

**UNITED STATES DISTRICT COURT
NORTHERN DISTRICT OF ILLINOIS
EASTERN DIVISION**

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

**DEFENDANTS' RESPONSE TO LEAD PLAINTIFFS' CORRECTED
RULE 56.1 STATEMENT OF ADDITIONAL FACTS IN OPPOSITION
TO SUMMARY JUDGMENT**

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Pursuant to Local Rule 56.1(a), Defendants Household International, Inc., Household Finance Corp., William F. Aldinger, David A. Schoenholz, and Gary Gilmer (collectively, “Household” or “Defendants”) respectfully submit this response to Lead Plaintiffs’ Corrected Rule 56.1 Statement of Additional Facts.¹

Statement 1:

Lead Plaintiffs’ Statement: Professor Fischel’s analysis and testimony establish that defendants’ misrepresentations between July 30, 1999 and November 14, 2001 were inflationary events in that they caused inflation to exist in Household International, Inc.’s (“Household” or the “Company”) stock price and link Household’s stock price decline (and the related dissipation of artificial inflation) to the gradual disclosure of the truth over the period from November 14, 2001 through October 11, 2002. Pls’ App., Ex. A (Fischel Report, ¶¶6-18, 20-26, Exs. 53, 56); Pls’ App., Ex. B (Fischel Rebuttal Report, ¶¶1, 5, 38-39); Pls’ App., Ex. C (Fischel Depo Tr. at 47:19-48:14, 49:11-51:1, 77:2-17, 87:23-88:12, 132:21-133:18, 137:13-138:18, 139:18-141:8, 163:7-10).²

Defendants’ Response: Statement 1 is not an accurate summary of Professor Fischel’s reports and testimony. Professor Fischel testified:

- My understanding is that the plaintiffs allege that all public statements from the beginning of the class period contained material nondisclosures relating to the three different areas that I discuss in my report. . . . And what I’ve attempted to do is, based on that assumption, attempt to quantify the amount of inflation that resulted, and how that inflation varied over time as different disclosures occurred, which either increased or decreased inflation during the class period.” (P. St. ¶ 8 (quoting Fischel Tr. 127:18-128:4))
- “[T]he inflation remained constant, until there was a disclosure either increasing the amount of inflation or decreasing the amount of inflation which, based on my analysis, occurred on November 15th of 2001” (P. St.¶ 1, Tab C, Fischel Tr. 132:21-133:7))

¹ As discussed at Point IV of Defendants’ Reply Brief, certain paragraphs of Plaintiffs’ Rule 56.1 Statement of Additional Facts impermissibly include legal arguments in violation of Local Rule 56.1(b)(3). Defendants identify those paragraphs herein for the Court’s convenience, and address Lead Plaintiffs’ legal arguments in the accompanying Reply Brief.

² Except where otherwise noted, emphasis and footnotes included in Plaintiffs’ statements are not reproduced herein.

- “I didn’t find any statistically significant price increases that resulted in inflation from the beginning of the [class] period, and through November 15, 2001.” (D. St. ¶ 39, (quoting Fischel Tr. 123:8-11))
- “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” (D. St. ¶ 40, Tab 12 ¶ 36) (emphasis added)

Insofar as Statement 1 constitutes legal argument, its substance is addressed in Defendants’ Reply Brief.

Statement 2:

Lead Plaintiffs’ Statement: Analyzing “the economic evidence as it relates to [Lead Plaintiffs’] claims,” including 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,” Professor Fischel concluded that the “economic evidence is consistent with Plaintiffs’ claims that the alleged wrongdoing caused investors in Household’s common stock to incur losses.” Pls’ App., Ex. A (Fischel Report, ¶¶10-11, 28); Pls’ App., Ex. B (Fischel Rebuttal Report, ¶¶1, 5) (summarizing Professor Fischel’s loss causation analysis and conclusions); *id.* ¶38.

Defendants’ Response: Defendants do not dispute that Statement 2 accurately quotes passages from ¶ 11 of Professor Fischel’s report, and dispute Statement 2 insofar as it fails to include the following Statement of Professor Fischel:

“Plaintiffs claim that the alleged omissions were inflationary events because they prevented the price from falling to its true, uninflated value. Under this theory, the Company’s stock price did not have to increase upon Defendants allegedly false statements (e.g., quarterly financial results) in order to become inflated. Consequently, the fact that I did not identify statistically significant price increases that resulted in the inflation increasing between the beginning of the Class Period and November 15, 2001 does not contradict Plaintiffs’ allegations.” (P. St. ¶ 12, quoting Fischel Rebuttal Report, ¶ 38)

Insofar as Statement 2 constitutes legal argument, its substance is addressed in Defendants’ Reply Brief.

Statement 3:

Lead Plaintiffs’ Statement: In the section of the Fischel Report entitled “The Relationship Between Plaintiffs’ Allegations and Investors’ Losses,” Professor Fischel discussed

public disclosures concerning the fraud, defendants' responses and market reaction. Pls' App., Ex. A (Fischel Report, ¶¶12-29, Ex. 48).

Defendants' Response: Defendants do not dispute that Professor Fischel's report contained a section titled "The Relationship Between Plaintiffs' Allegations and Investors' Losses." Insofar as Statement 3 constitutes legal argument, its substance is addressed in Defendants' Reply Brief.

Statement 4:

Lead Plaintiffs' Statement: In his Rebuttal Report, Professor Fischel conducted an event study that also incorporated the Consumer Index promoted by defendants' economic expert Dr. Bajaj, and found that it did not change his analysis. Pls' App., Ex. B (Fischel Rebuttal Report, ¶¶31-32, Ex. G).

Defendants' Response: Defendants do not dispute that Professor Fischel conducted the study and made the findings and/or conclusions stated in the portions of his reports cited in Statement 4.

Statement 5:

Lead Plaintiffs' Statement: Professor Fischel conducted two separate analyses to determine the existence and amount of artificial inflation in Household's stock price from defendants' Class Period misstatements and the economic losses suffered by Class members as a result of revelation of defendants' alleged fraud, finding under both that defendants' fraud caused plaintiffs' loss. These analyses isolated damages due only to defendants' fraud via event studies and regression analyses and demonstrated how partial disclosures and leakage of information about the fraud during the Class Period resulted in losses to all Class members. Pls' App., Ex. A (Fischel Report, ¶¶18-26, 30-42, Exs. 53, 56); Pls' App., Ex. B (Fischel Rebuttal Report, ¶¶1, 5); Pls' App., Ex. C (Fischel Depo Tr. at 122:7-18, 127:18-128:4, 133:20-134:6).

Defendants' Response: Defendants do not dispute that Professor Fischel conducted two analyses to "attempt to quantify the amount of inflation that resulted, and how that inflation varied over time as different disclosures occurred, which either increased or decreased inflation during the class period." (P. St. ¶ 8 (quoting Fischel Tr. 127:24-128:4)) Defendants dispute that Professor Fischel found under both analyses that "defendants fraud caused plaintiffs' loss." Professor Fischel did not identify revelations of fraud, but rather assumed that any disclo-

sure that mentioned “re-aging,” “predatory lending,” or the “restatement” contained some facts that were previously unknown:

“I’m not expressing an opinion on whether there were in fact misrepresentations or omissions. The economic evidence that I’ve looked at does not allow me to express an opinion on that subject.” (D. St. ¶ 45, (quoting Fischel Tr. 133:24-134:3; 49:11-26))

* * *

“I am assuming that the information that came out during the period about these three different areas was something that the company did not disclose during the class period beginning from the first day of the class period.” (P. St. ¶ 1, Tab C, Fischel Tr. 138:14-18).

Statement 6:

Lead Plaintiffs’ Statement: In his Rebuttal Report, Professor Fischel refuted as “incorrect and misleading” the assertions that “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 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.” Pls’ App., Ex. B (Fischel Rebuttal Report, ¶37) (quoting Bajaj Report at 12-13).

Defendants’ Response: Defendants do not dispute that Statement 6 accurately quotes excerpts from ¶ 37 of the Fischel Rebuttal Report. Defendants dispute that Statement 6 accurately reflects Professor Fischel’s position because it omits Professor Fischel’s explanation in the following paragraph of the Rebuttal Report, which states as follows:

“Plaintiffs claim that the alleged omissions were inflationary events because they prevented the price from falling to its true, uninflated value. *Under this theory*, the Company’s stock price did not have to increase upon Defendants allegedly false statements (*e.g.*, quarterly financial results) in order to become inflated. Consequently, the fact that I did not identify statistically significant price increases that resulted in the inflation increasing between the beginning of the Class Period and November 15, 2001 does not contradict Plaintiffs’ allegations.” (Fischel Rebuttal Report ¶ 38; footnote omitted; emphasis added)

Insofar as Statement 6 constitutes legal argument, its substance is addressed in Defendants’ Reply Brief.

Statement 7:

Lead Plaintiffs' Statement: Professor Fischel's reports do not analyze any pre-Class Period inflation and do not rely upon, and are not contingent on, the existence of pre-Class Period inflation in Household's stocks. Pls' App., Ex. A (Fischel Report ¶¶10-11, 37, 42, Exs. 53, 56); Pls' App., Ex. B (Fischel Rebuttal Report ¶¶36-38); Pls' App., Ex. C (Fischel Depo Tr. at 47:19-48:14, 83:10-84:23, 101:16-102:14; 132:21-133:18, 134:15-135:5, 137:13-138:18).

Defendants' Response: Defendants do not dispute that Professor Fischel's reports do not analyze any Pre-class Period inflation. Defendants dispute that Professor Fischel's reports "do not rely upon, and are not contingent on, the existence of Pre-class Period inflation in Household's stock," in that Professor Fischel testified as follows:

- Q. Well, your inflation analysis shows 7.97 of inflation on the first day of the class period, does it not?
- A. Correct.
- Q. And that inflation presumably relates to a state of affairs that exists on that first day of the class period, correct?
- A. That I'm assuming exists on the first day of the class period, correct. (Fischel Depo Tr. at 83:23-84:7)

Insofar as Statement 7 constitutes legal argument, its substance is addressed in Defendants' Reply Brief.

Statement 8:

Lead Plaintiffs' Statement: During his March 21, 2008 deposition, Professor Fischel explained that his analysis was based on defendants' alleged false and misleading statements made during the Class Period:

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

... And what I've attempted to do is, based on that assumption, attempt to quantify the amount of inflation that resulted, and how that inflation varied over time as different disclosures occurred, which either increased or decreased inflation during the class period.

Id. at 127:18-128:4; *see also id.* at 47:19-48:14, 49:22-51:1, 122:7-18, 132:21-133:18, 137:13-138:18, 139:18-141:8, 163:7-10, 164:21-165:24; Pls' App., Ex. B (Fischel Rebuttal Report, ¶36).

Defendants' Response: Defendants do not dispute that Statement 8 accurately quotes certain portions of Professor Fischel's deposition testimony, and dispute "that his analysis was based on defendants' alleged false and misleading statements made during the Class Period." Professor Fischel testified as follows:

"In order for there to be artificial inflation, there has to be an actionable disclosure defect. I'm assuming the existence of actionable disclosure defects."

* * *

"I'm not expressing an opinion on whether there were in fact misrepresentations or omissions. The economic evidence that I've looked at does not allow me to express an opinion on that subject." (P. St. ¶ 45, (Fischel Tr. at 133:24-134:3; 49:11-26))

Insofar as Statement 8 constitutes legal argument, its substance is addressed in Defendants' Reply Brief.

Statement 9:

Lead Plaintiffs' Statement: During Professor Fischel's March 21, 2008 deposition, the following colloquy occurred:

Q: It's not your opinion in connection with this case that there was artificial inflation in the stock?

A: I think I've answered that numerous times. In order for there to be artificial inflation, there has to be an actionable disclosure defect. I'm assuming the existence of actionable disclosure defects. Based on that assumption, I have attempted, using two different methods, to calculate the amount of inflation resulting from those disclosure defects.

Pls' App., Ex. C (Fischel Depo. Tr. at 133:20-134:6); *see also id.* at 122:13-18.

Defendants' Response: Defendants do not dispute that Statement 9 accurately sets forth the cited portion of Professor Fischel's deposition testimony.

Statement 10:

Lead Plaintiffs' Statement: During Professor Fischel's March 21, 2008 deposition, the following colloquy occurred:

Q: . . . The impact of the nondisclosures you are talking about can't be measured with an event study using specific disclosures of the kind you use in your report?

A: I don't agree with that.

Q: Well, illuminate me.

* * *

A: The impact of those assume[d] nondisclosures as[sic] exactly what's calculated using an events study.

Id. at 133:8-18.

Defendants' Response: Defendants do not dispute that Statement 10 accurately sets forth the cited portion of Professor Fischel's deposition testimony.

Statement 11:

Lead Plaintiffs' Statement: When asked during his March 1, 2008 deposition about hypothetical disclosures on the first day of the Class Period, Professor Fischel testified as follows:

Q: You identify inflation on [the first day of the Class Period] though?

A: I do, that's correct.

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

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

Id. at 87:14-22; *see also id.* at 65:1-17, 102:23-103:22.

Defendants' Response: Defendants do not dispute that Statement 11 accurately sets forth the cited portion of Professor Fischel's deposition testimony.

Statement 12:

Lead Plaintiffs' Statement: In his February 1, 2008 Expert Rebuttal Report, Professor Fischel made the following statement:

Plaintiffs claim that the alleged omissions [during this time period] were inflationary events because they prevented the price from falling to its true, uninflated value. Under this theory, the Company's stock price did not have to increase upon Defendants allegedly false statements (e.g., quarterly financial results) in order to become inflated. Consequently, the fact that I did not identify statistically significant price increases that resulted in the inflation increasing between the beginning of the Class Period and November 15, 2001 does not contradict Plaintiffs' allegations.

Pls' App., Ex. B (Fischel Rebuttal Report, ¶38). In the footnote accompanying this text, Professor Fischel cited research from Brad Cornell, concluding "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." *Id.*, ¶38 n.30.

Defendants' Response: Defendants do not dispute that Statement 12 accurately sets forth the cited portion of Professor Fischel's Rebuttal Report.

Statement 13:

Lead Plaintiffs' Statement: During his March 21, 2008 deposition, Professor Fischel, referring to ¶38 of his Rebuttal Report, made the following statement:

What's said here is that the absence of a price reaction does not negate the possibility that the statement is nevertheless a material omission depending on, again, what the relevant facts and circumstances are.

Pls' App., Ex. C (Fischel Depo Tr. at 124:10-14).

Defendants' Response: Defendants do not dispute that Statement 13 accurately quotes the cited portion of Professor Fischel's deposition testimony.

Statement 14:

Lead Plaintiffs' Statement: During his March 21, 2008 deposition, Professor Fischel made the following statement:

[I]t would be an incorrect interpretation of regression analysis to conclude that because there is no statistically significant price reaction to a statement, that necessarily means that the statement did not produce artificial inflation.

Id. at 134:21-135:5.

Defendants' Response: Defendants do not dispute that Statement 14 accurately quotes the cited portion of Professor Fischel's deposition testimony.

Statement 15:

Lead Plaintiffs' Statement: Professor Fischel's Quantification Using Specific Disclosures was an event study that via regression analysis found a statistically significant reaction to 14 individual fraud-related disclosures – including eleven declines (commencing on November 4, 2001 through October 4, 2002) and three increases. See Pls' App., Ex. A (Fischel Report, ¶34 n.16, 18-19, ¶¶34-37 n.20); see also Pls' App., Ex. C (Fischel Depo Tr. at 163:7-10). Using the specific disclosure analysis, Professor Fischel identified a collective decline in artificial inflation of \$7.97. Pls' App., Ex. A (Fischel Report, ¶¶36-37, Exs. 53, 54).

Defendants' Response: Defendants do not dispute that Professor Fischel conducted the referenced study and made the findings and/or conclusions stated in the portions of his report and deposition testimony cited in Statement 15. Defendants dispute that Professor Fischel's study identified "fraud-related disclosures." Professor Fischel testified as follows:

"I am assuming that the information that came out during the period about these three different areas was something that the company did not disclose during the class period beginning from the first day of the class period." (P. St. ¶ 1, Tab C, Fischel Tr. 138:14-18)

Statement 16:

Lead Plaintiffs' Statement: After the close of trading on November 14, 2001, the Bloomberg and Business Wire reported that the California Department of Corporations sued Household for \$8.5 million, alleging the Company engaged in predatory lending practices. *Id.*, ¶12, Exs. 3, 4. Based on his regression analysis, Professor Fischel concluded that these disclosures caused a statistically significant decline in Household's stock, stating: "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 id.*, ¶34 n.16, Ex. 49 at 30.

Defendants' Response: Defendants do not dispute Statement 16 for purposes of this motion.

Statement 17:

Lead Plaintiffs' Statement: On December 1, 2001, Barron's published an article criticizing Household's accounting policies, including its reaging and charge-off practices and policies. *Id.*, ¶22, Ex. 36. Based on his regression analysis, Professor Fischel concluded that this disclosure caused a statistically significant decline in Household's stock, stating: "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." *See id.*, ¶34 n.16, Ex. 49 at 30).

Defendants' Response: Defendants do not dispute Statement 17 for purposes of this motion.

Statement 18:

Lead Plaintiffs' Statement: On December 5, 2001, American Banker reported that defendant William Aldinger ("Aldinger") rebutted and denied the criticisms in the Barron's article at an investor conference the day before. *Id.*, ¶23; Ex. 37. Based on his regression analysis, Professor Fischel concluded that Mr. Aldinger's rejoinder caused a statistically significant

increase in Household's stock, stating: "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 id.*, ¶35 n.20, Ex. 49 at 30.

Defendants' Response: Defendants do not dispute Statement 18 for purposes of this motion.

Statement 19:

Lead Plaintiffs' Statement: On December 11, 2001, Legg Mason issued a report discussing Household's accounting policies and practices. *Id.*, ¶23, Ex. 38. In the December 11, 2001 report, Legg Mason analysts expressed confusion regarding Household's recent reports concerning the Company's accounting, in particular its reaging policies. *Id.* Based on his regression analysis, Professor Fischel concluded that this disclosure caused a statistically significant decline in Household's stock, stating: "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 id.*, ¶34 n.19, Ex. 49 at 31.

Defendants' Response: Defendants do not dispute Statement 19 for purposes of this motion.

Statement 20:

Lead Plaintiffs' Statement: On February 27, 2002, Household announced an expansion of its "Best Practices Initiatives" which purported to "rais[e] industry standards for responsibility serving middle-market borrowers." *Id.*, ¶17, Ex. 17. Based on his regression analysis, Professor Fischel concluded that this announcement caused a statistically significant increase in Household's stock, stating: "The residual return on February 27, 2002 was 3.3% and the t-statistic was 2.38; the residual price change was \$1.64." *See id.*, ¶35 n.20, Ex. 49 at 34.

Defendants' Response: Defendants do not dispute Statement 20 for purposes of this motion.

Statement 21:

Lead Plaintiffs' Statement: On July 26, 2002, the Bellingham Herald published an article detailing accusations that Household was engaged in predatory lending practices. *Id.*, ¶18, Ex. 23. Based on his regression analysis, Professor Fischel concluded that this disclosure caused a statistically significant decline in Household's stock, stating: "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 -\$2.2." *See id.*, ¶34 n.16, Ex. 49 at 41.

Defendants' Response: Defendants do not dispute Statement 21 for purposes of this motion.

Statement 22:

Lead Plaintiffs' Statement: On August 14, 2002, defendants announced that Household had restated its consolidated financial statements, including for the years ended December 31, 1999, 2000 and 2001. *Id.*, ¶¶6, 27; Pls' App., Ex. I (August 14, 2002 Press Release for Household International, Inc.). Household's retained earnings at December 31, 2001 were restated to reflect a retroactive after-tax charge of \$359.9 million. *Id.* Based on his regression analysis, Professor Fischel concluded that this disclosure caused a statistically significant decline in Household's stock, stating: "The residual return on August 14, 2002, the date the restatement was announced, was -2.5% and the t-statistic was -1.77; the residual price change was -\$0.94." See Pls' App., Ex. A (Fischel Report, ¶34 n.16, Ex. 49 at 42); see also Pls' App., Ex. B (Fischel Rebuttal Report, ¶¶8-12) (observing that defendants' expert and market participants reached similar conclusions).

Defendants' Response: Defendants do not dispute Statement 22 for purposes of this motion.

Statement 23:

Lead Plaintiffs' Statement: On August 15, 2002, a Forbes article entitled "Home Wrecker," which detailed allegations of predatory lending at Household, was made available to the market. Pls' App., Ex. A (Fischel Report, ¶¶18, 34, Ex. 24). Based on his regression analysis, Professor Fischel concluded that this disclosure caused a statistically significant decline in Household's stock, stating: "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." *See id.*, ¶34 n.16, Ex. 49 at 43.

Defendants' Response: Defendants do not dispute Statement 23 for purposes of this motion.

Statement 24:

Lead Plaintiffs' Statement: On August 26, 2002, American Banker discussed the contents of the Washington DFI Report and stated that the WA DFI had shared the Washington DFI Report with other officials in Washington and in other states. *Id.*, ¶16, Ex. 11. On August 27, 2002, analyst Keefe, Bruyette and Woods published a report describing Household's stock as "uninvestible." *Id.*, ¶¶19, 34, Ex. 27. Based on his regression analysis, Professor Fischel concluded that the disclosures caused a statistically significant decline in Household's stock, stating: "The residual return on August 27, 2002 was -3.1% and the t-statistic was -2.21; the residual price change was -\$1.19." *See id.*, ¶34 n.19, Ex. 49 at 45.

Defendants' Response: Defendants do not dispute Statement 24 for purposes of this motion.

Statement 25:

Lead Plaintiffs' Statement: On September 3, 2002, analyst Howard Mason of Sanford C. Bernstein & Co. published a report cutting growth estimates for Household based on anticipated sales practice reform at Household. *Id.*, ¶20, Ex. 30. Based on his regression analysis, Professor Fischel concluded that this disclosure caused a statistically significant decline in Household's stock, stating: "The residual return on September 3, 2002 was -3.4% and the t-statistic was 2.39; the residual price change was -\$1.21." *See id.*, ¶34 n.19, Ex. 49 at 46.

Defendants' Response: Defendants do not dispute Statement 25 for purposes of this motion.

Statement 26:

Lead Plaintiffs' Statement: On September 22, 2002, CIBC published a report in which the analysts lowered their target price for Household stock to \$36 from \$57, reduced their earnings estimate for 2003, and commented that:

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. 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.

Id., ¶¶28, 34, Ex. 46 at 68. Based on his regression analysis, Professor Fischel concluded that this disclosure caused a statistically significant decline in Household's stock, stating: "The residual return on September 23, 2002 was -5.2% and the t-statistic was -3.77; the residual price change was -\$1.52." *See id.*, ¶34 n.19, Ex. 49 at 49.

Defendants' Response: Defendants do not dispute Statement 26 for purposes of this motion.

Statement 27:

Lead Plaintiffs' Statement: On October 4, 2002, The Wall Street Journal published an article entitled "Household International May be Near Large Settlement," which discussed the Attorneys General's year-long investigation into Household's predatory lending practices and indicated that Household and the Attorney General were nearing a \$350-\$500 million settlement. *Id.*, ¶21, Ex. 33. Based on his regression analysis, Professor Fischel concluded that this disclosure caused a statistically significant decline in Household's stock, stating: "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 id.*, ¶34 n.16, Ex. 49 at 49.

Defendants' Response: Defendants do not dispute Statement 27 for purposes of this motion.

Statement 28:

Lead Plaintiffs' Statement: On October 11, 2002, Household issued a press release announcing that it would settle claims by a multistate group of Attorney General and banking regulators related to its predatory lending practices from January 1, 1999 through September 30, 2002. Regarding the October 11, 2002 announcement of the Attorney General settlement, Professor Fischel explained in his report, "[t]he 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." Pls' App., Ex. A (Fischel Report, ¶34 n.21); see also Pls' App., Ex. B (Fischel Rebuttal Report, ¶¶15-17). The stock increase on October 11, 2002 was used to reduce the artificial inflation claimed by plaintiffs. Pls' App., Ex. A (Fischel Report, Exs. 53, 56); Pls' App., Ex. B (Fischel Rebuttal Report, ¶¶15-17).

Defendants' Response: Defendants do not dispute Statement 28 for purposes of this motion.

Statement 29:

Lead Plaintiffs' Statement: In his report, Professor Fischel stated: "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 each disclosure, inflation increases or decreases by the amount of the residual price change on that date." Pls' App., Ex. A (Fischel Report, ¶36).

Defendants' Response: Defendants do not dispute Statement 29 for purposes of this motion.

Statement 30:

Lead Plaintiffs' Statement: Professor Fischel's second analysis, also an event study, quantified inflation in Household stock, including inflation resulting from gradual dissipation of inflation as new adverse information regarding the truth leaked into the market. Pls' App., Ex. A (Fischel Report, ¶¶38-42); Pls' App., Ex. B (Fischel Rebuttal Report ¶¶1, 5); Pls' App., Ex. C (Fischel Depo Tr. at 139:18-141:8). This event study, which also employed a regression analysis, quantified a cumulative drop in artificial inflation of \$23.94 over the event window, November 15, 2001 through October 11, 2002. Pls' App., Ex. A (Fischel Report, ¶¶41-42). Professor Fischel's Quantification Including Leakage determined that the artificial inflation in Household's stock was \$17.81 on July 30, 1999 and rose to \$23.94 by November 14, 2001, be-

fore dissipating due to leakage of partial information regarding defendants' fraud and Household's true financial and operating condition. Pls' App., Ex. A (Fischel Report, ¶38-42, Ex. 56).

Defendants' Response: Defendants do not dispute Statement 30 for purposes of this motion.

Statement 31:

Lead Plaintiffs' Statement: Professor Fischel opined that the leakage model "more accurately reflects the effects of the alleged disclosure defects on stock prices than the [specific disclosure model]" (Pls' App., Ex. C (Fischel Depo Tr. at 164:17-165:24)) because of the similar fact pattern presented in this case, i.e., "a steady stream and extensive amount of incomplete information related to Defendants alleged fraud [] beginning at least as early as November 15, 2001 . . . but only some of these disclosures [] associated with statistically significant residual returns," as well as the overall decline of 53% in Household's stock price and its underperformance compared to the market and industry indices over that same period. Pls' App., Ex. A (Fischel Report, ¶39); *see also id.*, ¶¶10-28 (discussing the various negative fraud-related disclosures about Household during the time from of November 15, 2001 through October 11, 2002).

Defendants' Response: Defendants do not dispute Statement 31 for purposes of this motion.

Statement 32:

Lead Plaintiffs' Statement: Household's Investor Relations reports, which were provided to Household's Board of Directors and reviewed and approved by senior management, including defendants Aldinger and David Schoenholz, set forth an independent evidentiary basis for loss causation, including attribution of stock price declines to partial disclosures relating to the fraud. Pls' App., Ex. D (Murphy Depo Tr. at 34:9-22, 37:3-38:16, 44:11-45:4, 46:8-14).

Defendants' Response: Defendants do not dispute for purposes of this motion that "Household's Investor Relations reports were provided to Household's Board of Directors and reviewed and approved by senior management, including defendants Aldinger and David Schoenholz." Insofar as Statement 32 constitutes legal argument that these facts "set forth an independent evidentiary basis for loss causation, including attribution of stock price declines to partial disclosures relating to the fraud," its substance is addressed in Defendants' Reply Brief.

Statement 33:

Lead Plaintiffs' Statement: Household's November-December 2001 Investor Relations report stated:

On December 3rd, the stock dropped \$2.69, or 4.6 percent to \$56.30 following articles in Barron's and Business Week that alleged Household's strong results were in part driven by aggressive chargeoff policies.

* * *

On December 4th, Bill Aldinger and Dave Schoenholz spoke at the Goldman Sachs Bank CEO Conference and effectively addressed many of the issues raised in the articles. The stock rebounded nearly \$2 on the 4th and another \$2.77 on the 5th.

* * *

On December 11th and 12th, the analyst from Legg Mason issued a series of research notes downgrading the stock from 'Strong Buy' to 'Market Performer' based on his view that Household's asset quality policies were lenient and aggressive. The stock lost \$4.25, or 7.4 percent, over the course of the week.

Pls' App., Ex. E (Murphy Ex. 31, at 1-2).

Defendants' Response: Defendants do not dispute that Statement 33 accurately quotes a portion of the cited document.

Statement 34:

Lead Plaintiffs' Statement: The May-August 2002 Investor Relations report stated:

During the last week of August, the Bellingham Herald carried several negative articles of Household and printed the embargoed DFI regulatory report. Household's stock drifted downward and closed the month at \$36.11, down almost 7 points, or 15 percent" and that "for the four-month period, Household stock dropped \$22.18 or 38%.

Pls' App., Ex. F (Murphy Ex. 45 at 3). The report also noted that Household stock "underperformed the S&P 500 and the S&P Financials indices." *Id.*

Defendants' Response: Defendants do not dispute that Statement 34 accurately quotes a portion of the cited document.

Statement 35:

Lead Plaintiffs' Statement: The September-October 2002 Investor Relations report stated:

On September 3rd . . . [c]oncerning Household specifically, Howard Mason of Sanford Bernstein issued a report in which he restated his concerns about the sustainability of Household's business model . . . [and] cut the long-run growth estimates on Household based on his estimate of the sales practice reforms due to regulatory pressure.

Pls' App., Ex. G (Murphy Ex. 52 at 1). The report also compared the "performance of Household's stock, the S&P 500 and the S&P Financial indices during 2002" finding "Household has underperformed these indices thus far in 2002." *Id.* at 2.

Defendants' Response: Defendants do not dispute that Statement 35 accurately quotes a portion of the cited document.

Statement 36:

Lead Plaintiffs' Statement: The [Corrected] Amended Consolidated Class Action Complaint for Violation of the Federal Securities Laws ("Complaint") references numerous negative disclosures and generally discusses the downturn in Household stock commencing in January 2002, including the following allegation:

The cumulative effect of the revelation of defendants' scheme or wrongful course of business decimated the price of Household shares. While Household shares traded as high as \$63.25 at the beginning of 1Q02, they traded in the \$20s – marking a record seven-year low for Household shares – as the truth about Household's illegal operations and accounting fraud was publicly revealed.

Complaint, ¶29; *see also* chart on same page.

Defendants' Response: Defendants do not dispute that Statement 36 accurately quotes the cited portion of the Complaint.

Statement 37:

Lead Plaintiffs' Statement: The Complaint discusses many of the disclosures that Professor Fischel ultimately found to be tied to statistically significant declines, including:

- the California Department of Corporations lawsuit, whose announcement on November 14, 2001 was the first negative disclosure found by Professor Fischel, Complaint, ¶19; Pls' App., Ex. A (Fischel Report, ¶34 n.16);
- the Forbes "Home Wrecker" article, whose publication Professor Fischel found was a negative disclosure. Complaint ¶56; Pls' App., Ex. A (Fischel Report, ¶34 n.16);
- the August 2002 release of the Washington State DFI report, which Professor Fischel to be a negative disclosure. Complaint ¶21; Pls' App., Ex. A (Fischel Report, ¶34 n.19) (Bellingham Herald released the DFI report on August 27, 2002, which was the same day an analyst report came out describing Household as "uninvestable");
- the July 26, 2002 disclosure where Household admitted some misrepresentations to customers in Washington. Complaint, ¶¶86, 90; Pls' App., Ex. A (Fischel Report, ¶34 n.16);

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