is your opinion, right?

A. That mischaracterizes my opinion.

03:18:08 MR. BURKHOLZ: Can we see the deposition at Page 142, Lines 18 to 25, please.

(Said videotape was played in open court.)

BY MR. BURKHOLZ:

Q. That was your testimony on that day, right, sir?

03:18:49 A. That is correct.

Q. Thank you.

Now, did you read Mr. Aldinger's testimony in this case where he admitted that Household's 2001 10-K was materially false and misleading? Did you read that testimony?

03:19:06 A. I read through his testimony, and I do recall that interchange even though I did not carefully study his testimony.

Q. Well, let me give you that page so you can refresh your recollection.

03:19:19 (Document tendered.)

BY MR. BURKHOLZ:

Q. Let me read from the transcript of April 22nd, 2009, Page 3441.

"Q. Okay. You know that this was materially false
03:19:40 and misleading, don't you?"

And this is a discussion of the 10-K, 2001 10-K.

"A. I understand that it was incorrect at the time.

"Q. My question is, sir, you understand that this is materially false and misleading, correct?

03:19:54 "A. You could say that.

"Q. No, sir. I am asking you a question.

"Do you understand that this is materially false and misleading?

"A. I will accept that characterization.

03:20:04 "Q. Is that a 'yes,' sir?

"A. Yes."

Did I read that correctly?

A. Yes, you did read the transcript correctly.

Q. And it's still your opinion that there is no inflation in
03:20:15 this case, correct?

A. I am not aware of any economic evidence --

Q. It's a simple question.

There is no inflation in this case, right? That's your opinion, right?

03:20:24 Even after Mr. Aldinger admitted that the 2001 10-K was false, it's still your opinion that there is zero inflation in this case, right, sir?

You can answer that "yes" or "no," can't you?

A. It is my opinion that there is no economic evidence in
03:20:40 this case that shows that there was any inflation in Household's stock price at any time during the relevant period.

Q. And isn't it the jury's determination -- isn't it their role to decide whether or not any of Household's statements
03:20:55 were false and misleading in this case?

You agree with me on that, don't you?

A. Yes, I do.

Q. Thank you.

Let's talk about the index that you created, the six
03:21:07 companies that you put together.

Household was a Fortune 500 company during the time period that we were discussing here, right, 1999 to 2002?

A. Yes.

And I did not put those companies together. I
03:21:19 selected those companies, yes.

Q. Right. Okay. You selected them.

So Household is a Fortune 500 company.

Let's look at one of the companies that you selected. It's called CashAmerica. This is how you described it in your
03:21:34 expert report.

A. Okay.

Q. I don't want to misrepresent it, so I am going to give you a copy of your report.

(Document tendered.)

03:21:42 BY THE WITNESS:

A. Thank you, Counsel.

BY MR. BURKHOLZ:

Q. You refer to CashAmerica as a specialty financial services enterprise principally engaged in acquiring, establishing, and 03:21:57 operating pawn shops in 16 states, in the United Kingdom, and Sweden. The company also provides check-cashing services in 21 states.

I got that right, didn't I, sir, in the description?

A. You paraphrased it a little bit, but it is substantially 03:22:16 correct, yes.

Q. Thank you.

Household didn't own any pawn shops or check-cashing services, did they?

A. Not to my knowledge.

03:22:22 Q. Thank you.

Now, Household identified the S&P financials and the S&P 500 in their SEC filings, right, as their peer group to compare themselves to?

A. They did present stock returns on Household and that on 03:22:54 S&P 500 portfolio and S&P financial portfolio.

analyst who's afraid to talk because his company has an investment banking relationship with Household and they want to get fees from Household for doing the banking.

Here we have the same situation with Mr. Posner.

03:50:04 And you considered that in forming your opinion, didn't you, sir?

A. And you didn't want me to explain.

Q. No. You considered that in forming your opinion, didn't you?

03:50:11 A. Yes, I did.

Q. Okay. Thank you.

Now, you reject Professor Fischel's leakage model in this case, don't you?

A. Yes, I do.

03:50:40 Q. Okay. And Professor Fischel's opinion is that his leakage model is the most appropriate way to estimate damages in this case, right? That's your understanding of his opinion, right?

A. I heard him say that he preferred his leakage model, yes.

Q. Now, you, sir, in fact, in your expert report, Page 58,

03:51:00 referred to the fact that the Washington DFI report had leaked out at four various times during the summer of 2002, right, sir?

A. Where are you referring to in my expert report?

Q. Page 58.

03:51:39 A. I see that, yes.

Q. So there was evidence of leakage in this case on this Washington DFI report which basically said Household was committing predatory lending practices in Washington and around the country. And you saw evidence of that leakage,
03:51:56 didn't you, sir? You put it in your report?

A. And as I testified this morning, there is a proper way to analyze that leakage.

Q. Okay. So your quarrel with Professor Fischel is over the way that he quantified the leakage, right? That's really your
03:52:09 qualm, right?

A. I have no quarrel with Professor Fischel. I like the man. I am simply saying I have a difference of opinion with him on how to analyze this evidence of leakage.

Q. Okay. Now let's talk about the October 10th and 11th
03:52:25 dates, okay?

Household gained about 3 billion in value on that day because the stock went from $22 to about $28, right, sir? About $6 a share, right?

A. I think it's about $7 a share, and it's about 3.3 billion,
03:52:43 but give or take, you are about right.

Q. Now, Household stock had lost somewhere between 16 and $18 billion from November 15th, 2001, to October 10th, 2002, right, sir? Somewhere in that area?

A. I didn't do the calculation, but I can take your
03:53:02 representation for it.

analyst, as well as Household itself, said what I said, which
is one of the bases for my opinion.
The same thing is true for the Barron's article on
December 3rd and many of the other -- the corrective
04:05:25 disclosure dates that I selected.

Q. And on those dates that you selected, you found that there
was new information coming into the market on that day?

A. Yes, and, again, frequently ignored by Dr. Bajaj when he
was making his comments about what was stale.

04:05:41 Q. Let's talk about his index that he came up with, his six
companies.
Did you prepare a demonstrative that discusses the
companies that he selected?

A. Yes.

04:05:56 MR. BURKHOLZ: Can we bring up Plaintiffs' 161.

BY MR. BURKHOLZ:

Q. Is this the demonstrative that you prepared?

A. Let me just explain the background of this document.
Household, in its proxy statement, as I described
04:06:17 last time, identified the companies or the indexes as it was
required by law to compare itself to, the S&P 500 and the S&P
financials index.
There are two other documents that I am aware of
where Household listed firms that it considered peers: the
04:06:41 investor relations report that was shown on the screen a

little while ago and also the compensation document that was
also shown on the screen.

And in all three of those documents -- the proxy
statement, the Household investor relations report, and the
04:07:04 document justifying Mr. Aldinger's compensation -- in all
three of those documents Household compared itself to, for the
most part, large well-capitalized firms, which is not
surprising because Household itself is a Fortune 500 company.
It is not a mom-and-pop operation. It's not an owner of pawn
04:07:27 shops. It is a big well-diversified, complicated financial
company.

All of the -- again, the real-world comparisons --
having nothing to do with a debate among experts -- the real
world comparisons that Household used compared itself to these
04:07:47 big well-capitalized companies.

So when I saw that Dr. Bajaj created his own set of
comparable companies, the first thing that I did was look to
see whether there was any basis in the economic reality of
Household in terms of what Household itself compared -- which
04:08:10 firms it compared itself to that could justify Dr. Bajaj's
comparison. And what I found was, there was no Household
document that listed Dr. Bajaj's six companies as the relevant
set of companies to compare itself to.

But then I went beyond that and I wanted to
04:08:35 understand what the difference was between Household and the

on all days after November 15, so the amount of inflation is larger under that model.

Q. And the inflation under your leakage model varies between 13 and $23 a day during the relevant period?

09:24:50 A. Correct.

Q. Okay. Now, I want to show you three Household investor relations reports. They're for the year-end 2000, year-end 2001, and then for -- covering October of 2002, January to October 2002.

09:25:08 A. Okay.

Q. And the 2000 one is marked as Exhibit 411, 2001 is marked as Exhibit 820, and the 2002, October 2002, is 199. You can keep those in front of you.

(Tendered.)

09:25:26 MR. BURKHOLZ: A copy for counsel.

BY MR. BURKHOLZ:

Q. Now, if you can look at Exhibit 411, that's the 2000 investor relations report.

MR. BURKHOLZ: Your Honor, can we move 411 into
09:25:45 evidence, please, subject to the limiting instruction?

THE COURT: It will be admitted.

MR. BURKHOLZ: If we can bring up the third page -- or the fourth page of the document.

BY MR. BURKHOLZ:

09:25:59 Q. Do you see there's a comparison performance versus

Household peers in the S&P 500 and the S&P Financials?

A. I do.

Q. And if you could just highlight that.

Do you see where it shows that for Household for the
09:26:13 year 2000, it went up 47.7 percent. The peer group that Household used went up 18.9 percent. And the peer group that it used in its proxy, the S&P Financial, those 80 or 90 companies went up 23.8 percent?

A. Yes. This is the period when Household was promoting its
09:26:34 growth strategy and denying that it was engaging in any wrongdoing.

Q. Now, let's turn to the year-end 2001 investor relations report, and that's Exhibit 820.

MR. BURKHOLZ: Your Honor, could we move 820 into
09:26:54 evidence, subject to the limiting instruction?

THE COURT: Admitted.

BY MR. BURKHOLZ:

Q. If we can turn to the third page of the document, the similar performance measures for the year-end 2001. If we can
09:27:09 highlight that.

Do you see where it shows Household was up 5.3 percent for the year 2001; the peer group, the group of nine that we discussed yesterday that it compared itself to, was down 21.9 percent during 2001; and the S&P Financials were
09:27:29 down 10.5 percent?

Do you see that?

A. I do. Again, this is right until the end of the year, November 15, when, as I've indicated in my opinion, the truth began to come out about Household's practices.

09:27:41 Q. Okay. Now, let's turn to the investor relations report that Household prepared for October 2002. And look at how they did for -- up until that time. This is Exhibit 199.

MR. BURKHOLZ: If we can move this into evidence, your Honor, subject to the limiting instruction.

09:28:01 THE COURT: Admitted.

BY MR. BURKHOLZ:

Q. If we can turn to the third page of the document, highlight the same information.

I'm sorry. Third page, 740. There we go.

09:28:16 And this shows for year to date January to October 2002, Household was down 59 percent; its peer group, 10.9 percent; and the S&P Financials, 11.2 percent.

Do you see that?

A. Yes.

09:28:35 Q. This -- just to be clear, this is the month-end October 2002, so it covers about three weeks after the relevant period. And did you look at that period, the three weeks after the relevant period?

A. I did.

09:28:49 Q. And what happened to Household's stock in those three weeks?

A. It declined because market participants did not believe --

MR. KAVALER: Your Honor, objection, beyond the relevant period.

09:29:01 MR. BURKHOLZ: That's fine. I'll withdraw the question.

BY MR. BURKHOLZ:

Q. So this shows that Household -- Household's decline compared to its peer group that it compared itself to and the 09:29:09 S&P Financial, right?

A. Yes. This is the period of my -- after November 15, 2001, going into 2002 when I identified the market learning the truth about Household's practices, both in my specific disclosure model and in my leakage model.

09:29:31 Q. Is the declines that Household compared itself to, its peer group and the S&P Financials, consistent with what you observed in your analysis?

A. Yes. It's exactly what I testified to, that during the period Household was touting its growth model and denying any 09:29:45 wrongdoing, it vastly outperformed the peer groups that Household itself identified that it should be compared against.

Once Household's denials began to be more suspect, less believed by the market, as the complaints, the 09:30:03 investigations, the lawsuits, et cetera, analysts' criticisms began to pile up after November 15, 2001, Household vastly underperformed the peers that it itself said it should be judged against.

Q. Okay. I want to go back to yesterday's discussion about
09:30:22 this dispute over stale information and new information.

And it was in the context of your 14 specific disclosure dates, I believe, that Professor Bajaj was criticizing them as being stale.

Do you remember that?

09:30:35 A. I do.

Q. Okay. Now, is there any relevance to your leakage model of the staleness or newness of these dates at all?

A. Yes. Well, first of all, I don't agree that any of them were stale. But beyond that, the leakage model includes every
09:30:55 single date after November 15, 2001. So when Dr. Bajaj said I should have focused on the day before or a different day than the day that I actually focused on, the leakage model includes all of those days.

And, therefore, whether or not Dr. Bajaj is correct
09:31:20 that the information is stale, which I don't believe, but even if I were to assume that he were to correct -- he were correct, it would not -- it would still not follow that I ignored those days because every one of those days is included in the leakage model.

09:31:36 Q. Now, in your leakage model, did you take out the decline

for Household that was due to the market and its peers?
A. I did.
Q. Okay. I meant the market and the industry.
A. Correct, I did.
09:31:46 Q. Okay. Now, did you find that there was new information that the market learned on each of those 14 dates?
A. Yes.
Q. Okay.
A. Yes, I did.
09:31:56 Q. And you heard some testimony about that December 3, 2001, Barron's article?
A. Correct.
Q. And I pointed out to Professor Bajaj that there was some information regarding another analyst separate from the
09:32:13 analyst Ryan who had written the reports before?
A. Yes, you did. I heard that.
Q. Is that new information that the market would have learned on that day?
A. Yes, absolutely. And particularly in the context of that
09:32:26 particular report by -- or the particular article by Barron's. This was a quote from an investment banking firm that was affiliated with Household that was getting fees from Household and, therefore, you would think ordinarily that such a firm that was being, in effect, paid by Household would be
09:32:56 favorably inclined towards Household.

But what Barron's disclosed was that that particular banker, although he or she was not willing to be quoted publicly because they were afraid of offending Household who was paying them, stated that even they did not believe 09:33:18 Household's numbers. And that's obviously new information.

Again, that's typical of what -- the problems with Dr. Bajaj's opinions about staleness. He picked a couple of lines out of every disclosure, but he ignored what was new in each of the disclosures.

09:33:40 Q. Okay. And let's just talk about the November 15 date, your first date.

A. Okay.

Q. The lawsuit was filed by the California Department of Corporations on November 9, right?

09:33:51 A. That's right.

Q. But you found that there was new information that came out on the 15th, right?

A. Correct.

Q. Okay. I want to show you a Household internal document. 09:34:00 It's Exhibit 1486.

(Tendered.)

MR. BURKHOLZ: A copy for counsel.

BY MR. BURKHOLZ:

Q. This is a Household internal document titled "IR Report 09:34:25 Stock Price and Rumors."

MR. BURKHOLZ: Move this into evidence, your Honor. It's Exhibit 1486. It's a new exhibit number.

THE COURT: It's admitted.

BY MR. BURKHOLZ:

09:34:37 Q. If we can bring it up and if you can focus on the sixth bullet point. If you can highlight that.

What is the significance of this information on Household's own internal document?

A. Well, as I stated, while I'm perfectly happy to defend my 09:34:57 statistics, the important point is not statistics. The important point is reality.

And I gave an opinion that on November 15, Household issued a press release responding to the lawsuit. The stock price dropped.

09:35:13 Dr. Bajaj testified that I was incorrect in stating that the November 15 response to the lawsuit was responsible for Household's stock price decline. And, again, a simple reality check. I testified that if you look at what analysts said and what Household itself said, that corroborated my 09:35:36 testimony about the reason for Household's stock price decline on November 15.

In here, Household itself states, On November 15, Household responds to a lawsuit filed by the California Department of Corporations alleging that HFC, Household, and 09:35:55 Beneficial overcharged various fees. The stock dropped from

$60.91 on November 14 to $57.80 on November 16. Over 5.8 million shares traded on the 15th and 16th.

Q. And that was new information that came out that day?

A. Correct.

09:36:15 Q. Okay. Can we bring up Defendants' Demonstrative 577-04.

Okay. Do you remember seeing this demonstrative that they put forth with Mr. -- Professor Bajaj?

A. Yes, I do.

Q. Okay. And I think we covered the increase on April 9,
09:36:36 2002. And it's your understanding, after discovery, plaintiffs now allege that that's a false statement?

A. I do.

Q. Now, turning to August 14, 2002, the date of the restatement. The stock went up that day, but it's your
09:36:52 opinion that it went up less than its peers, correct?

A. That's right. Based on not only my statistical analysis but, again, commentary by a number of analysts, the restatement was a negative event for Household based on the comparison of its stock price movement with the market and the
09:37:18 industry. I found that to be a statistically significant negative movement.

And, again, although Dr. Bajaj failed to mention it in his testimony, if you look at his event study with all of his criticisms and corrections that he claimed should have
09:37:37 been made, he has the exact same result. He finds that

EXHIBIT 2

IN THE UNITED STATES DISTRICT COURT
FOR THE NORTHERN DISTRICT OF ILLINOIS
No. 1:02-CV-05893

\- -

LAWRENCE E. JAFFE PENSION PLAN, on behalf of itself and all others similarly situated,
Plaintiffs,
vs.
HOUSEHOLD INTERNATIONAL, INC., et al.,
Defendants.

\- -

VIDEOTAPED DEPOSITION OF
FRANK ALLEN FERRELL, III
Saturday, February 27, 2016 9:02 a.m.
Skadden Arps LLP
500 Boylston Street, Boston, MA 02116

Reported by:
Janet Sambataro, RMR, CRR, CLR
Job No. 10022056

February 27, 2016
9:02 a.m.

Videotaped deposition of FRANK ALLEN FERRELL, III, held at the offices of Skadden Arps LLP, 500 Boylston Street, Boston, Massachusetts, pursuant to Agreement before Janet Sambataro, a Registered Merit Reporter, Certified Realtime Reporter, Certified LiveNote Reporter, and a Notary Public within and for the Commonwealth of Massachusetts.

APPEARANCES:

ROBBINS, GELLER, RUDMAN & DOWD LLP
(By Luke O. Brooks, Esquire)
Post Montgomery Center
One Montgomery Street
San Francisco, California 94104
415.288.4534
lukeb@rgrdlaw.com
Counsel for the Plaintiffs

\- and -

ROBBINS, GELLER, RUDMAN & DOWD LLP
(By Michael J. Dowd, Esquire)
655 W. Broadway
San Diego, California 92101
619.231.1058
miked@rgrdlaw.com
Counsel for the Plaintiffs

\- Continued -

APPEARANCES: (Continued)

SKADDEN ARPS SLATE MEAGHER & FLOM, LLP
(By Patrick Fitzgerald, Esquire, and
Andrew J. Fuchs, Esquire)
155 N. Wacker Drive
Chicago, Illinois 60606
312.407.0700
patrick.fitzgerald@skadden.com
andrew.fuchs@skadden.com
Counsel for the Defendant, Household International, Inc.

\- and -

WILLIAMS & CONNOLLY
(By Steven M. Farina, Esquire, and
Leslie Cooper Mahaffey, Esquire)
725 Twelfth Street, N.W.
Washington, D.C. 20005
202.434.5526
sfarina@wc.com
lmahaffey@wc.com
Counsel for the Defendant, Household International, Inc.

APPEARANCES: (Continued)

MCDERMOTT, WILL & EMERY LLP
(By David S. Rosenbloom, Esquire) (Via Telephone)
227 West Monroe Street
Chicago, Illinois 60606-5096
312.372.2000
drosenbloom@mwe.com
Counsel for the Defendant, Gary Gilmer

KATTEN MUCHIN ROSENMAN LLP
(By Dawn M. Canty, Esquire) (Via Telephone)
525 West Monroe Street
Chicago, IL 60661-3693.
312.902.5200
dawn.canty@kattenlaw.com
Counsel for the Defendant, William F. Aldinger

ALSO PRESENT:
Mark LoSacco, HSBC (Via Videoconference)
Shawn Budd, Videographer

INDEX

EXHIBITS

- Continued -

EXHIBITS

- Continued -

EXHIBITS

PREVIOUSLY MARKED EXHIBITS

the appellate order?

MR. FITZGERALD: Objection to form. Go ahead.

A. I'm sorry. So in the sense that I was asked to assess the second supplemental report, and my memory is Professor Fischel references the appellate order in how he defines his scope in the second supplemental report.

BY MR. BROOKS:

Q. Did you read the appellate order?

A. I did.

Q. Did you read it carefully?

A. Yes.

Q. Do you believe that you adhered to the Seventh Circuit's opinion in performing your analysis?

A. That calls for a legal opinion. I'm not going to offer a legal opinion. All I can say is this was the scope of my assignment, as defined by counsel for Household.

Q. What did you do to prepare for the deposition today?

A. I reviewed my reports. I reviewed Professor Fischel's reports. I listened to Professor Fischel's deposition. I reviewed the

surreply report. I looked at underlying documents, and I met with counsel.

Q. When did you meet with counsel?

A. So I met with counsel yesterday. And I met with counsel several times in person before that, as well.

Q. To prepare for the deposition?

A. Correct.

Q. How many times?

A. So I met with counsel in Chicago a few days ago. I remember meeting with counsel -- I'm just going to blank on the location, but I did also, prior to Chicago, meet with counsel in person, as well. So that's three meetings. So there might be a fourth. I just -- I don't have a clear recollect --

Q. How long --

A. -- a clear recollection.

Q. How long was the meeting before the Chicago meeting?

A. I want to say a day or a part of a day.

Q. How about the meeting in Chicago?

A. So I -- so that was two days, but just to be clear, I met -- I believe it was two days. I can be misremembering the exact length of time.

I do remember meeting with counsel in Chicago for a day and then the second day I was listening to Professor Fischel.

Q. So you met on Tuesday and listened to Professor Fischel's deposition on Wednesday?

A. Yes. And now you reminded me. I actually didn't meet the entire day. I flew out Tuesday morning. So I actually -- now that I remember, I got to Chicago midday on Tuesday. And then you can remind -- my memory is that -- then that Professor Fischel was deposed the following day, the Wednesday.

Q. That's my memory too.

Was anyone at these meetings, other than counsel for the defendants?

A. Yes.

Q. Who else was there?

A. There was -- I don't know. I'm not exactly clear on how you define counsel for defendants. But counsel from HSBC was there as well.

Q. Anyone else?

A. No.

Q. How many lawyers were at these meetings, approximately?

A. I mean, it varied.

Q. What was the most?

A. So counsel present here were at some of the meetings, and the other person that comes to mind is Ryan Stoll from Skadden Arps.

Q. So five or six?

A. Well, just to be clear, all five or six were not present in every meeting. So it was -- but those -- as well as counsel for HSBC. But I'm not saying they were all present for every meeting. That's not accurate.

Q. Do you know Dr. Mukesh Bajaj?

A. I do not.

Q. Do you understand he was Household's prior expert in this case on loss causation and damages?

A. I believe that's right.

Q. You read his reports and transcripts, right?

A. I did.

Q. So you know he was their expert, don't you?

A. Yes. I was just pausing, because I don't remember how he characterized who he was -- whether he was retained by counsel or by

Household directly; but yes, he performed those types of analysis.

Q. So you read all of his reports. Is that right?

A. Yes.

Q. And you read his trial testimony. Correct?

A. I did.

Q. You read his deposition testimony. Correct?

A. I did.

Q. And was there anything that stood out to you about his methodology that was incorrect, in your opinion?

MR. FITZGERALD: Objection to scope here.

A. So you can look at Paragraph 14 in my original report and Paragraph 7 of my second report. That was not within the scope of my assignment. So you can direct me to particular portions of what he said, but it was something that I did not focus on.

BY MR. BROOKS:

Q. You read all his stuff. Right?

A. I did read it back in the summer, last

year. But again, assessing his work is outside the scope of these two reports.

Q. So I'm not asking you whether it was in the scope of your reports. I'm asking whether there was anything you disagreed with from a methodological perspective about Dr. Bajaj's reports?

MR. FITZGERALD: I object. Going down the line of inquiry, if he's not retained to analyze Dr. Bajaj's testimony, you have an expert, asking him to do it on the fly doesn't seem to me to be appropriate.

MR. BROOKS: Are you going to instruct him not to answer? I think I'm entitled to ask.

MR. FITZGERALD: You're asking him to critique somebody he wasn't asked to critique before on the fly, which I don't think is appropriate.

MR. BROOKS: You can instruct him not to answer. I don't think it's proper. But I don't want to get in a big discussion with you.

MR. FITZGERALD: Why don't we move on from this. Let me talk to co-counsel at a break as to what the understanding is, so we can revisit it. I just don't -- I just don't think

you have a right to take an expert who is testifying about a topic, then make your expert analyze something else. But why don't we talk about it at a break, so I don't run the clock on you? You move on and we'll come back.

MR. BROOKS: I mean, he's testifying about loss causation and damages. That's what Dr. Bajaj testified about. Right?

MR. FITZGERALD: Right.

MR. BROOKS: It's the same topic.

BY MR. BROOKS:

Q. In performing your work, did you believe it was important to stay consistent with Dr. Bajaj's prior opinions?

A. No. My understanding of my role is I was to provide my own independent expert analysis within the scope, as defined in Paragraph 7 of my -- of my rebuttal report, and Paragraph 14 of my original report.

Q. You understand that Dr. Bajaj worked with Cornerstone, just like you're working with Cornerstone, don't you?

A. That, I didn't know.

Q. His deposition?

A. You know, that could well be the case,

but I don't have a recollection of that.

Q. So you didn't think it was important to stay consistent with Dr. Bajaj's opinions because that wasn't the scope of your work. Is that your testimony?

MR. FITZGERALD: Objection to form. You can answer.

A. My -- my role, as I understand it, is to provide my -- my own best independent analysis within the scope of my assignment, as defined in Paragraph 14 of my original report and Paragraph 7 of my rebuttal report.

BY MR. BROOKS:

Q. So whether or not you conflicted with prior evidence that Household had put on at the previous trial was not your concern?

MR. FITZGERALD: Objection --

BY MR. BROOKS:

Q. Is that fair to say?

MR. FITZGERALD: -- to form.

A. That's not fair to say. I reviewed the evidence and provided an independent analysis of the evidence within the scope. And the scope, again, is to assess -- reading from my original report, to assess Professor Fischel's second date that's not confounded with the caveat that there's a November 9th disclosure.

BY MR. BROOKS:

Q. If it was not fraud-related, it would not be a specific disclosure date. Right?

MR. FITZGERALD: Objection to form.

A. So I'm assuming in the report that this is corrective information, but -- but -- let me put it this way: In my report, this is not a confounded day. The issue that I raise with this date is the November 9th. And there's nothing else I have to say about November 9th -- November 15th.

BY MR. BROOKS:

Q. Why are you so reluctant to say whether this is fraud-related information or not?

MR. FITZGERALD: Objection to form.

A. Because I wasn't asked to opine on what the fraud was. I was -- I'm assuming the -- the misrepresentations in the jury verdict, without opining on it. So that was my hesitation, is not to be viewed as providing an opinion on what -- on what the fraud actually is, if there is any, rather than just noting -- merely noting what's on the jury verdict, without providing an opinion on that.

BY MR. BROOKS:

Q. Do you agree that in order to determine whether something is fraud-related or not, one has to understand the fraud?

A. I agree with that.

Q. Skipping down to December 3rd, 2001, this is an entry discussing "articles published by "Barron's" and "Business Week" that alleged Household's strong results were in part driven by aggressive chargeoff policies." Do you agree that this is a fraud-related disclosure?

MR. FITZGERALD: What day are we on? 12/3/01?

MR. BROOKS: Yeah.

A. You know --

MR. FITZGERALD: Thank you.

A. -- I don't have the investor relations report. You know, I -- I feel uncomfortable commenting on a sentence that's been cut and pasted from a larger report without knowing the context. So I'm just not going to provide an opinion on the investor relation report without being given an opportunity to read the whole thing, what the basis is for this in the report.

I do talk about December 3rd in my report, and I'll be happy to talk about what I do say about December 3rd.

BY MR. BROOKS:

Q. Well, yeah. I mean, I'm asking you about the disclosures, as summarized here. Right? So you understand that there were disclosures on December 3rd, 2001, don't you?

A. I have in my report a discussion of December 3rd. That's correct.

Q. And a discussion of disclosures on December 3rd?

A. I believe so.

Q. And were those --

A. You know, hold on a second. So there's a lot of dates here. I mean, I do have in my Exhibit 3a, December 3rd. So let me -- let me restate my answer.

So I do have December 3rd in my Exhibit 3a. And I just don't remember if I have a specific discussion of that. I have to -- let me flip through my report.

I certainly reviewed Professor Fischel's claimed disclosures on that date. But I'm flipping through my report to see, beyond my Exhibit 3a, if I have a discussion of that. So I'm looking at my initial report.

It looks like my first specific disclosure date is December 12th. And I'm looking at my rebuttal. And I'm looking at Page 32 of my rebuttal. Oh, so I do have December -- are we talking about December 12? So it's on page --

Q. We're not talking about December 12.

A. I'm sorry. December 3rd. So I won't eat up any more time. I'm just flipping through it. I can't readily find December 3rd, but I do have, on Exhibit 3a, the statistical significance on that date. And I did review Professor Fischel's discussion and citations on this date.

Q. Did you review the "Barron's" and "Business Week" articles?

A. I believe so.

Q. And --

A. My memory is certainly the "Barron's" is discussed in Fischel. I reviewed a lot of articles. I -- I -- I probably reviewed it. I certainly reviewed it if it's discussed in Professor Fischel, but I certainly reviewed this date.

MR. FARINA: The lunch is here if you

guys want to break for lunch at a convenient point.

MR. BROOKS: That's fine.

THE VIDEOGRAPHER: The time is 12:27. Off the record.

(Lunch recess was taken.)

(Report of Daniel R. Fischel, dated August 15, 2007 marked Exhibit 5.)

THE VIDEOGRAPHER: Okay. We are back on the record. The time is 1:16.

MR. BROOKS: So before we get started, I told Steve off the record, these aren't exact quotes.

MR. FITZGERALD: Okay. Referring to Exhibit --

MR. BROOKS: Exhibit 4. So I was mistaken. There's -- quotes are exact, but then there's some additional information. I'm just going to set it aside.

MR. FITZGERALD: Okay. I appreciate the correction. Thank you.

BY MR. BROOKS:

Q. Professor, do you understand the phrase "headline risk"?

A. I've seen it referenced in the initial

reports. So to that -- so I've seen it in that context.

Q. In that context, was headline risk associated with predatory lending a material reason for Household's stock price decline during the leakage period?

MR. FITZGERALD: Objection to form.

A. You'll have to point me to specific documents. Because I know that -- my memory is a headline risk referred -- was referenced in various documents at various points. So I would want to see what documents you have in mind in answering that question.

BY MR. BROOKS:

Q. Defendants' previous expert, Dr. Bajaj, testified that Household's stock price declined during the leakage period because of headline risk. Do you agree or disagree with that?

MR. FITZGERALD: Object to characterizing his -- whether he agrees with Bajaj or not. But you can ask the underlying question.

A. I didn't focus on what Bajaj said or the basis for what he said. So I would have to review what he said and why he said it. I don't

have an opinion on that.

MR. BROOKS: And are you continuing to instruct him not to answer the questions about Bajaj's methodologies?

MR. FITZGERALD: So -- yes. So no. Let me clarify where you are. So you have license to ask questions to a reasonable degree about Bajaj as long as we understand he wasn't engaged to review his methodology and the absence of any criticism doesn't mean he's endorsing it. And if he gives criticisms, it's not complete, because he wasn't asked to do that. But if you want to ask him questions about what he recalls about the methodology or specific questions, you may.

BY MR. BROOKS:

Q. You testified earlier that you read Dr. Bajaj's reports and you read his trial and deposition testimony. Right?

A. That's correct.

Q. Okay. And was there anything you disagreed with, with respect to the methodology that Dr. Bajaj applied in his analysis?

MR. FITZGERALD: I'll note the continuing objection, but I'm not directing him

not to answer.

A. I mean, I read it over the summer to get an understanding of the context of the case. But, you know, I was not asked to review or assess what he did or didn't do. So if you have a specific aspect of his methodology, you know, it would be helpful for me to see it. But it was just something I wasn't focused on.

BY MR. BROOKS:

Q. You indicated in your Exhibit B to your report that you relied on Dr. Bajaj's reports and testimony. What did you rely on that for?

A. To understand the context of the case. So obviously there's been a lot of reports and litigation well before I was retained, and so it was for that purpose.

Q. Was there any other reason that you relied on Dr. Bajaj's reports and testimony?

A. No.

Q. And as you're sitting here, you can't think of something that stood out to you as methodologically unsound about Dr. Bajaj's analysis?

MR. FITZGERALD: Continuing objection. Not directing him -- I'm not preventing him from answering, but just noting the continuing objection.

A. You know, I read those reports last summer, you know, in their entirety. I would need to see the reports to express an opinion.

BY MR. BROOKS:

Q. So it's true that nothing stands out in your mind as methodologically unsound about Dr. Bajaj's analysis. Right?

MR. FITZGERALD: Same continuing objection.

A. I don't have an opinion. It's just something -- you know, I read the reports a while ago. It was something I was not asked to assess. So I would need to -- I'm not endorsing or not endorsing anything that he did. I would need to look at it because it was outside my scope.

BY MR. BROOKS:

Q. So there's nothing that you're thinking of right now that was methodologically unsound. Correct?

MR. FITZGERALD: Same objection. And asked and answered.

A. I don't have a clear enough recollection to have an opinion.

BY MR. BROOKS:

Q. Can you think of anything that he did, as you're sitting here right now, that you disagreed with from a methodological perspective?

MR. FITZGERALD: Same objections and asked and answered.

A. I have the same response. I don't have a clear enough recollection of the report to have an opinion on it, sitting here today. I was asked to assess what Professor Fischel did. And on that, I have opinions.

BY MR. BROOKS:

Q. Did you ever develop an opinion about Dr. Bajaj's methodologies?

MR. FITZGERALD: Same objection.

A. No. Not -- not -- not -- the answer is no, in the sense that I was asked to provide an independent opinion and analysis of what Professor Fischel said or what Professor Fischel did. And so that was my focus.

BY MR. BROOKS:

Q. Okay. You have Exhibit 5 in front of you. This is Professor Fischel's original report dated August 15th, 2007. Correct?

A. August 15 -- yes. That's correct.

Q. And you've reviewed this report. Right?

A. I have.

Q. In fact, this report is one of the things you're responding to. Correct?

A. Yes. Because he incorporates by reference this report in his later reports. So in that sense, the answer is yes.

Q. So take a look at Paragraph 14 of Professor Fischel's report.

A. Okay. Okay.

Q. And just for the record, Exhibit 5 doesn't have the exhibits, but I have them available if you need them, okay, Professor?

A. You have the exhibits for?

Q. For this report available, if you need them. They're voluminous, so --

A. Thank you.

Q. So you've directed your attention to Paragraph 14 of Professor Fischel's report.

A. Yes.

Q. Is that correct?

A. Yes.

Q. Okay.

A. Can you give me just a minute to read it?

Q. Sure.

A. I don't mean to interrupt. Sorry.

Q. Go ahead.

(Witness complies.)

A. I'm done reading it.

BY MR. BROOKS:

Q. Okay. So Paragraph 14 discusses a February 18, 2002 National Mortgage News article. Correct?

A. Yes.

Q. And that article is about -- withdrawn. That article provides detail about a class action lawsuit alleging that Household's California subsidiaries tricked and trapped customers into high-cost mortgages. Do you see that?

A. I see those words.

Q. Do you consider this article to be a fraud-related disclosure?

A. So if you're going to ask me to comment on this article, I would like to see it and read Exhibit 8.

Q. Okay. Have you ever read Exhibit 8 before?

EXHIBIT 3

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,)
)
Plaintiff,)
)
vs.) No. 02 C 5893
)
HOUSEHOLD INTERNATIONAL, INC.,)
et al.,) Chicago, Illinois
) March 20, 2009
Defendants.) 8:30 a.m.

VOLUME 7
TRANSCRIPT OF PROCEEDINGS - PRETRIAL CONFERENCE
BEFORE THE HONORABLE RONALD A. GUZMAN

APPEARANCES:

For the Plaintiff:

COUGHLIN STOIA GELLER RUDMAN & ROBBINS LLP
BY: MR. SPENCER A. BURKHOLZ
MR. MICHAEL J. DOWD
MR. DANIEL S. DROSMAN
MS. MAUREEN E. MUELLER
655 West Broadway
Suite 1900
San Diego, California 92101
(619) 231-1058

COUGHLIN STOIA GELLER RUDMAN & ROBBINS LLP
BY: MR. DAVID CAMERON BAKER
MR. LUKE O. BROOKS
MR. JASON C. DAVIS
MS. AZRA Z. MEHDI
100 Pine Street
Suite 2600
San Francisco, California 94111
(415) 288-4545

APPEARANCES: (Continued)

For the Plaintiff:	MILLER LAW LLC BY: MR. MARVIN ALAN MILLER 115 South LaSalle Street Suite 2910 Chicago, Illinois 60603 (312) 332-3400
For the Defendants:	CAHILL, GORDON & REINDEL LLP BY: MR. THOMAS J. KAVALER MS. PATRICIA FARREN MR. DAVID R. OWEN MS. JANET A. BEER MR. JASON M. HALL MR. JOSHUA M. NEWVILLE MS. KIM A. SMITH MS. SUSAN BUCKLEY 80 Pine Street New York, New York 10005 (212) 701-3000
Court Reporter:	NANCY C. LaBELLA, CSR, RMR, CRR Official Court Reporter 219 South Dearborn Street Room 1222 Chicago, Illinois 60604 (312) 435-6890 Nancy_LaBella@ilnd.uscourts.gov

THE CLERK: 02 C 5893, Jaffe v. Household International, Incorporated.

THE COURT: Good morning, everyone.

MR. DOWD: Good morning, your Honor.

MR. KAVALER: Good morning, your Honor.

THE COURT: How should we proceed?

MR. DOWD: Your Honor, I think there are two major areas left. Obviously, the first are the depo designations. The second are the evidentiary objections. I think a lot of progress was made on both sides into the wee hours last night.

However, I think that it may be helpful for both sides to address early this morning the Court's ruling with respect to the settlement by Household with the attorney generals and precisely what comes in with regard to that. I think it might be worthwhile to do it generally first. I know Mr. Kavaler also believes that that may sort of devolve into particular issues, but I think maybe some general discussion of it would be helpful.

MR. KAVALER: Your Honor, I think Mr. Dowd misunderstood something I said. I didn't say it would devolve into particular issues. I said I thought we should address questions today in an inverse pyramid fashion; that is, any question where your ruling will resolve ten objections should come ahead of any question where your ruling will only resolve one question because that will expedite the process and make the alleged inadequacy of Household's disclosures or the effect or absence of effect on the price of Household's stock price. Information sufficient to identify the date, time, means and nature of the disclosure --

THE COURT: Slow down a little bit, please.

MS. SMITH: Information sufficient to identify the date, time, means and nature of the disclosure can be introduced into evidence without requiring the introduction of any actual settlement documents or any documents or testimony concerning allegations that were settled or the settlement terms or negotiations.

So our position, your Honor, is that that's your ruling; that's what stands. To the extent that these documents fall outside of that, I'm not sure exactly what Mr. Burkholz is referring to.

THE COURT: Can we get to specifics? It is kind of hard to argue this in general.

Here's the point: The disclosures are an important part of the case. The announcements with respect to these settlements are important. If you strip out all information about the settlement, then all you can say is there was an announcement, which is totally meaningless to the jury; and they have no way of gauging how this could possibly have impacted price or anything else. So there has to be sufficient information included regarding the announcements to make the fact of the announcement relevant and probative in the case.

If you folks can't come to that on a document by document -- can't come to an agreement as to what should be included regarding each announcement, each document, each piece of testimony, then I guess I'll rule on it.

But the language in my order is meant to indicate that there is -- maybe a clumsy attempt to describe that it's not necessary to lay before the jury the entire settlement on any given case. It is necessary to put before the jury sufficient information about the announcement regarding that settlement so that the jury can gauge what impact that announcement did or did not have on the stock.

So how do you do that? I mean, if push comes to shove, the plaintiffs are entitled to show the jury what disclosures were made and when they were made. And if we can't come to an agreement on a way to do that without spilling the entire amount of the underlying settlement, I'm going to err on the side of the plaintiffs and give a cautionary instruction to the jury. But I give you folks a chance to work it out first. That's a portion of their case that can't be denied. They're entitled to show that. If the only way to show that, because you folks can't reach an agreement, is to include statements that have substantial amounts of information about the settlement details and portions of the settlement that aren't absolutely necessary, then we'll do that and give the jury a cautioning instruction that they're only supposed to consider it for the purpose of the effect it had on the market, not for the truth of what's contained in it. But I'm trying to avoid that, and that's why I put this language here.

MR. BURKHOLZ: We think it's straightforward, your Honor, and hopefully we can work something out.

THE COURT: Okay.

What do we do next?

MR. DOWD: I believe probably the depo designations.

THE COURT: Okay. Why don't you tell me which depositions and I'll go back and get my transcripts of those.

MR. BROOKS: The ones that are at issue still, Judge, are Lou Levy, Elaine Markell, Dennis Hueman, and I think it probably would be good to have a copy of Chuck Cross.

THE COURT: Okay. Give me about 60 seconds, and I'll bring those transcripts out.

(Brief pause.)

THE COURT: Okay. Where do you wish to start?

MR. NEWVILLE: Your choice.

MR. BROOKS: Judge, I thought we could talk for a second about Chuck Cross. I think we've resolved all our differences, but there's one thing that both of us wanted to clarify; and it goes to the Washington DFI report. And we

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,)
)
Plaintiff,)
)
vs.) No. 02 C 5893
)
HOUSEHOLD INTERNATIONAL, INC.,)
et al.,) Chicago, Illinois
) March 26, 2009
Defendants.) 9:30 a.m.

VOLUME 8
TRANSCRIPT OF PROCEEDINGS - PRETRIAL CONFERENCE
BEFORE THE HONORABLE RONALD A. GUZMAN

APPEARANCES:

For the Plaintiff:

COUGHLIN STOIA GELLER RUDMAN & ROBBINS LLP
BY: MR. SPENCER A. BURKHOLZ
MR. MICHAEL J. DOWD
MR. DANIEL S. DROSMAN
MS. MAUREEN E. MUELLER
655 West Broadway
Suite 1900
San Diego, California 92101
(619) 231-1058

COUGHLIN STOIA GELLER RUDMAN & ROBBINS LLP
BY: MR. DAVID CAMERON BAKER
MR. LUKE O. BROOKS
MR. JASON C. DAVIS
MS. AZRA Z. MEHDI
100 Pine Street
Suite 2600
San Francisco, California 94111
(415) 288-4545

APPEARANCES: (Continued)

For the Plaintiff:

MILLER LAW LLC
BY: MR. MARVIN ALAN MILLER
115 South LaSalle Street
Suite 2910
Chicago, Illinois 60603
(312) 332-3400

For the Defendants:

CAHILL, GORDON & REINDEL LLP
BY: MR. THOMAS J. KAVALER
MS. PATRICIA FARREN
MR. DAVID R. OWEN
MS. JANET A. BEER
MR. JASON M. HALL
MR. JOSHUA M. NEWVILLE
MS. KIM A. SMITH
MS. SUSAN BUCKLEY
MS. YAFIT COHN
MR. MICHAEL WERNKE
80 Pine Street
New York, New York 10005
(212) 701-3000

Court Reporter:

NANCY C. LaBELLA, CSR, RMR, CRR
Official Court Reporter
219 South Dearborn Street
Room 1222
Chicago, Illinois 60604
(312) 435-6890
Nancy_LaBella@ilnd.uscourts.gov

THE CLERK: 02 C 5893, Jaffe v. Household International, Incorporated.

THE COURT: Good morning, everyone.

I think last time we were together, we were talking about addressing demonstrative exhibits sometime soon, doing some scheduling for the jury selection and I believe there was a -- what was benignly described as a housekeeping matter regarding some witnesses. How do you wish to proceed?

MR. KAVALER: Your Honor, I have a housekeeping matter prior to the housekeeping matter. I recognize this is unusual, given the rules, but could I orally move the admission pro hac vice of Ms. Yafit Cohn of the New York bar who will be with us today to participate in the demonstratives. Counsel for plaintiffs has no objection. We will file the requisite paperwork nunc pro tunc later today or perhaps tomorrow. We just didn't get a chance to get that done. She's the only person on our team here today who is not admitted pro hac or a regular member of the bar and/or the trial bar of this court.

THE COURT: Sure. Do you have any objection?

MR. DOWD: None, your Honor.

THE COURT: Okay.

MR. KAVALER: Thank you, your Honor. Appreciate it. Mr. Dowd.

THE COURT: Still don't know how you want to proceed.

MR. BROOKS: I suppose it is, your Honor; however, it's been superseded by our interrogatory responses. It was -- it's superseded by the evidence that is now available in this case. And at trial, the facts should control, your Honor, not allegations in pleadings that were made back in 2003.

THE COURT: Don't they call this an admission by a party? I mean, isn't this the ultimate admission, what's contained in your complaint?

MR. DOWD: It's fine, your Honor. I think Mr. Brooks' point is if they want to put the whole complaint in, put the whole complaint in.

THE COURT: I don't know what they want to do.

MR. HALL: Your Honor, this --

THE COURT: I have no idea. But that's not an objection. They're putting in what I think constitute admissions on the part of your clients that are relevant to the case. I think they have a right to do that. The fact that it's been superseded by whatever doesn't change the fact that it was said. And if it shows a contradiction or is somehow otherwise probative, I think it's admissible in evidence.

The fact that the complaint wasn't noted as an exhibit and so on, I think for almost every document that -- that would be a good argument, but not for a complaint or an answer. Those are the case. They're part of the case. I take judicial notice of them. And where appropriate and for a particular purpose, they can be admitted. I'll overrule that objection.

This is going to be used by your expert; is that correct?

MR. HALL: Yes, your Honor.

THE COURT: Then I'll overrule the objection. The expert can testify as to how he feels the facts don't match up with your clients' prior statements.

MR. BURKHOLZ: Next, your Honor, 578-01 through 16, we don't object as long as it comes through -- just through Professor Bajaj.

MR. HALL: And it will, your Honor.

THE COURT: Okay.

MR. BURKHOLZ: 70- --

THE COURT: I'm sorry?

MR. HALL: We're just trying to straighten out a numbering issue here. I believe the next in order is 704.

MR. BURKHOLZ: Okay. As long as 704-1 through 4 comes in only through Professor Bajaj, we don't have an objection.

MR. HALL: It will, your Honor.

THE COURT: Okay. Next.

MR. BURKHOLZ: We do have an objection to 705. It

EXHIBIT 4

Page 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,

Plaintiffs,

vs. No. 1:02-CV-05893

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

VIDEOTAPED DEPOSITION OF BRADFORD CORNELL, Ph.D.
Los Angeles, California
Thursday, March 10, 2016
Volume I

Reported By:
CHERYL R. KAMALSKI
CSR No. 7113
Job No.: 10022554

Page 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,

Plaintiffs,

vs. No. 1:02-CV-05893

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

Videotaped deposition of BRADFORD CORNELL, Ph.D., Volume I, taken on behalf of Plaintiffs, at 300 South Grand Avenue, 34th Floor, Los Angeles, California, beginning at 9:09 a.m., and ending at 2:50 p.m., on Thursday, March 10, 2016, before Cheryl R. Kamalski, Certified Shorthand Reporter No. 7113.

Page 3

APPEARANCES:

For Plaintiffs:
ROBBINS GELLER RUDMAN & DOWD LLP
BY: DANIEL S. DROSMAN
MICHAEL J. DOWD
Attorneys at Law
655 West Broadway, Suite 1900
San Diego, California 92101
(619) 231-1058
dand@rgrdlaw.com, miked@rgrdlaw.com

For Defendant Household International, Inc.:

SKADDEN, ARPS, SLATE, MEAGHER & FLOM, LLP
BY: R. RYAN STOLL
ANDREW J. FUCHS
PATRICK FITZGERALD (Via Videoconference)
Attorneys at Law
155 North Wacker Drive
Chicago, Illinois 60606-1720
(312) 407-0971
ryan.stoll@skadden.com,
andrew.fuchs@skadden.com
pfitzgerald@skadden.com

WILLIAMS & CONNOLLY
BY: STEVEN M. FARINA
Attorney at Law
725 Twelfth Street, N.W.
Washington, D.C. 20005
(202) 434-5526
afarina@wc.com

For Defendant William F. Aldinger:

KATTEN MUCHIN ROSENMAN, LLP
BY: GIL M. SOFFER (Via Videoconference)
Attorney at Law
525 West Monroe Street
Chicago, Illinois 60661-3693
(312) 902-5474
gil.soffer@kattenlaw.com

Page 4

APPEARANCES (Continued):

For Defendant Gary Gilmer:
MCDERMOTT, WILL & EMERY, LLP
BY: C. MAEVE KENDALL (Via videoconference)
Attorney at Law
227 West Monroe Street
Chicago, Illinois 60606-5096
(312) 984-2175
makendall@mwe.com
For Defendant D A Schoenholz:
JACKSON WALKER L.L.P.
BY: TIM S. LEONARD
Attorney at Law
1401 McKinney, Suite 1900
Houston, Texas 77010
(713) 752-4439
tleonard@jw.com
Also Present:
MARK LoSACCO, HSBC (Via Videoconference)

Videographer:

MAX MAI

INDEX

WITNESS	EXAMINATION
BRADFORD CORNELL, Ph.D. Volume I	
BY MR. DROSMAN	10, 232
BY MR. STOLL	224, 233

EXHIBITS

NUMBER	DESCRIPTION	PAGE
Exhibit 1	Expert Report of Professor Bradford Cornell, dated October 23, 2015	50
Exhibit 2	LexisNexis printout of In re Novatel Wireless Securities Litigation	54
Exhibit 3	Memorandum and Order, dated February 1st, 2016, in the Jaffe Pension versus Household International case	140
Exhibit 4	E-mail dated 08/30/02, from HFC0136 - HFCVM01 to Craig A. Streem; HHS-ED 497256	144
Exhibit 5	Household Investor Relations Report, November-December 2001; HHS 03237027 - HHS 03237029	148

INDEX (Continued):

EXHIBITS

NUMBER	DESCRIPTION	PAGE
Exhibit 6	Appeal in the matter of Glickenhaus, et al., versus Household International, Inc., et al., argued May 29, 2014, decided May 21, 2015	159
Exhibit 7	"Using Finance Theory to Measure Damages in Fraud on the Market Cases," authored by Bradford Cornell and R. Gregory Morgan	200
Exhibit 8	Affidavit of Bradford Cornell, dated October 30, 2008	227

INDEX (Continued):

INSTRUCTION NOT TO ANSWER

Page	Line
15	9
37	16

Los Angeles, California, Thursday, March 10, 2016
9:09 a.m.

THE VIDEOGRAPHER: Good morning. The time on the record is 9:09 a.m. Today's date is March 10th, 2016. My name is Max Mai of Aptus Court Reporting; the court reporter today is Cheryl Kamalski of Aptus Court Reporting, located at 600 West Broadway, Suite 300, San Diego, California.

This begins the video-recorded deposition of Bradford Cornell, testifying in the matter of Lawrence E. Jaffe Pension Plan, et al., verse Household International, Inc., pending in the United States District Court for the Northern District of Illinois, Case No. 1:02-CV-05893, taken at 300 South Grand Avenue, Suite 3400, Los Angeles, California.

The video and audio recording will take place at all times during this deposition unless all counsel agree to go off the record. The beginning and end of each video recording will be announced.

Will Counsel please identify yourselves and state whom you represent.

MR. DROSMAN: Daniel Drosman on behalf of Plaintiffs from Robbins, Geller, Rudman & Dowd.

MR. DOWD: Mike Dowd for Plaintiffs.

Page 37

Q Okay. How many hours did you spend during that period on this case?

A I don't have any idea.

Q Okay. What are the people from Cornerstone doing for you?

A Primarily analytical work.

Q What do you mean by that?

MR. STOLL: Well, again, objection to form.

You are allowed to testify regarding materials that you have relied upon in rendering your opinions. Consulting work, interactions with attorneys is not an appropriate area for inquiry.

MR. DROSMAN: Are you instructing the witness not to answer my question?

MR. STOLL: Yes.

(Instruction Not to Answer.)

MR. DROSMAN: Okay.

Q Are you going to follow your counsel's advice?

A Yes.

Q Okay. What are the names of the people from Cornerstone with whom you're working on this case?

A I answered that earlier, the ones I recalled. Their names were James Lee and Kristin Leitzinger [sic], and Katie Galley's been on a couple of calls, but she hasn't been actively involved with my work.

Page 38

Q Okay. Did you write the reports that you produced in 2015 in this case?

A You know, I got some proofreading, and all, but basically, yes.

Q Okay. Did you write every word?

A Well, no. If someone proofread it, they would have made suggestions, and I probably took those.

Q Who proofread it?

A I believe counsel proofread it, and the people at Cornerstone.

Q Okay. And you took those proofreading suggestions; is that correct?

A Some of them, as I recall.

Q Okay. From your lawyers; is that right?

A Some of them.

Q Okay. What proofreading suggestions did you take from your lawyers?

A Getting the tense of verbs right, for example, or left out words. I don't recall anything substantive.

Q So did you write -- so were there any substantive proofreading edits that you took?

A No, I don't think so.

Page 39

Q Were there any substantive edits that you took -- by anybody?

A No, I don't think so.

Q Okay. Okay. You know Professor Fischel personally, right?

A Yes.

Q When did you first meet him?

A Many years ago. 25 years ago.

Q Okay. Have you ever read his work prior to your engagement as an expert in this case?

A Yes. I cite it in the Cornell and Morgan paper, for example.

Q What work of Professor Fischel have you read?

A Primarily his work that overlaps with finance. He's done a good deal of legal work that I'm not familiar with but -- he's written some papers on law and finance, such as the one I cite in Cornell and Morgan.

Q Why have you reviewed that work?

A Because it was relevant to the research I was doing.

Q Why?

A Because it was a known published article on the subject.

Q Okay. You're employed as a senior consultant by Professor Fischel's company, Compass Lexecon, right?

Page 40

A By Compass Lexecon. It's actually owned by FTI, not Professor Fischel.

Q Do you understand Professor Fischel's position there?

A I think he's one of the two co-presidents.

Q Okay. He's the head of the company; is that right?

A Well, he -- you'd have to ask he and Mr. Orszag, who is the president of Compass, who exactly is what. But Mr. Orszag and Mr. Fischel are the senior executives.

Q Okay. Have you ever used Mike Keable from Compass Lexecon to support your expert work?

A Yes.

Q You worked with him in Transocean, right?

A I don't recall him in Transocean, no.

Q You worked with him in Enron, correct?

A Actually, when I was working on Enron, I was at CRA, and Cravath brought in Compass Lexecon. And I think Mr. Keable was one of the people that Cravath retained, who was helping me, even though I was at another firm.

Q What cases have you worked on with Mr. Keable

Page 41

from Compass Lexecon?

A The one I really recall is Facebook.

Q Okay. Did he support your expert work in that case?

A So far, yes. He's been involved.

Q Okay. What's your opinion of Mr. Keable?

A He's a good, competent guy.

Q Reliable?

A I've -- he has been to me. When I've asked him to do things or work with me, he's always been responsive.

Q Do you believe he's talented?

MR. STOLL: Objection to form.

THE WITNESS: Well, I've never really evaluated him. The work product that he's done for me -- we've gone back and forth until we were both satisfied.

BY MR. DROSMAN:

Q You said you believed he's competent, correct?

A Well, I -- no. I said I've never really evaluated him. He's in the Chicago office, so we work together infrequently. When we've worked together, I've been satisfied with the work product.

Q Do you believe he's honest?

Page 42

MR. STOLL: Objection to form.

THE WITNESS: I don't know of any instance where he's told me other than the truth. I couldn't judge his general character. I don't know him well enough.

BY MR. DROSMAN:

Q You wouldn't want to work with people who you didn't believe were honest, to support your expert work, correct?

MR. STOLL: Objection to form.

THE WITNESS: That would be wise. Yes. I would pursue that strategy.

BY MR. DROSMAN:

Q Okay. Have you ever used Peter Clayburgh from Compass Lexecon to support your expert work?

A Yes.

Q What cases?

A I couldn't tell you exactly, but Peter's out in Pasadena, so we've probably worked together on five to ten assignments.

Q What's your opinion of Mr. Clayburgh?

A He's a competent, energetic, young man.

Q Okay. Do you believe he's honest?

MR. STOLL: Objection to form.

THE WITNESS: Again, I don't have any

Page 43

personal experience to believe otherwise.

BY MR. DROSMAN:

Q You wouldn't use him to support your expert work if you didn't believe he was honest, correct?

MR. STOLL: Objection to form.

THE WITNESS: I think that's fair. I -- I use people that I trust.

BY MR. DROSMAN:

Q Okay. And you trust Mr. Clayburgh, right?

MR. STOLL: Objection to form.

THE WITNESS: I haven't -- like I say, I've had no reason not to, in my experience with him.

BY MR. DROSMAN:

Q You trust Mr. Keable, right?

MR. STOLL: Objection to form.

THE WITNESS: That was the same answer.

BY MR. DROSMAN:

Q Is that a yes?

A That I have no reason not to.

Q Okay. Have you ever used David Strahlberg from Compass Lexecon to support your expert work?

A Not that I recall, no.

Q Okay. What is your opinion of Professor Fischel as an expert on loss causation and damages?

Page 44

MR. STOLL: Objection to form.

THE WITNESS: Dan is a very experienced expert witness, but I've never tried to answer that question that you just asked.

BY MR. DROSMAN:

Q Do you believe that he's brilliant?

MR. STOLL: Objection to form.

THE WITNESS: I really -- the only people -- person I've really called "brilliant," in my experience, was Richard Feynman. So -- I just have a very high standard there; so -- Dan's a -- a noted scholar and -- but I don't make that assessment.

BY MR. DROSMAN:

Q Do you believe that Professor Fischel is honest?

MR. STOLL: Objection to form.

THE WITNESS: Again, I -- in his dealings with me, he's always been honest.

BY MR. DROSMAN:

Q You trust Professor Fischel, right?

MR. STOLL: Objection to form.

THE WITNESS: I have had no reason not to.

BY MR. DROSMAN:

Q So you do?

A Yeah, I think.

EXHIBIT 5

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,) Lead Case No.
vs.) 1:02-CV-05893
HOUSEHOLD INTERNATIONAL,)
INC., et al.,)
Defendants.)

VIDEOTAPED DEPOSITION OF DANIEL FISCHEL, Ph.D.
February 24, 2016
Chicago, Illinois
9:00 a.m.

Reported By:
Sheri E. Liss, CRR
Job No. 42823

The videotaped deposition of DANIEL FISCHEL, Ph.D., called by the Defendant for examination, taken pursuant to the Code of Civil Procedure and the Rules of the Supreme Court of the State of Illinois pertaining to the taking of depositions for the purposes of evidence, taken before Sheri E. Liss, CSR NO. 084-002600, a Certified Shorthand Reporter within and for the State of Illinois, Registered Professional Reporter, Certified Realtime Reporter, at the offices of Skadden, Arps, Slate, Meagher & Flom, LLP,. 155 North Wacker Drive, Chicago, Illinois, on February 24, 2016 at the hour 9:00 o'clock a.m.

APPEARANCES:

ON BEHALF OF THE PLAINTIFFS:
ROBBINS GELLER RUDMAN & DOWD, LLP
655 West Broadway, Suite 1900
San Diego, CA 92101
(619) 231-1058
BY: SPENCER BURKHOLZ, ESQ.
spenceb@rgrdlaw.com
LUKE BROOKS, ESQ.
LukeB@rgrdlaw.com
MICHAEL DOWD, ESQ.
miked@rgrdlaw.com

ON BEHALF OF HOUSEHOLD INTERNATIONAL, INC.:
WILLIAMS & CONNOLLY, LLP
725 Twelfth Street, N.W.
Washington, D.C. 20005
BY: STEVEN M. FARINA, ESQ.
sfarina@wc.com
LESLIE COOPER MAHAFFEY, ESQ.
lmahaffey@wc.com

-and-

APPEARANCES (continued):
SKADDEN, ARPS, SLATE, MEAGHER & FLOM, LLP
155 North Wacker Drive
Chicago, IL 60606
BY: PATRICK FITZGERALD, ESQ.
patrick.fitzgerald@skadden.com
ANDREW J. FUCHS, ESQ.
andrew.fuchs@skadden.com
RYAN STOLL, ESQ.
ryan.stoll@skadden.com

ON BEHALF OF WILLIAM ALDINGER:
KATTEN MUCHIN ROSENMAN, LLP
525 West Monroe Street
Chicago, IL 60661
BY: GIL M. SOFFER, ESQ.
gil.soffer@kattenlaw.com

ON BEHALF OF GARY GILMER;
McDERMOTT WILL & EMERY
227 West Monroe Street
Chicago, IL 60606
BY: DAVID S. ROSENBLOOM, ESQ.
drosenbloom@mwe.com
C. MAEVE KENDALL, ESQ.
makendall@mwe.com

ON BEHALF OF DAVE SCHOENHOLZ;
JACKSON WALKER, LLP
1401 McKinney Street, Suite 1900
Houston, TX 77010
BY: TIM S. LEONARD, ESQ.
tleonard@jw.com

ALSO PRESENT:
MARK LoSACCO, HSBC
KRISTIN FEITZINGER, Cornerstone
STUART ALDERTY (Telephonically)
NICK YAVORSKY (Telephonically)
ALLEN FERRELL (Via LiveDeposition Feed)
JEREMY MANGAN, Videographer

I N D E X

E X H I B I T S

E X H I B I T S (continued)

THE VIDEOGRAPHER: We are now on the record. This marks the beginning of Media No. 1 in the deposition of Daniel Fischel in the matter of Lawrence E. Jaffe, et al., versus Household International, et al., in the U.S. District Court, Northern District of Illinois, Eastern Division. This deposition is being held at 155 North Wacker Drive, Chicago, Illinois on February 24, 2016 and the time is now 9:10 a.m. All attorneys present will be noted on the stenographic record. Will the court reporter please swear in the witness.

(Whereupon, the witness was duly sworn.)

DANIEL FISCHEL, Ph.D.,

having been first duly sworn, was examined and testified as follows:

EXAMINATION

BY MR. FARINA:

Q. Good morning, Professor Fischel.

A. Good morning.

Q. Let me start by handing you what we've marked as Exhibit 1, and we're going to start at 1 and run consecutively.

A. Okay.

(Whereupon, Exhibit 1 marked.)

(Whereupon, the document was tendered.)

BY MR. FARINA:

Q. You're familiar with that document?

A. No, I'm not actually. I don't know what this is.

Q. I'll tell you this is the verdict form from the first trial. It's the one that the jury actually filled out.

Have you looked at this verdict form since the first trial?

A. No, I didn't look at it at the time or I -- and I haven't look at it subsequently.

Q. So you haven't used this verdict form in any way in creating your damages models?

A. I have not. My damages models predated the existence of this form.

Q. Now, when you presented your damages models in the first trial, you were making certain assumptions about liability; is that correct?

A. That's probably fair to say. That's correct.

Q. And the jury in the first trial actually made findings as to liability. And at the time, the

plaintiffs were presenting 40 separate alleged misstatements.

Do you recall that?

A. No, I don't.

Q. Okay.

A. I'm not disagreeing, I just don't recall it one way or the other.

Q. And you understand that the jury in the first trial agreed with the plaintiffs as to 17 of the alleged misstatements and disagreed with the plaintiffs as to 23 of the alleged misstatements.

A. Again, that may be right. I don't know. But I don't have any familiarity with that one way or the other.

Q. So that's not something that you've taken into account in presenting your damages model in the retrial?

A. I haven't specifically taken that into account, no.

Q. Could you take a look at the document that's before you? And if you want to peruse the document, that's fine with me, but I would like to direct you to Page 40 of the document.

A. Okay. All right. I have it.

Q. So the way this is laid out, there is a separate question for each of the 40 alleged misstatements. And the jury decided whether or not Household and the individuals had made misstatements that were actionable or not made misstatements, and this particular page goes to statement No. 40.

Do you see that?

A. I see it, yes.

Q. And do you see that the jury rejected the alleged misstatement No. 40?

A. I do.

Q. All right. Now, did you make any adjustment to your damages analysis to take into account that the jury had rejected this alleged misstatement?

A. As I said, I didn't look at this document. I think I adjusted my -- the dates for the beginning of my damage calculations using the exact same model with one slight adjustment for the first three days. That's all I did.

Q. So I'll represent to you that the statements run chronologically, so statement No. 40 would be the last alleged misstatement. And if you want to verify that I can walk you through the document.

A. You could do whatever you'd like. I've never looked at this document. And like I said, it didn't play any role in the damage analysis that I did either at the trial or what I have presented in my reports in connection with the potential retrial.

Q. All right. If you would flip to Page 39.

A. Okay. I have it.

Q. So this is statement 39. You'll see the jury rejected that alleged misstatement as well?

A. I see that.

Q. And I take it your answer is the same, you haven't reduced your damages in any way to take into account that the jury rejected this particular alleged misstatement?

A. It's really the same answer. This document played -- this particular document played no role in my analysis of my damage model or calculations. The only adjustments I made are the ones that I've stated.

Q. Okay. But it's not just this document. Your model doesn't take into account the fact that the jury rejected this alleged misstatement.

A. I can't speak to this alleged misstatement because I don't know what this particular misstatement means in the connection -- in connection with the case. I did modify my model to have a different starting date because of what I understood the jury found with respect to what the jury considered to be the first false and misleading statement so I did take the -- my understanding of the jury verdict into account in that way.

I also made a slight adjustment for the first three days of the class period based on what -- I guess what I call the new class period based on my understanding of the 7th Circuit opinion. But other than that, I kept everything the same.

Q. And if you would turn to Page 14 of the document.

A. Okay. I have it.

Q. That is statement No. 14, and you'll see that there are "yes" boxes checked or "yes" lines checked. I'll represent to you that that's the first alleged misstatement that the jury found.

So your testimony is you took this particular misstatement into account by adjusting the starting point for your model; is that fair?

A. I don't know if it's fair or not. I don't want to comment on this particular document because, as I said, I've never seen it, I didn't review it. I've already told you what I did in connection with my damage model in this part of the proceeding as opposed to what I did at the time of the original retrial.

And I guess I would also say, my understanding at this point, the existence of the fraud has been established by the jury verdict and subsequent judicial ruling so it's no longer an assumption.

Q. I agree with that. What's been established are the 17 specific misstatements that the jury found.

Would you agree with that?

A. You know, I've already said, I don't have a specific understanding, without checking, of exactly how many misstatements the jury found to be false and misleading.

Q. But you understand that the jury accepted certain misstatements and rejected others?

A. I guess on some general level I understand that.

Q. All right.

A. And that -- again, that is really the motivation for the change in the starting date for purposes of my damage model.

Q. Would you agree that your role as an expert in the retrial is to help the jury determine whether the 17 misstatements caused any injury and to help quantify those damages?

A. Well, I don't want to keep repeating myself. I don't know whether 17 is the right number, the wrong number. But I agree, my role in the retrial, subject to the Court's rulings and what the jury determines, is to analyze the artificial inflation resulting from the fraud committed by Household and its executives.

Q. Well, to be more precise, it's analyzing the damages that you believe were caused by the -- however many number, whatever the number is, I'll represent to you it's 17, it's trying to determine the damages that were caused by those 17 misstatements, correct?

A. Actually, I prefer my own formulation in my last answer. My analysis was to measure the existence and magnitude of artificial inflation under two different damage models, and that's what I did.

Q. But the fraud that you're measuring damages for has been fixed by the jury as being comprised of those misstatements.

Would you agree with that?

A. Well, you keep using the word "damages." I'm using the word "inflation" because I think there is a difference.

But apart from that, my role, to the extent that it's permitted by the Court, is to do exactly what I said, to measure the existence of artificial inflation under two different damage models resulting from the fraud committed by Household and its executives.

Q. Would you agree that any damages model that you offer to the jury in the second trial has to be based upon and consistent with the jury's findings in the first trial that were not vacated on appeal?

A. You keep using the words "damages." I can start my answer every single time by talking about inflation as opposed to damages so I'll do it again.

But apart from that, it sounds like you're asking for a legal opinion. I've already described what my understanding of my role is and I've already said it's subject to whatever judicial rulings the Court makes about the relevance of my analysis of inflation under my two different models

in connection with the fraud that's been established against Household and its executives.

Q. I'll ask it this way: Did you attempt to conform your models of inflation to the findings that were found by the jury?

A. I would say yes in the way that I've described.

Q. And you would agree that for your models to be helpful to the jury in determining damages in this case that was caused by the 17 misstatements, you would have to be offering a model that is predicated on the jury's actual findings?

A. You know, you've asked me that question multiple times now in different ways and I will give you the same answer every time. I've told you what I've done, and whether that is consistent with the Court's rulings will be determined by the Court. Whether it's helpful to the jury, assuming it's permitted by the Court, will be determined by the jury. And I really don't have anything to add beyond that.

Q. Okay. If you go to -- let's just take one, let's go to statement 38 on Page 38.

MR. BURKHOLZ: Can you actually show him the statement you're talking about?

MR. FARINA: Sure. It's actually in the document.

BY MR. FARINA:

Q. The way this works is you have the -- it's broken out in different sections. The section we're in right now is just a list of the statements. But if you go further in the document, you'll see that the statements are actually laid out. So it's towards the back. So 38 is on Page 26 of the second part of the document.

A. Okay. I have it.

Q. Actually, it runs on two.

MR. BURKHOLZ: Is it 38 you're asking him about?

MR. FARINA: Yes.

BY MR. FARINA:

Q. So you see the statement 38?

A. I do.

Q. So how did the misrepresentation that is statement 38 cause inflation in Household's stock according to your model?

A. I'm not sure how to answer that other than what I've already said. My understanding is that the jury found that Household and its executives executed a massive fraud. The first

false and misleading statement in connection with that fraud was on March 23, if I remember correctly, 2001, with the fraud fully revealed I think October 11, 2002.

The fraud involved fraudulent statements in three areas and that -- where the first false and misleading statement with pred- -- dealt with predatory lending. Other false and misleading statements dealt with some combination of the three areas of the fraud.

And based on that understanding, which was originally an assumption, as you stated, but later determined to be a fraud in those three areas in the way that I said, I calculated by two particular models of inflation.

Q. Did statement No. 38 cause inflation in Household's stock? And I'm focusing particularly on statement 38.

A. Well, as I sit here, I don't have an opinion one way or the other, other than the subject matter of statement 38, to the extent it involved one of the three areas found to be fraudulent by the jury, I would say did cause an inflation in Household's stock, even if the nature of that fraud was a failure to make corrective statements about

this subject or subjects at earlier points in time in a fraudulent way as determined by the jury.

Q. If the jury had rejected statement No. 38 as it did statements No. 39 and 40, that wouldn't have changed the inflation generated by your models, correct?

MR. BURKHOLZ: Objection to form.

BY THE WITNESS:

A. I'm not sure I would be able to give an answer to that question. But in terms of my model, I've already told you what I did and what it was based on.

BY MR. FARINA:

Q. You didn't make any adjustment to take into account that the jury rejected statements 39 and 40, correct?

MR. BURKHOLZ: Objection. Asked and answered about five times.

BY THE WITNESS:

A. As I said, I didn't look at this particular form at any point in time. This is the first time I've seen it, to the best of my knowledge today, and I've told you what I did.

BY MR. FARINA:

Q. Okay. So with respect to all of the

statements that were rejected by the jury that come after the first misstatement found by the jury, the fact that the jury rejected those misstatements did not cause you to change in any way your opinion?

MR. BURKHOLZ: Objection. Asked and answered.

BY THE WITNESS:

A. Well, I mentioned that I did make an adjustment for the first three days based on my understanding of the holding of the court of appeals and because the jury found that Household and its executives committed a massive fraud in the three areas that I identified, which was originally assumption and now is established by the jury in subsequent judicial rulings, other than changing the starting date and making the adjustment for the three days, that's what I did.

BY MR. FARINA:

Q. All right. So the jury's -- if you could take that document, open it up again to Page 35.

A. Okay.

Q. I'll try to run through this quickly, but the jury's finding as to statement No. 35 didn't impact your model in any way?

A. It's really the same answers to all of these different questions. I haven't looked at this document before. It's the first time I've ever seen it. I've already described what I did, what changes I made and I can't be any more specific than that.

Q. That's fine. Same answer for statement No. 34?

A. Same answer for any statement that you ask me about.

Q. Okay.

A. Other than what I've already described.

Q. Professor Fischel, you are offering two different damages or inflation models for the jury's consideration in this case; is that fair?

A. Correct.

Q. And one of which I'll refer to, I think you refer to it also, as a specific disclosure model?

A. Correct.

Q. And one is a leakage model?

A. Correct.

Q. All right.

(Whereupon, Exhibit 2 marked.)

(Whereupon, the document was tendered.)

BY MR. FARINA:

Q. I'll hand what you we've marked as Exhibit No. 2.

A. Thank you.

Q. Exhibit No. 2 is Exhibit 25 to your second supplemental report. Do you see that?

A. I do.

Q. And this document sets forth the inflation that's calculated by your two models, correct?

A. That's right.

Q. And if you go to the first page of the chart, there's a column "Artificial Inflation" under "Quantification Using Specific Disclosures."

Do you see that?

A. I do.

Q. And to the far right there's another column, "Artificial Inflation," and that's under the heading "Quantification Including Leakage," correct?

A. Correct.

Q. So those two columns set forth the amount of inflation according to your two different models, correct?

A. That's right.

Q. And there are also columns for true

value which is what your models tell you the true value of Household's stock was during this period of time?

A. Correct.

Q. Now, your two models offer very different results as to the amount of inflation that was allegedly present in Household's stock during this period.

Would you agree with that?

A. I would for reasons that I've testified about at the first trial.

Q. So by way of example, on the first page, the inflation according to your leakage model is $23.94 on every day on that first page apart from the first three days; is that correct?

A. That's right.

Q. And under your other model, the amount of inflation is about a third of that, it's 7.97 on every day, other than the first three days of this period?

A. Correct.

Q. So if you take a look, for example, at let's pick April 25, 2001. According to one of your models, Household stock had a fair value of $56.78?

A. Had a true value, that's right.

Q. And according to your other model, Household's true value was $40.81 per share?

A. Correct.

Q. And the disparity between the outputs of your two models continues all the way through up until the last two days of your leakage period, correct?

A. Correct.

Q. So, for example, if you take a look at January 4, 2002, the artificial inflation under your leakage model is $23.94?

A. January 1?

Q. January 4.

A. I'm sorry. Correct.

Q. Okay. And the inflation under your other model is $3.66, correct?

A. Correct.

Q. So the inflation under your leakage model is about 6-1/2 times greater than what your other model says the inflation is?

A. On that date, correct.

Q. On that date. So if you take a look at, let's just take another date, August 22, 2002.

A. Okay. I see it.

Q. What's the artificial inflation

according to your specific disclosure model?

A. 32 cents.

Q. What's your artificial inflation according to your leakage model?

A. $8.14.

Q. So that's more than 25 times greater than what your other model is telling you the inflation is?

A. I haven't done the arithmetic but it looks approximately right.

Q. And as you walk through this exhibit, you'll see that there are days when the inflation goes up on one model but doesn't go up on the other model.

A. That's possible.

Q. And there are days when the inflation goes down on one model but not on the other model.

A. That's also possible.

Q. And there's only it looks like five days out of 389 days where your two models actually generate consistent results.

MR. BURKHOLZ: Objection. I don't even know what you mean by "consistent results." It's a vague question.

BY MR. FARINA:

Q. There are only five days out of 398 days where your two models say that the inflation is the same.

MR. BURKHOLZ: Same objection.

BY THE WITNESS:

A. You know, I haven't counted. I guess I can if you ask me to, but the two models are measuring inflation in different ways.

You know, again, for reasons that I explained in the first trial and as found and endorsed by the jury and my understanding affirmed by the 7th Circuit and also by the new judge on remand.

BY MR. FARINA:

Q. Both of your models are attempting to calculate the amount of inflation in Household stock, correct?

A. That's right. Under different assumptions, again, as explained by me during the first trial.

Q. Take a look, if you would, at 11/5/01.

A. Okay.

Q. Do you recall the significance of 11/5/01? That's the first specific disclosure that you found. Do you recall that?

MR. BURKHOLZ: Object to the --

MR. FARINA: I might have misspoken. 11/15.

BY THE WITNESS:

A. I see. 11/15/01 as I recall is the first corrected disclosure.

BY MR. FARINA:

Q. Got it. So on 11/15/01 there was information that was disclosed to the markets that, according to you, corrected some of the prior misinformation that the markets had.

A. Yes. But I think at this point I think that was also as found by the jury.

Q. Is it your understanding that the jury made specific findings about days on which there was a corrective disclosure?

A. I think the jury, by accepting my testimony, either explicitly or implicitly made that finding.

Q. You understand that the findings as to causation and damages have been vacated and are going to be retried which is why we're here.

A. You know, I'll leave the legal characterization to others. I understand there is a retrial on certain issues.

Q. Okay. So on 11/15/01, because of the corrective disclosure, the inflation under your specific disclosure model goes down by $1.86; is that correct?

A. Correct.

Q. Now, what happens to the inflation under your other model?

A. It stays the same.

Q. So there's a corrective disclosure made to the markets and under one of your models the inflation goes down and under your other model it doesn't budge.

A. That's right.

Q. So your two models are telling you two different things about what's happening to Household on that day.

A. They're measuring different things using different methodologies for reasons based on the factual circumstances in the case as now found to be those circumstances constituting a massive fraud by Household and its executives. And I already explained at the first trial the nature of the different methodologies employed in the two models and which one I thought was more reliable.

And as I said, I'm aware there's

those indices both declined during your leakage period. Your point is that Household declined more, correct?

A. I think that is something I stated in my reports. I think that's correct.

Q. All right.

A. And possibly at the trial as well.

Q. So any time the performance of Household's stock on any day during your leakage period was different than the predicted return, you attributed that difference to the leakage of fraud-related information, correct?

A. It is true that the -- in the leakage period, the actual return on every day is replaced by a predicted return produced by a particular regression, and that difference is an input into the calculation of artificial inflation under the leakage model, that's correct.

Q. Okay. So any time there is a departure from the predicted return, that is attributed by your model to artificial inflation?

A. Well, during a period of leakage --

Q. During a period of leakage.

A. When there is no leakage, actual returns are used in the calculation. And I don't want to keep adding this caveat to what you keep saying in your question, but it is true that I applied a leakage model and I concluded that it was appropriate to apply under the facts and circumstances of this case, but I don't want to claim credit for the existence of the model, which I think was developed in an article by Cornell and Morgan.

Q. Professor Fischel, just mechanically, during your 228 trading day leakage period, mechanically the way your model works is that any residual on any day, that residual is attributed to the leakage of fraud-related information. That's just how your model works, correct?

MR. BURKHOLZ: Objection. Compound and asked and answered.

BY THE WITNESS:

A. Well, I'm just going to repeat what I just said, that it is true that during the leakage period, as part of the calculation of the quantification of leakage, actual returns are replaced by predicted returns. And the difference between actual returns and predicted returns residuals are input into the calculation of the quantification of leakage.

But I also think it's important when you keep referring to my model, it is my quantification of leakage but the model originated with -- in an article by Cornell and Morgan which I concluded was appropriate to use under the facts and circumstances of this case.

BY MR. FARINA:

Q. Your model, the way it works, rejects the possibility that any departure from the predicted return could have been caused by something other than the leakage of fraud-related information; isn't that true?

A. I'm not going to keep repeating the caveat when you keep referring to the term "my model," but that's my quantification of leakage. If you use that language, then we won't have to have this modification of your question every time you ask it.

But the way that the leakage model works is exactly as you describe, you know, with the result that positive divergences, as well as negative divergences between actual and predicted returns are all factored into the quantification of leakage.

Q. The fraud inflation pursuant to your quantification is unrelated in any way to the actual misstatements found by the jury; isn't that correct?

MR. BURKHOLZ: Objection. Vague.

BY THE WITNESS:

A. I'm sorry. I didn't understand that question.

BY MR. FARINA:

Q. Sure. The model that you're offering to calculate damages, the leakage model, calculates inflation by reference to the residuals during every day in your leakage period, that's what we've just been discussing.

So what doesn't factor into that analysis are the jury's findings of particular misstatements on particular days, correct?

A. I'm not sure I understood what you mean by it doesn't factor into the analysis because the quantification of leakage is a quantification of the leakage of information following the fraudulent disclosures by Household and its executives. So to say it doesn't relate I think really does not capture the reality of the exercise or why the quantification of leakage is being performed.

Q. Well, when we started this deposition, you were not even aware of the 17 misstatements that

were actually found by the jury, and you testified that you didn't take into account the statements that were accepted or rejected in your leakage period; isn't that true?

MR. BURKHOLZ: Objection. Misstates the testimony. You asked him about the verdict form, not about the jury verdict.

BY THE WITNESS:

A. I think you've mischaracterized my testimony. I think I described what I did in response to the jury verdict and my understanding of that verdict and subsequent judicial rulings.

My understanding again, as I've stated without any intention to give a legal opinion, is that because the -- there was a fraudulent disclosure which covered all three aspects of the fraud three days after the first fraudulent disclosure by Household, there wasn't any need for any further allocation among the three elements of the fraud and therefore I didn't perform any separate allocation other than for the first three days, as I described. But beyond that, as I testified, I don't have any particular familiarity with the verdict form which I never looked at before today.

BY MR. FARINA:

Q. So just to be clear, take a look at Exhibit 2. That includes your artificial inflation pursuant to your quantification including leakage.

A. Okay. I see that.

Q. All right. Your disclosure period starts on 11/15/01, correct?

A. My disclosure period?

Q. Your leakage period.

A. Well, the disclosure period and the leakage period are not the same thing, so which one are you asking me about?

Q. Don't they both start on 11/15/01 and continue through 10/11/02?

A. No. No, they don't. The first false and misleading disclosure, my understanding, is found by the jury was in March of -- March 23 of 2001. And the first corrective disclosure is on November 15, 2001. Those are not the same thing.

Q. I was referring to the corrective disclosure period under your specific disclosure model. Both your --

A. Excuse me. You may have been referring to it but you didn't say it.

Q. That's fair, fair enough. The different experts refer to these periods differently.

Your leakage period starts on 11/15/01, correct?

A. That's correct.

Q. That is also your specific disclosure period, correct? It starts on 11/15/01?

A. Well, I wouldn't put it exactly that way. I would say all of the corrective disclosures that are used in the specific disclosure model occurred during the leakage period beginning on November 15, 2001, that's correct.

Q. The artificial inflation that the model calculates during the leakage period, 11/15/01 through 10/11/02 is no different now than it was when you first presented the model to the jury in the first trial, correct?

MR. BURKHOLZ: Objection. Asked and answered. He already explained it, the modification he made.

MR. FARINA: There is no modification in that period. That's the point.

BY THE WITNESS:

A. There's no modification to the testimony about what I consider the first corrective disclosure to be, so in that sense I agree with your question.

BY MR. FARINA:

Q. All right.

MR. BURKHOLZ: Is this a good time to break? We've been going just over an hour.

MR. FARINA: That's fine.

THE VIDEOGRAPHER: Off the record. The time is now 11:12 a.m.

(There was an intermission
from 11:12 a.m. to 11:27 a.m.)

THE VIDEOGRAPHER: Going on the record. This marks the beginning of Media No. 3. The time is now 11:27 a.m.

BY MR. FARINA:

Q. Professor Fischel, let me hand you what we've marked as Exhibit 5.

(Whereupon, Exhibit 5 marked.)

(Whereupon, the document was tendered.)

BY MR. FARINA:

Q. Exhibit 5 is your Exhibit 25, and what we've done is we've highlighted the days on which the jury found a misrepresentation. That's the difference between Exhibit 5 and Exhibit 2.

A. Okay.

Q. Take a look, if you would, at the period February 6, 2002 through March 8, 2002.

A. February 6, 2002?

Q. Yes. So on February 6, 2002, the inflation according to your leakage model was $12.47?

A. Correct.

Q. All right. Now, if you look at 3/8/02, your inflation had gone from $12 to almost $24, correct?

A. Correct.

Q. So your inflation goes up by 11.47, nearly doubling; is that right?

A. Correct.

Q. Was there any misrepresentation found by the jury during this period when your fraud inflation almost doubles?

A. Well, I can't really speak what was found by the jury. Just again, I just accept your representation about this highlighting, but as I said, I can't speak to what was found by the jury other than the jury found the existence of leakage and agreed with my quantification of leakage. So in that sense, my understanding of what the jury concluded is consistent with the methodology that I

employed and the conclusions that I reached.

Q. You understand that that portion of the jury's findings have been vacated by the 7th Circuit?

A. Well, you just asked me what I -- about what the jury found. So if you want to ask me something else, obviously feel free to do it. But if you're asking me what the jury found, that's not a function of what the court of appeals subsequently did.

Q. Your model pumps nearly $12 of artificial inflation into the price of Household stock during a period when there was no misrepresentation found by the jury; isn't that true?

MR. BURKHOLZ: Objection. The question is vague, what you mean by "pumps."

BY THE WITNESS:

A. Well, again, it's a loaded question with rhetoric which I don't want to adopt by acquiescence. But I am not sure now because you keep asking me what the jury found and what was vacated by the jury. Which are you asking me about?

BY MR. FARINA:

Q. There are 17 misrepresentations that

were found by the jury and 23 that were rejected. We've highlighted the 17 -- the days on which there was one of the 17 misrepresentations found by the jury. And there is no misrepresentation found by the jury during the period when your model says that the artificial inflation in Household stock went from $12.47 to $23.94; isn't that correct?

A. It's a highly misleading question because first of all, it ignores the fact that the jury also found the existence of leakage, since you keep asking me what the jury found, and because of the jury finding of leakage, its findings are not limited to particular alleged false and misleading statements.

And secondly, it is my quantification of leakage but it's based on a model developed by Cornell and Morgan which I concluded was appropriate to use under the facts and circumstances of this case.

Q. The output of the model as reflected in this exhibit is that the inflation nearly doubles during a period when there was no misrepresentation found by the jury; isn't that true?

A. I think I just answered that question. There's no highlighted yellow date, but the question

as stated is highly misleading because it does not take into account that the jury also found the existence of leakage during the particular period that you are asking me about in your question.

Q. According to the model, the amount of inflation in Household's shares is not going down because of leakage. Somehow it manages to go up by $11.47 during a period where there was no misrepresentation; isn't that true?

MR. BURKHOLZ: Objection. Asked and answered.

Go ahead.

BY THE WITNESS:

A. I can't really add to what I said. I used the standard methodology in the way that I've described and have produced the results that are produced. The jury, my understanding is, agreed with my quantification of inflation using the leakage model. And I think it's a fundamental misunderstanding of the leakage model to suggest that changes in the measure of the quantification of inflation can only occur when there are specific false and misleading statements.

The whole concept of leakage is premised on the idea that inflation can vary, it can the relationship to the jury's findings about false and misleading disclosures.

BY MR. FARINA:

Q. If your quantification including leakage was inconsistent with the jury's specific findings as to misrepresentations, would you agree that is a problem?

A. You know, again, I'm not sure how to answer that question because I don't understand it. But whether or not there is a problem, to use your phrase, I guess will be determined by the court and the jury when I present my testimony, if I'm asked to give it, about one or both of my quantifications.

Q. But if your quantification including leakage is inconsistent with the jury's specific findings as to the misrepresentations in this case, would you personally have -- believe that to be a problem?

MR. BURKHOLZ: Objection. Asked and answered.

BY THE WITNESS:

A. I don't understand that question as to what inconsistency is that you're referring to. I don't know there's any inconsistency. But ultimately, the judge of that will be the court and

the jury.

BY MR. FARINA:

Q. So I don't know that we're going to agree as to whether there is an inconsistency so that's not what I'm asking you.

But you would agree if there is an inconsistency, that is a problem because a damages and causation model needs to match up with the actual liability findings, correct?

MR. BURKHOLZ: Objection. It's vague and it's been asked and answered twice now.

BY THE WITNESS:

A. I absolutely agree there has to be a relationship between a quantification of inflation and the relevant facts and circumstances in the case. I think that's correct.

BY MR. FARINA:

Q. That's not what I asked though. I asked whether there has to be a relationship between the quantification including leakage and the jury's specific findings that are reflected in that verdict form that we looked at. That's my question.

MR. BURKHOLZ: Same objection. Asked and answered three times now.

BY THE WITNESS:

A. It's the same answer. I don't think there's any inconsistency. I've already described I don't think there's any inconsistency. I've already described the basis of the standard methodology that I used under both my quantification based on leakage and my quantification based on specific disclosures if my conclusion on those issues is ultimately adopted as a function of what the court and the jury ultimately decide, assuming that I'm asked to give that testimony.

BY MR. FARINA:

Q. Let's change gears.

I'm going to give you a hypothetical and I'm going to ask you a couple questions.

So a study is published in a medical journal and the study calls into question the safety or efficacy of a class of drugs. Okay? And there are some manufacturers, some pharmaceutical companies that make those class of drugs and some that don't.

Is that firm-specific information, the publication of this study questioning the efficacy or safety of a particular class of drugs?

A. I want to analyze all the facts and

circumstances of your hypothetical, but to the extent it's a regulatory action affecting an industry, I would say it's a regulatory action affecting an industry as opposed to affecting a single specific firm.

Q. Well, that wasn't exactly my question. Let me try again.

So let's say that there is a study published that says that cox-2 drugs give rise to coronary hazards. And there are 12 pharmaceutical companies that are in some pharmaceutical index and only four of them make cox-2 drugs. And the study's bad. So it has an impact on the four pharmaceutical companies that sell cox-2 drugs, but it has an opposite effect on the other companies in that industry that don't sell cox-2 drugs because if patients are not going to be using cox-2 drugs, maybe they'll use alternatives that they manufacture.

So it's information that disproportionately impacts a small number of companies within an industry but doesn't impact the entire industry the same way.

Is that firm-specific or not?

A. The way you described it, if I