

The Household Defendants respectfully submit this Status Report to summarize the current status of the action and to raise several matters that Defendants would like to discuss at the February 12, 2007 status conference and to provide the Court with the context in which these matters arise. Defendants believe that the Court's consideration, and, where appropriate, resolution of these matters, will greatly assist the parties in concluding certain fact discovery matters that have remained open following the January 31, 2007 cut-off.

1. Recent Ruling by Judge Guzman

In a February 1, 2007 decision (received by the parties on February 5, 2007), Judge Guzman affirmed this Court's December 6, 2006 Order granting Plaintiffs' motion to compel production of certain privileged E&Y communications and denying Plaintiffs' motion to compel production of privileged communications with WilmerHale. Defendants are in the process of producing the E&Y documents encompassed by the December 6 Order, and anticipate making this production on Monday, February 12.

2. Plaintiffs' Depositions

Attached as Exhibit A to this Status Report is an update of the list of Plaintiffs' Depositions that Defendants have submitted as an exhibit to several prior status reports. Exhibit A shows (on page 3) that Plaintiffs have already taken 47 depositions to date and that if they proceeded with all the depositions they have noticed, the total would exceed 55 by three. This list includes no. 57, Andrew Kahr, whom Plaintiffs have failed to serve with a subpoena, and no. 58, WilmerHale. Although it appears that Plaintiffs will not proceed with these two depositions,

Plaintiffs currently are attempting to schedule two separate depositions of Morgan Stanley & Co., Inc., which would bring their total to 56.¹

Now that the various motions and objections have been determined, Plaintiffs should be instructed to make their final cut of depositions within the Court-ordered limit of 55 and notify Defendants of their final list now.

3. Defendants' Deposition of Named Plaintiff The AMS Fund

On January 30, 2007, Defendants served a notice for a Rule 30(b)(6) deposition of one of the two named, but not lead Plaintiffs, The Archdiocese of Milwaukee Supporting Fund, Inc. ("The AMS Fund"). The scope of this deposition will differ from those Defendants noticed of the lead Plaintiffs that this Court declined to authorize in its November 29, 2006 Order (a

¹ One noticed Morgan Stanley deposition is of Ken Posner, an analyst, pursuant to a March 7, 2006 subpoena issued to Morgan Stanley seeking deposition testimony pertaining to (i) Research Reports issued by Morgan Stanley on Household and/or Household securities, (ii) Morgan Stanley's review and analysis of the Washington Department of Financial Institutions report on Household's lending practices, (iii) Morgan Stanley's October 10, 2002 Research Report on Household International, and (iv) any "financial services performed by Morgan Stanley for or on behalf of Household." The second Morgan Stanley deposition that Plaintiffs are attempting to schedule is that of Jonathan Pruzan, a Morgan Stanley investment banker, with respect to the 2003 merger between Household and HSBC. Plaintiffs apparently seek this deposition as a substitute for the deposition of Jeremy Capstick of Morgan Stanley International Limited in the UK that Plaintiffs secured through Letters of Request issued by this Court, but subsequently abandoned, although Morgan Stanley UK had offered dates prior to the January 31 discovery cut-off. As detailed in our Status Report dated January 22, 2007 (submitted prior to the January 24, 2007 status conference), Plaintiffs had kept Defendants in the dark about the proffered date or the date in early January ordered by the High Court of Justice, Queen's Bench Division at a hearing in late December.) The subject of Mr. Capstick's deposition, according to the Letters of Request, was to be the March 2003 merger between HSBC Holdings plc and Household International. Defendants understand that Mr. Pruzan, a Morgan Stanley investment banker located in New York, is to be questioned on this same subject. Plaintiffs' pursuit of two Morgan Stanley depositions, one pursuant to a March 2006 subpoena under the Federal Rules of Civil Procedure and one in place of a deposition obtained in the UK through letters of request pursuant to the Hague Convention, should be counted as two separate depositions, in keeping with this Court's previous ruling that two deposition notices of Household on different subjects were to be counted as two depositions.

ruling affirmed by Judge Guzman in a January 29, 2007 decision). That ruling denied Defendants' motion to depose the named Plaintiffs (and their investment advisors) prior to any determination of class-wide liability in aid of Defendants' "truth on the market" defense. However, as discussed briefly during the January 24 status conference, Defendants seek testimony from The AMS Fund regarding its pending motion as a lead plaintiff in another securities fraud class action to remove the Lerach firm as class counsel. Paragraph 12 of Defendants' Rule 30(b)(6) deposition notice of the AMS Fund seeks testimony with respect to:

"Your Motion for Substitution of Lead Counsel, filed November 22, 2006, seeking to replace William S. Lerach of Lerach Coughlin Stoia Geller Rudman & Robbins LLP, as lead counsel in the lawsuit entitled Archdiocese of Milwaukee Supporting Fund, Inc. v. Halliburton Company, et al., No. 3:02-CV-1152-M, pending in the United States District Court for the Northern District of Texas."

This deposition will focus primarily on information in the deponent's possession regarding the adequacy of the Lerach firm as lead counsel in Halliburton that may have a bearing on the continued suitability of that firm's lead counsel status here. This issue does not relate solely to an individual Plaintiff, but rather is relevant to the entire Class and the overall conduct of the litigation. In a February 1, 2007 letter, Plaintiffs said that they considered all deposition notices served by Defendants on all lead or named Plaintiffs, including The AMS Fund, as "null" and "withdrawn" in light of Judge Guzman's January 29 decision. In a February 5, 2007 letter, Defendants disputed Plaintiffs' assertion and requested dates for The AMS Fund's deposition. To date, Plaintiffs have not provided the requested dates. At a meet and confer on February 9, 2007, Plaintiffs again refused to provide dates for an AMS Fund deposition.. As noted above, Defendant' deposition notice of The AMS Fund, and in particular paragraph 12 of that notice, is not encompassed within either the letter or rationale of this Court's or Judge Guzman's ruling as

to depositions of the named Plaintiffs. Defendants request that the Court direct Plaintiffs to produce The AMS Fund for its deposition and to provide Defendants, by a date certain, with available dates in the near future for this deposition. Defendants are prepared to file a motion to compel on this subject.

4. Plaintiffs' Recent Motions

On January 31, 2007 Plaintiffs filed a motion for various evidentiary sanctions against Defendants. (Plaintiffs noticed this motion for presentment during the February 12 status conference.) Defendants believe this motion is wholly without merit as indicated below (and as will be discussed in greater detail in our separate opposition which we intend to file pursuant to any briefing schedule that may be set).

The first prong of Plaintiffs' motion seeks sanctions for two instructions not to answer questions that occurred late in the day during the January 25, 2007 deposition of Douglas Friedrich, a former Household employee. In the context of the entire seven-hour deposition in which over 100 documents were marked as exhibits, these instructions were proper and in no way justify the extraordinary remedy of the sanctions proposed by Plaintiffs. The instructions were fully in accord with both Fed. R. Civ. P. 30(d)(1) and (d)(4) which allows instructions where a deposition is "conducted in bad faith or in such manner as unreasonably to annoy, embarrass, or oppress the deponent or party" and the recognition by this Court that counsel may direct a witness not to answer a question to preserve a privilege or in cases of "very extreme badgering." The instructions at issue were properly made at the end of a long deposition characterized by oppressive and harassing behavior by Plaintiffs' counsel, including lengthy, redundant, vague and irrelevant questioning (which will be described in detail in our opposition papers).

The second prong of Plaintiffs' January 31 motion seeks a judicially-imposed admission that there were no employees in Household's Quality Assurance and Compliance ("QAC") department during the years 1999-2000 because, according to Plaintiffs claim, Defendants did not produce any single document with this information. This request has no basis in fact because documents produced by Defendants and deposition testimony clearly establish that there were employees in QAC throughout the Class Period, including during 1999-2000. Plaintiffs' sanction request is improper because it would require the Court to deem true a so-called "fact" that is directly contrary to the record and, therefore, would amount to the imposition of sanctions without any sanctionable conduct.

In addition, on February 7, 2007, Plaintiffs filed two motions for reconsideration of prior orders of this Court: (i) the January 24, 2007 Order holding certain KPMG litigation letters to be protected as work product; and (ii) the January 24, 2007 Order rejecting Plaintiffs' demand that Household produce individual trade slips for its stock repurchases. Defendants believe that the Court need not entertain these motions as its prior orders were unambiguous and based on a full understanding of the relevant facts and law. If the Court believes otherwise and wishes to reconsider its rulings, Defendants will be glad to submit opposition papers to the Court.

5. Plaintiffs' Improper Use of and Failure to Return Recalled Documents

In a November 6, 2006 ruling, the Court ordered that inadvertently produced state regulatory agency documents from several states were protected from disclosure because of the States' assertions of privilege. In a series of letters, Defendants requested that Plaintiffs, pursuant to Paragraph 28 of the Protective Order, destroy or return all of the inadvertently produced state agency documents. Nevertheless, Plaintiffs attempted to use one of the North

Carolina documents, Bates-stamped HHS 02908305-12 (the destruction or return of which was most recently requested in a January 19, 2007 letter) at the January 25, 2007 deposition of Kathleen Curtin of Household. Furthermore, in their January 29, 2007 responses to Defendants' interrogatories, Plaintiffs identify numerous other documents that the Court has determined to be protected by various state agencies' deliberative process privileges and that Defendants have demanded that Plaintiffs return or destroy. *E.g.*, HHS 02856014-18 (Delaware); HHS 02859179-90 (Wisconsin); HHS 02859203-11 (Wisconsin). Plaintiffs' continued use of these documents is a blatant violation of both the Protective Order in this action and the Court's November 16, 2006 Order regarding state agency documents.

This specific violation by Plaintiffs is but one example of the larger issue of Plaintiffs' continuing use of recalled privileged documents at depositions and in briefs filed with the Court — as if a proper recall notification simply did not exist and/or Plaintiffs, rather than the Court, had the right to resolve disputes regarding assertions of privilege. For example, a document recalled after the December 7 deposition of Kenneth Robin, Household's General Counsel, was subsequently attached as an exhibit to a declaration submitted by Plaintiffs in support of their motion to compel production of certain Andrew Kahr-related privileged documents.

Plaintiffs are continuing to use inadvertently produced privileged documents that have been properly recalled by Defendants pursuant to the Protective Order and, in many cases, pursuant to specific orders of this Court and/or Judge Guzman authorizing their recall. To prevent Plaintiffs' continuation of this practice, Defendants respectfully request that this Court order, by Friday, February 16, that Plaintiffs comply with the express terms of the Protective Order by returning or destroying all copies of recalled documents in their possession, retrieving

any copies of recalled documents that were disseminated to any of Plaintiffs' agents or contractors, and deleting all copies of recalled documents from all of their numerous databases. Given their persistent and repeated Protective Order violations, Plaintiffs should also be required to certify to Defendants and the Court that all of these steps have been taken by Friday, February 16.

6. Need For Plaintiffs' Certification that their Document Production is Complete

On a related certification issue, pursuant to the Court's January 24 order, Plaintiffs produced presumably all of their correspondence with various state agencies in connection with their FOIA requests to such states. This production was in response to Defendants' Second Request for the Production of Documents. Defendants respectfully ask the Court to require Plaintiffs, by a date certain, to certify that their production of documents pursuant to Defendants' entire Second Document Demand — *i.e.*, all documents received from the states and all correspondence with the states — is complete.

7. Plaintiffs' Deficient Responses to Defendants' Interrogatories

On January 29, 2007, pursuant to several orders of this Court and Judge Guzman's January 19 decision affirming this Court's ruling on the counting of Defendants' interrogatories, Plaintiffs served their Responses to Defendants' Third, Fourth and Fifth Sets of Interrogatories.² Defendants believe that these Responses are deficient in numerous respects, and in particular because there are many non-substantive responses. The parties conducted a meet and confer to discuss these deficiencies on Friday, February 9, 2007. During the meet and confer, Plaintiffs maintained their opposition to providing answers to some of the interrogatories

² On January 31, 2007, Defendants served a Sixth Set of Interrogatories, but Plaintiffs' responses to this Set are not yet due.

at issue. (They did agree to consider providing amended responses to other interrogatories and represented that they would get back to us as to those on February 13.) As the meet and confer was not successful in obtaining a firm commitment from Plaintiffs to correct all of the deficiencies in their Responses, Defendants will request a briefing schedule at the status conference for a motion to compel as to the deficiencies in Plaintiffs' Responses to Defendants' interrogatories (a motion that Defendants may have to augment after receiving Plaintiffs' responses this Tuesday as to the matters they agreed to consider).

Dated: February 9, 2007
Chicago, Illinois

Respectfully submitted,

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Exhibit A

February 9, 2007

PLAINTIFFS' DEPOSITIONS¹

Depositions Taken by Plaintiffs

- | | | | |
|-----|------------------|---|--|
| 1. | Household | — | Rule 30(b)(6) |
| 2. | Household | — | Rule 30(b)(6) ² |
| 3. | KPMG | — | Rule 30(b)(6) (William Long and Brian Stephens) |
| 4. | Apr. 6, 2005 | — | Elaine Markell |
| 5. | Feb. 24, 2006 | — | Walt Rybak |
| 6. | Mar. 8, 2006 | — | Curt Cunningham |
| 7. | Mar. 15-16, 2006 | — | Lew Walter |
| 8. | Mar. 28, 2006 | — | Per Ekholdt |
| 9. | Apr. 6, 2006 | — | Elisa Gargul |
| 10. | Apr. 11, 2006 | — | Celeste Murphy |
| 11. | Apr. 12 2006 | — | Scott Weintroub |
| 12. | Apr. 18, 2006 | — | Edgar Ancona |
| 13. | May 4, 2006 | — | Tom Schneider |
| 14. | May 24, 2006 | — | Robert O'Han |
| 15. | June 6, 2006 | — | Lisa Sodeika (Day 2 - Nov. 2, 2006) |
| 16. | June 13, 2006 | — | Lidney Clarke (Half day by telephone - Dec. 4, 2006) |
| 17. | June 21, 2006 | — | James Connaughton |
| 18. | June 22, 2006 | — | Ned Hennigan |

¹ All individuals listed are current or former Household employees unless otherwise indicated.

² Reflects ruling by Judge Nolan that all Household's seven Rule 30(b)(6) witnesses (one deposed on two days) count for two depositions (because of two 30(b)(6) notices.)

19. June 27, 2006 — Carin Rodemoyer
20. June 28, 2006 — Rich Peters
21. June 30, 2006 — David Little
22. July 12, 2006 — Margaret Sprude
23. July 28, 2006 — Paul Creatura
24. Aug. 10, 2006 — Cliff Mizialko
25. Aug. 18, 2006 — Megan Hayden Hakes
26. Aug. 25, 2006 — Louis Levy (former outside director)
27. Sept. 19, 2006 — Kay Nelson
28. Sept. 26, 2006 — Greg Fasana
29. Nov. 7, 2006 — Dennis Hueman
30. Nov. 8-9, 2006 — Dan Pantelis
31. Nov. 14, 2006 — Paul Makowski
32. Nov. 16, 2006 — Dan Anderson
33. Nov. 30, 2006 — Steve McDonald
34. Dec. 1, 2006 — John Davis
35. Dec. 5, 2006 — Stephen Hicks
36. Dec. 7, 2006 — Ken Robin
37. Dec. 14, 2006 — Larry Bangs
38. Dec. 14, 2006 — Ken Walker
39. Dec. 22, 2006 — Tom Detelich (thirty minutes by telephone - Jan. 31, 2007)
40. Jan. 8, 2007 — HSBC (Douglas Flint) (in UK pursuant to Letters of Request)

- 41. Jan. 11-12, 2007 — Gary Gilmer (individual defendant)
- 42. Jan. 24, 2007 — James Kauffman
- 43. Jan. 25, 2007 — Douglas Friedrich
- 44. Jan. 25, 2007 — Kay Curtin
- 45. Jan. 29-30, 2007 — William Aldinger (individual defendant)
- 46. Jan. 30, 2007 — Goldman Sachs (William Burgess)
- 47. Feb. 7-8, 2007 — Joe Vozar (individual defendant)

Depositions Scheduled

- 48. Feb. 15-16 - Robin Allcock
- 49. Feb. 21 - Craig Streem
- 50. Feb. 28-Mar. 1 - Dave Schoenholz (individual defendant)

Depositions Not Yet Scheduled

- 51. Morgan Stanley & Co., Inc. (Ken Posner (analyst) pursuant to Mar. 2006 subpoena)
- 52. Morgan Stanley & Co., Inc. (Jonathan Pruzan (investment banker) pursuant to agreement with Morgan Stanley)
- 53. Christopher Bianucci (Arthur Andersen)
- 54. John Keller (Arthur Andersen)
- 55. Ernst & Young (Judge Guzman denied Defendants' Objections to Court's ruling directing production of documents)
- 56. Wells Fargo (Plaintiffs have moved to compel compliance with subpoena)
- 57. Andrew Kahr (Consultant) (Plaintiffs authorized to serve subpoena on him abroad)
- 58. WilmerHale (Judge Guzman denied Plaintiffs' Objections to Court's ruling denying production of documents)

Deposition Abandoned

Morgan Stanley & Co. International Limited (Jeremy Capstick) (in UK pursuant to Letters of Request)