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, - *against* - HOUSEHOLD INTERNATIONAL, INC., ET. AL., Defendants.	Lead Case No. 02-C-5893 (Consolidated) CLASS ACTION Judge Ronald A. Guzman Magistrate Judge Nan R. Nolan

DECLARATION OF JANET A. BEER IN SUPPORT OF THE HOUSEHOLD DEFENDANTS' MOTION TO COMPEL PLAINTIFFS TO SUPPLEMENT THEIR INITIAL DISCLOSURES PURSUANT TO FED. R. CIV. P. 26(a)(1)(A)(iii)

I, JANET A. BEER, declare as follows:

1. I am a member of the bar of the State of New York and associated with the firm Cahill Gordon & Reindel LLP, attorneys for Household International, Inc., Household Finance Corporation, William F. Aldinger, David A. Schoenholz, Gary Gilmer, and J.A. Vozar, Defendants in this action. I have been admitted to appear before this Court *pro hac vice.* I submit this declaration to place before the Court certain information and documents referenced in Defendants' Motion to Compel Plaintiffs to Supplement Their Initial Disclosures Pursuant to Fe. R. Civ. P. 26(a)(1)(A)(iii).

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

3. Attached hereto as Exhibit B is a true and correct copy of the Lead Plaintiffs' Further Supplement to Their Prior Statement Regarding Damages, which was served upon Defendants by Plaintiffs in this action on February 1, 2008.

4. Attached hereto as Exhibit C are a true and correct copy of the Report of Daniel R. Fischel and a true and correct copy of Exhibit 53 to that Report, which were served upon Defendants by Plaintiffs in this action on August 15, 2007.

5. Attached hereto as Exhibit D is a true and correct copy of the Transcript of Proceedings Before the Honorable Ronald A. Guzman, dated September 4, 2007.

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

Executed this 14th day of February, 2008, in New York, New York.

Janet A. Beer

EXHIBIT A

UNITED STATES DISTRICT COURT

NORTHERN DISTRICT OF ILLINOIS

EASTERN DIVISION

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

REBUTTAL REPORT OF DANIEL R. FISCHEL

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

REBUTTAL REPORT OF DANIEL R. FISCHEL

I. INTRODUCTION

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

i. August 14, 2002

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

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

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

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

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

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

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

ii. April 9, 2002

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

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

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

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

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

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

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

iii. October 10, 2002 and October 11, 2002

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

16. Providian closed at $3.68 on November 14, 2001, opened at $3.02 on November 15, 2001, and closed at $2.87 on this day. In contrast, Household closed at $60.90 on November 14, 2001, opened at $60.60 on November 15, 2001, traded at $60.39 at 1:40 PM, and closed at $58.90 on this day.

17. Dr. Bajaj also claims that the CDC lawsuit was "stale" information because it was filed on November 9, 2001 and reported in the press on the same day. Bajaj Report at

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

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

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

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

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

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

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

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

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

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

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

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

See Exhibit K.

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

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

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

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

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

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

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

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

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

See Exhibit L.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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claims. *Id.* n. 21.

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

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

Daniel R. Fischel

February 1, 2008

EXHIBIT B

UNITED STATES DISTRICT COURT

NORTHERN DISTRICT OF ILLINOIS

EASTERN DIVISION

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

LEAD PLAINTIFFS' FURTHER SUPPLEMENT TO THEIR PRIOR STATEMENTS REGARDING DAMAGES

Lead plaintiffs further supplement their September 7, 2004 and October 24, 2007 statements regarding their damages theory in response to some of the criticisms of defendants' expert Dr. Mukesh Bajaj that lead plaintiffs have not provided sufficient information. Bajaj Report at 86-92.[1] Some of the issues raised by Dr. Bajaj have already been addressed by lead plaintiffs and their expert Professor Fischel. Other issues raised by Dr. Bajaj represent a misunderstanding by Dr. Bajaj of lead plaintiffs' damages theory or are inconsistent with such theory and thus, are not relevant to lead plaintiffs' obligations under the initial disclosures provisions of Fed R. Civ. P. 26(a)(1) (hereafter "Rule 26(a)(1)"). Lead plaintiffs have, therefore, satisfied their obligations to set forth a complete theory of their damages calculation under the initial disclosures provisions of Rule 26(a)(1).

A. Lead Plaintiffs' Proposed Method for "Matching"

Dr. Bajaj criticizes lead plaintiffs' proposed damages methodology for "fail[ing] to explain how shares bought on a particular date are to be 'matched' to shares sold."[2] Bajaj Report at 90. This is a damages calculation issue that the Court will adjudicate after a trial on class-wide liability, assuming that plaintiffs obtain a verdict, and is a question of law. *Arenson v. Broadcom Corp.*, No. SA CV 02-301-GLT (MLGx), 2004 U.S. Dist. LEXIS 27522 (C.D. Cal. Dec. 6, 2004) (citing *Crow Tribe of Indians v. Racicot*, 87 F.3d 1039, 1045 (9th Cir. 1996)). Notwithstanding that the issue is not ripe, in the interest of avoiding further disputes over lead plaintiffs' initial disclosure obligations, lead plaintiffs state that they intend to propose the use of a FIFO (first-in, first-out) method of matching purchases and sales rather than a LIFO (last-in, first-out) method.

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[1] It should be noted that Professor Daniel R. Fischel has directly responded to the issues raised by the Court's November 20, 2007 Order in his Rebuttal Report, which is being concurrently served on defendants on February 1, 2008. "Bajaj Report" refers to the December 10, 2007 Expert Report of Mukesh Bajaj.

[2] Notably, Dr. Bajaj did not set forth in his report his opinion on the appropriate method for "matching" and sales.

B. Lead Plaintiffs Do Not Propose Netting Shares that Were Purchased Prior to the Class Period

Dr. Bajaj also complains that without a measure of pre-Class Period inflation, "[i]t is not possible to net the gains on shares sold at inflated prices during the Class Period, that were bought at uninflated or less-inflated values ***before the Class Period began.***" Bajaj Report at 87 (emphasis added). However, lead plaintiffs have not proposed the netting of shares purchased before the Class Period, and do not believe it is appropriate to do so.[3] Indeed, lead plaintiffs' October 24, 2007 statement clearly limits any "netting" to shares purchased during the Class Period and sold after the first disclosure on November 14, 2001: "Lead plaintiffs intend to use a netting approach for Class members who profited from some trades of Household's common stock ***acquired during the Class Period*** and sold after November 14, 2001, but suffered losses from other trades of Household's common stock during this same period." Lead Plaintiffs' October 24, 2007 Statement at 2 (emphasis added). The pre-Class Period purchases – shares held by plaintiffs before the beginning of the Class Period – are only relevant to the extent that they are used under the FIFO method to "match" up with the Class Period sales, which matching up is not used in any calculation of gains or losses under lead plaintiffs' damages theory as previously stated in prior disclosures.[4] As the determination of pre-Class Period inflation is not within lead plaintiffs' damages theory, such inflation is not encompassed within lead plaintiffs' initial disclosure obligations under Rule 26(a)(1). It appears,

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[3] In securities fraud cases, plaintiffs recover damages for shares they purchased ***during the Class Period*** based on the extent to which artificial inflation in the stock at the time of purchase has been diminished by the time of sale or the end of the Class Period. Lead plaintiffs previously identified the specific formulas for measuring the damages based on the date of purchase and the date of sale. Lead Plaintiffs' Supplemental Statement Regarding Damages Pursuant to the Court's October 17, 2007 Order ("Lead Plaintiffs' October 24, 2007 Statement") at 1. These formulas do not require the determination of the artificial inflation present in Household International, Inc.'s stock on any date prior to the Class Period to calculate damages. *See* Rebuttal Report of Daniel R. Fischel at 25-28.

[4] LIFO, the other method accepted by courts for "matching" shares, similarly does not consider shares held before the Class Period.

therefore, that Dr. Bajaj's criticism is based on a misunderstanding or manipulation of lead plaintiffs' stated position on netting.[5]

DATED: February 1, 2008

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5 Again, although Dr. Bajaj claims to be confused regarding this position, he fails to offer any explanation what he believes to be the appropriate procedure for netting.

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EXHIBIT C

UNITED STATES DISTRICT COURT

NORTHERN DISTRICT OF ILLINOIS

EASTERN DIVISION

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

REPORT OF DANIEL R. FISCHEL

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

REPORT OF DANIEL R. FISCHEL

I. QUALIFICATIONS

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

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

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

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

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

II. INTRODUCTION AND SUMMARY OF CONCLUSION

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

A. Predatory Lending

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

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

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

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

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

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statistical significance.

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

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

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

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

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

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

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

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7. These initiatives were expanded further as part of the settlement announced on October 11, 2002. *See* Exhibit 2. On August 17, 2002, *The New York Times* reported that "Household said in February that it would begin adopting a fee cap and other changes immediately, but it said this week that the fee limit would be in place by the end of the year." *See* Exhibit 16.
8. The WA Report concluded that HFC's claims that no deception or misrepresentation had occurred "began to ring hollow as more and more consumers continued to complain." *See* Exhibit 11.

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

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

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

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

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

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

B. Re-aging

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

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

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

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

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

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

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

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

C. The Restatement

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

D. Investors' Losses

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

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

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

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

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

IV. QUANTIFICATION OF ALLEGED ARTIFICIAL INFLATION

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

A. Event Study Methodology

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

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

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

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

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

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

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

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

B. Quantification Using Specific Disclosures

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

14. *See, e.g.*, W. Mendenhall, J.E. Reinmuth & R.J. Beaver, *Statistics for Management and Economics* (Duxbury Press, 1993), at 345-46 & 368-69.
15. *Id.*
16. The residual return on November 15, 2001, the first trade day after the press reported on the CDC lawsuit, was -3.1% and the t-statistic was -2.21; the residual price change was -$1.86. *See* Exhibit 49. The residual return on December 3, 2001, the first trade day after the *Barron's* article was published, was -3.2% and the t-statistic was -2.33; the residual price change was -$1.90. *Id.* The residual return on July 26, 2002, the date the *Bellingham Herald* article was published, was -5.7% and the t-statistic was -4.08; the residual price change was -$2.20. *Id.* The residual return on August 14,

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

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

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

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

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

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

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

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

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

C. Quantification Including Leakage

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

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

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

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

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

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

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

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

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

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

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

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

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

Daniel R. Fischel

August 15, 2007

Exhibit 53

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

EXHIBIT D

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
) September 4, 2007
Defendants.) 9:30 o'clock a.m.

TRANSCRIPT OF PROCEEDINGS
BEFORE THE HONORABLE RONALD A. GUZMAN

APPEARANCES:

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(Proceedings in open court.)

THE CLERK: 02 C 5893, Jaffe vs. Household International, Incorporated.

MR. MILLER: Good morning, your Honor. Marvin Miller on behalf of the plaintiffs.

MR. BAKER: Cameron Baker also on behalf of plaintiffs, your Honor.

MS. FANNING: Morning, your Honor. Lori Fanning also on behalf of plaintiffs.

MR. KAVALER: Good morning, your Honor. Thomas J. Kavaler of Cahill, Gordon & Reindel for the Household defendants. And I'm delighted to kick off the fall season with you today.

MR. DEUTSCH: Good morning, your Honor. Adam Deutsch on behalf of the Household defendants.

THE COURT: Good morning, everyone, and welcome to the new season.

Do you wish to respond?

MR. BAKER: Yes, your Honor. Basically we see this motion as another summary judgment motion. Your Honor had asked that we complete expert discovery before we proceeded. In fact, I think, if you recall, the plaintiffs had initially suggested flipping it; having the summary judgment motion first. And then the defendant said no, no, no, we must complete expert discovery.

And what I think will happen in this case if we go forward with this motion at this time will be exactly what your Honor said, which is, we'll file our brief, we'll submit a declaration from Mr. Fischel to support our allegations. They'll take his deposition. They'll supplement it, assuming your Honor hasn't ruled at that time.

At the conclusion of expert discovery, if your Honor hasn't ruled already, they're going to be submitting more briefs on the subject. If your Honor has reached a conclusion, they're going to get supplemental briefing or a new motion. Your Honor said --

THE COURT: I'm tired already.

MR. BAKER: Yes. Well, I think also your Honor should remember, they talk about bringing an omnibus summary judgment motion. And rather than bringing an omnibus, they're now bringing sequential summary judgment motions, which is frankly a waste of time of your Honor and his staff and the plaintiffs.

THE COURT: I guess the bottom line question is why should I do this now? Why not wait until we have all of the facts before us so I can determine whether or not there is indeed a judicial admission, which is a difficult concept to pin down if you read all the case law, and/or whether or not there might be some other facts here that would put all this at issue?

MR. KAVALER: I'll tell you why, your Honor, because it starts with your Honor's decision on February 28, 2006. In granting our motion to limit the time of the class period, you said very clearly, I dismiss with prejudice as a matter of law all claims that arose prior to July 30, 1999. They didn't ask you to certify that. They didn't ask you to reconsider it. We've been operating under that for a year and a half.

Promptly thereafter, we began asking them, in connection with Magistrate Nolan in contention interrogatories, when did your claim arise. At first they said we can't answer until the end of discovery. Magistrate Nolan said fine. Then they said we can't answer until our expert report. And Magistrate Nolan said fine. Finally she said, all right, August 15, submit your expert report and answer the contention interrogatories.

On August 15, they submitted Professor Fischel's report. And then they submitted later that night the contention interrogatories, which said we adopt what Professor Fischel says as our position; and they swore to it. Fine.

Profession Fischel's report -- and I'm not arguing the merits of the motion. I'm happy to do that whenever you want. But Professor Fischel's report says all of their claims accrued before July 30, 1999. So, in other words, your Honor --

THE COURT: Does it actually say that?

MR. KAVALER: Yes, it does, your Honor. He says -- I don't want to be charged with arguing the motion because that's not fair; but he says there's a $7.99 upcharge in the price of the stock, and it is baked in before July 30. It all occurs based on misrepresentations before. It's in the price.

THE COURT: So are you concluding from that that all the claims accrued or does he actually say all the claims --

MR. KAVALER: Your Honor --

THE COURT: -- accrued?

MR. KAVALER: He attaches a chart, which --

THE COURT: But does he say all of their claims accrued as of that date?

MR. KAVALER: He says all -- your Honor --

THE COURT: I don't think he says that.

MR. KAVALER: I think he does.

THE COURT: That's why I keep asking you the question.

MR. KAVALER: I think he does --

THE COURT: He doesn't use those words.

MR. KAVALER: I think he -- well, he doesn't use those words; but --

THE COURT: Okay. I think he says things that caused you to draw that conclusion. And it may be a correct conclusion. But before I'm ready to draw that conclusion and permanently terminate their cause of action, I think I would rather have the entire set of discovery facts before me.

MR. KAVALER: Fair enough.

THE COURT: I think I've been saying that all along.

MR. KAVALER: I plead a hundred percent guilty of being a proponent of that view the last time. The only thing that's different, I submit, your Honor, is if the original complaint had said what Fischel now says that he's saying, this would have all been included in our motion to dismiss.

I just want to call your Honor's attention -- and I know you've read it -- to Chief Judge Easterbrook's concluding paragraph in *Higginbotham v. Baxter International* July 27 of this year. It's a very similar procedural posture where the plaintiff said, well, the judge engaged in an unorthodox procedure. He granted the motion and he denied it, and he granted it; and that's our reason for reversal.

And Judge Easterbrook says -- if you'll indulge me a minute -- he says that argument is frivolous. And he says no matter what the procedure is, the only question on appeal is whether the complaint is adequate. It would be absurd for this Court to remand for further proceedings, only to reverse at the end of the case because the complaint flunked the PSLRA. A district Court ought not be reversed for getting to a legally-required outcome by a needlessly roundabout means.

Here I'm suggesting we get to it by an expedited means. What Mr. Baker wants now is several months of discovery not -- not -- listen to what he says in his papers. Our expert should controvert Professor Fischel, he says; and then Professor Fischel should bring a rebuttal affidavit.

Your Honor, for purposes of this motion, we do not contradict Professor Fischel. We embrace him. And in an eight-page motion -- and you know eight pages from us is very rare. In an eight-page -- new world's record I think. In an eight-page motion, we say, accepting what Professor Fischel says, this is the kind of case Chief Judge Easterbrook was talking about. It is a case doomed to die. And we read Judge Easterbrook as saying if it's doomed to die, the sooner you kill it, not only are you performing your gatekeeper role of the PSLRA, but you're promoting judicial efficiency and you're saving the clients millions of dollars.

We're talking about a period of several months here where we're going to produce our expert reports. They're going to take our experts' depositions. We're going to take their experts' depositions. Fischel is going to put in a rebuttal report. We're going to ask to take his deposition again if he changes his position. It will be endless.

This is an opportunity, your Honor, for you to say I said what I meant; I meant what I said. If they had told you that day when you decided the Foss motion, your Honor, that all their claims arose before July 30, 1999, I think you would have said we're done.

To respond to your Honor's point, he doesn't use those words, but he submits a graphic, he submits a chart, Exhibit 53 or 4, which, if you read it carefully, it shows all of the damage, according to him, baked in prior to the date you said is the statute of repose date. It's hard to understand what he'll say to change that. And we're not challenging that today. If the case continues, we might challenge many things he says. But for today's purpose, we accept that. If you accept that, the case has got to be over.

THE COURT: I have no problem with deciding cases on an expedited basis. I have issued rulings terminating cases prior to summary judgment based upon the fact that it was clear to me after briefings and speaking to the parties that there really wasn't an issue there that hadn't -- that the parties weren't locked into that was left to litigate.

But I don't feel that way about this case. One, there are just too many aspects. Two, I'm just not ready to make that jump between what the expert has said and your conclusion that that precludes all of their claims. I'm just not ready to make that jump at this time.

And we are actually at the tail end of this horribly expensive and long process so that the savings in this case in terms of resources for all the parties, including the Court, would not be, I think, sufficiently significant for me to say let's go ahead and do it this way, let this go up on appeal and see what happens. I think I would prefer to rule on the summary judgment motion. It just makes more sense at this stage.

So for that reason and that reason only, I'm going to deny your motion.

MR. KAVALER: Okay.

MR. BAKER: Thank you, your Honor.

MR. KAVALER: Your Honor, you had previously scheduled a date of October 2 at a time when Judge Nolan had scheduled September 28 as the end date for expert discovery. I had written you a letter suggesting you put that off until January 14 or so because she has now continued expert discovery until December 21. And I'll try to glom myself a little Christmas vacation in there as well. It seems she's going to extend the September 28 -- I'm sorry, the December 21 date a little further based on what we hear about the Fischel rebuttal report, et cetera.

I'm suggesting you vacate the October 2 date based on what you just said and --

THE COURT: Is there any objection?

MR. BAKER: Your Honor, we would actually prefer to keep the date if possible. I don't believe the dates that Judge Nolan has set will be kicked in any way, shape, or form. We're on schedule to do what we are supposed to do. We're going to continue to work to complete the case. We'd like to be in front of your Honor and set a summary judgment calendar as well as a trial date, and we think October 2 is a good time to do it.

MR. KAVALER: The problem with that, your Honor, is Judge Nolan's own calendar now ends on December 21. You set October 2 when her calendar ended on September 28.

THE COURT: I don't see me doing that until you're done with all the discovery. I think it makes sense to kick it beyond December 21, which is the new cutoff date. What date do you want?

MR. KAVALER: Any date in the week of June 14 -- January -- I'm sorry, January --

MR. BAKER: Judge, I --

MR. KAVALER: January 14 to 17, your Honor.

THE COURT: Carole.

THE CLERK: January 14 at 9:30.

MR. KAVALER: Thank you, your Honor.

MR. BAKER: Thank you, your Honor.

MR. MILLER: Thank you.

MR. KAVALER: Appreciate it.

MR. BAKER: Thank you, your Honor.

(Which were all the proceedings heard.)

C E R T I F I C A T E

I, Nancy C. LaBella, do hereby certify that the foregoing is a complete, true, and accurate transcript of the proceedings had in the above-entitled case before the Honorable RONALD A. GUZMAN, Judge of said Court, at Chicago, Illinois, on September 4, 2007.

Nancy C LaBella 9/6/07

Official Court Reporter
United States District Court
Northern District of Illinois
Eastern Division

Date