

**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,	}	
- <i>against</i> -	}	
HOUSEHOLD INTERNATIONAL, INC., ET. AL.,	}	
Defendants.	}	

Lead Case No. 02-C-5893
(Consolidated)

CLASS ACTION

Judge Ronald A. Guzmán

**DECLARATION OF THOMAS J. KAVALER IN
SUPPORT OF DEFENDANTS' MOTIONS FOR
JUDGMENT AS A MATTER OF LAW PURSUANT
TO RULE 50(b) OR, IN THE ALTERNATIVE,
FOR A NEW TRIAL PURSUANT TO RULE 59**

I, THOMAS J. KAVALER, declare as follows:

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

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

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

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

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

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

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

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

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

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

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

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

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

14. Attached hereto as Exhibit 13 is a graphic representation of selected data from Plaintiffs' Exhibit 1395, "Household International, Inc. Common Stock Estimate of Alleged Artificial Inflation for Quantification Including Leakage."

15. Attached hereto as Exhibit 14 is a listing of selected trial exhibits and trial testimony, cited in Defendants' Memorandum, exemplifying Household's disclosure and market awareness of alleged "predatory lending" indicia.

16. Attached hereto as Exhibit 15 is a listing of selected trial exhibits and trial testimony, cited in Defendants' Memorandum exemplifying market awareness of growing "headline risks" associated with Household's subprime lending model.

17. Attached hereto as Exhibit 16 is a listing of selected disclosures concerning probable loan losses and loss reserves from Household's 2000 and 2002 10-K Reports, cited in Defendants' Memorandum.

18. Attached hereto as Exhibit 17 is a listing of selected statements ruled actionable and selected statements ruled inactionable as a matter of law in the Court's ruling (Docket No. 1502) on Defendants' *in limine* motion to preclude plaintiffs from advancing certain statements as a basis for liability, as cited in Defendants' Memorandum.

19. True and correct copies of excerpts of the transcript of the final pre-trial conference, trial and jury instructions conferences in this action, and excerpts of the transcripts of deposi-

tion selections played during the trial in this action are collected in the accompanying separately bound Appendix of Transcript Excerpts.

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

Executed this 3rd day of August, 2009, in New York, New York.

/s/ Thomas J. Kavalier

Thomas J. Kavalier

EXHIBIT 1

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

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

REPORT OF DANIEL R. FISCHER

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

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

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

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

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

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

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

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

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

A. Predatory Lending

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

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

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

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

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

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*

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 re-aging.” *Id.* Again, the lack of disclosure regarding Household’s re-aging practices was the basis for the Consent Order.

C. The Restatement

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

D. Investors’ Losses

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

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

29. To further analyze Plaintiffs' claim that Household's stock price declined as investors learned of the Company's allegedly fraudulent practices and Defendants' denials became less credible in the latter part of the Class Period, I compared the stock's performance to an index of comparable stocks (the S&P Financials Index) and a market index (the S&P 500 Index) during the period from November 15, 2001 through October 11, 2002.¹⁰ Exhibit 48 shows that the Company's stock underperformed the indexes during this period – Household's stock fell 53.2% while the comparable and market indexes declined by 20.7% and 25.8%, respectively, adjusted for dividends.

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

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

IV. QUANTIFICATION OF ALLEGED ARTIFICIAL INFLATION

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

A. Event Study Methodology

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

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

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

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

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

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

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

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

B. Quantification Using Specific Disclosures

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

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

15. *Id.*

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

& 27 and Exhibit 49. The stock price also declined significantly as analysts reassessed the risks of investing in the Company's stock due to the alleged fraud, including following the publication of the December 11, 2001 Legg Mason report regarding Household's re-aging policies, the August 27, 2002 Keefe, Bruyette & Woods report that described Household as "uninvestable," the September 3, 2002 Bernstein Research report that discussed the analysts' belief that Household will need to lower its EPS growth target, and the September 22, 2002 CIBC report in which the analysts lowered their target price to \$36 from \$57 and reduced their earnings estimate for 2003.¹⁹ See *supra* ¶¶ 19, 20, 23 & 28 and Exhibit 49.

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

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

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

²¹ See *supra* ¶¶ 7, 17 & 23 and Exhibit 49.

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

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

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.

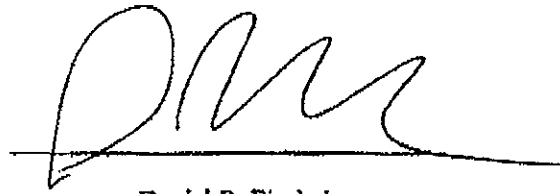
observation window, the Constructed Return equals the predicted return;^{29,30} for all other days, the Constructed Return equals the actual return.

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.

August 15, 2007

A handwritten signature in black ink, consisting of a large, stylized 'D' followed by 'R' and 'F' in a cursive script. The signature is written above a horizontal line.

Daniel R. Fischel

Exhibit 53

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Exhibit 56

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

EXHIBIT 2

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

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

REBUTTAL REPORT OF DANIEL R. FISCHER

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

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

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.

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 re-aging 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 depository 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 depository 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.

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

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

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

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 Plaintiffs'

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

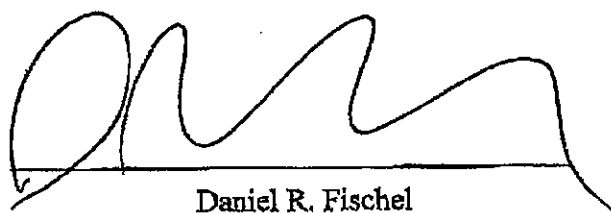
38. Plaintiffs claim that the alleged omissions were inflationary events because they prevented the price from falling to its true, uninflated value. Under this theory, the Company's stock price did not have to increase upon Defendants allegedly false statements (*e.g.*, quarterly financial results) 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,

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.

A handwritten signature in black ink, consisting of several loops and a long horizontal stroke at the end, positioned above the printed name.

Daniel R. Fischel

February 1, 2008

EXHIBIT 3

Page 1

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

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

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

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Page 3

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24

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1 I N D E X

2 March 21, 2008

3 THE WITNESS EXAMINATION BY COUNSEL FOR

4 PLAINTIFFS DEFENDANTS

5 DANIEL FISCHEL

6 (By Mr. Owen) 6

7 FISCHEL DEPOSITION EXHIBITS

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10 Exhibit 2	Rebuttal report of Daniel R. Fischel	10
11 Exhibit 3	Document titled "Efficient Capital	21
12	Markets, the Crash, and the Fraud on	
13	the Market Theory", by Daniel R. Fischel	
14 Exhibit 4	Document titled "Appendix I,	89
15	Household's Prospectus Disclosures"	
16 Exhibit 5	Document dated Oct. 18, 2001 from	94
17	Ventana Capital, titled "Household	
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19 Exhibit 6	Document titled "Lead Plaintiffs'	105
20	Opposition to Household Defendants'	
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22 Exhibit 7	Document titled "VMS, Monitoring	170
23	Report", Bates Nos. HES 02948918	
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1 A The footnote says that those two things are
2 different pieces of information. That's correct.

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

8 A Now, you are shifting to my report?

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

18 A I see that.

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

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

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

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

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

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

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

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

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

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

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1 undisclosed reasons while continuing to profess
 2 innocence. Both are then sued for securities fraud.
 3 Your methods, as they have been applied
 4 here, would identify the presence of inflation for
 5 both companies, is that correct?
 6 A I just don't know if that's correct. I
 7 think I would have to look at all the relevant facts
 8 and circumstances and -- and if this were a real
 9 world situation.
 10 But I do want to emphasize what might be
 11 the premise of your question, which is that I'm not
 12 expressing an opinion on whether there were in fact
 13 misrepresentations or omissions.
 14 The economic evidence that I've looked at
 15 does not allow me to express an opinion on that
 16 subject.
 17 I can express an opinion as to whether
 18 the economic evidence is consistent with those
 19 allegations, but does not establish that the
 20 allegations themselves are true.
 21 Q Let me just see if I understood that.
 22 The economic evidence could be consistent
 23 with the claims, but the claims themselves could be
 24 false?

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1 establishes plaintiffs' claim.
 2 Q You are aware that Household settled a
 3 bunch of different matters of litigation against it,
 4 disputes of regulators in this case?
 5 A I am.
 6 Q Are you offering any opinion as to the
 7 reasons Household settled any of those matters or
 8 litigations?
 9 A No, I am not.
 10 Q Now, you conduct a regression analysis in
 11 connection with your first report?
 12 A Correct.
 13 Q And that regression analysis tries to
 14 identify statistically significant changes in stock
 15 price after controlling for market and industry
 16 factors?
 17 A That's correct.
 18 Q What standard is being applied for
 19 statistical significance in your report?
 20 A You mean what is -- I'm not sure what you
 21 mean by "what standard".
 22 Q Well, supposedly the regression will say
 23 this movement is significant, and this other movement
 24 is not significant.

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1 A The claim that there is legal liability for
 2 misrepresentations or omissions -- that may or may
 3 not be correct.
 4 I don't have an opinion one way or the
 5 other on whether the claims that there were
 6 disclosure defects that were actionable under the
 7 securities laws -- I don't have an opinion on that.
 8 I have an opinion as to whether the
 9 economic evidence is consistent with those
 10 allegations in the way that I described; that if
 11 those allegations were accurate, I would expect to
 12 see a certain pattern of stock price behavior as well
 13 as a certain pattern to my analysis of publicly
 14 available information.
 15 I was able to test those things by looking
 16 at relevant disclosures, publicly available
 17 information, stock price movements, controlling for
 18 market and industry movements.
 19 I looked at all of Doctor Bajaj's
 20 criticisms, responded to those, and I reached the
 21 opinions that I reached.
 22 But that's why the last sentence of
 23 paragraph 11 says that, "the economic evidence is
 24 consistent with plaintiffs' claim" as opposed to

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1 And I want to know what the standard is to
 2 decide which is which.
 3 A I used, as I typically do, as is
 4 conventional, a standard of any stock price movement
 5 that had a t-statistic of greater than 1.65, I
 6 consider to be statistically significant.
 7 And any stock price movement that had a
 8 t-statistic less than 1.65, I did not consider to be
 9 statistically significant under the specification
 10 that's described in my report.
 11 Q You talk about another standard involving a
 12 t-statistic of 1.96, I think?
 13 A Correct.
 14 Q What -- why do you talk about that
 15 standard?
 16 A Just for purposes of providing background
 17 about the difference between a 1-tail test and a
 18 2-tail test.
 19 Q So the other standard doesn't have anything
 20 to do with the actual analysis that you do?
 21 A I'm not sure what you mean by "doesn't have
 22 anything to do with" it. I think anybody could look
 23 at the results that are reported and conclude that
 24 the results are significant in either a 1-tail test

1 or a 2-tail test, or neither.

2 But in terms of the standard that I used, I

3 used a t-statistic of 1.65 which is the conventional

4 level of statistical significance in a 1-tail test.

5 Q Speaking generally -- let me start again.

6 Did you apply a 2-tail test to any of the

7 dates that you analyzed in your regression analysis?

8 A Well, the results lend themselves to

9 applying any level of statistical significance.

10 You could apply statistical significance at

11 the ten percent level, which would be the lowest

12 t-statistic; you could apply statistical significance

13 at the one percent level which would be a higher

14 t-statistic.

15 But in terms of what I consider to be

16 statistically significant, I used a 1-tail test and,

17 therefore, a t-statistic of 1.65.

18 But the results allow you to use any level

19 of statistical significance that anyone wants to do

20 for any purpose.

21 But if you are asking me what I did, for

22 the most part, I used a 1-tail test and a -- a

23 t-statistic of 1.65.

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

1 report but you didn't actually use it?

2 A Again, I'm not sure what you mean by

3 "use it". By reporting it, again, this is

4 conventional, anybody can decide whether a particular

5 event is statistical -- excuse me, statistically

6 significant at the five percent level under either a

7 1-tail test or a 2-tail test.

8 But if you are asking me what I consider to

9 be statistically significant, I used a 1-tail test at

10 the five percent level, as opposed to a 1-tail test

11 at the ten percent level, a 1-tail test at the one

12 percent level, a 2-tail test at the ten percent

13 level, a 2-tail test at the one percent level, or any

14 other possible combination.

15 Q Does the 2-tail test provide a stronger

16 indication of statistical significance than the

17 1-tail test?

18 A I'm not sure what you mean by a stronger

19 indication. It requires a higher level of -- a

20 higher t-statistic.

21 So, therefore, fewer events would be

22 statistically significant at any given level of

23 statistical significance in a 2-tail test than a

24 1-tail test.

1 Q So fewer events are going to meet the

2 2-tail criteria than the 1-tail criteria?

3 A Holding everything else constant, correct.

4 Q Speaking generally, what does a significant

5 -- statistically significant price change indicate to

6 you?

7 A Generally it means that there is -- a

8 residual of this size will be attributable to chance

9 alone less than five percent of the time.

10 Q Do you use that inference to support a

11 conclusion that some new piece of information has

12 entered the marketplace that is affecting the stock

13 in a way that can't be explained by market or

14 industry factors?

15 A Sometimes. It depends on the relevant

16 facts and circumstances.

17 Q Are there any statistically significant

18 stock price movements of Household for which you have

19 drawn that conclusion?

20 A Well, yes, I think there are -- in the

21 context of my report, I think I identified 14 events

22 where I drew that conclusion.

23 But if I looked at the full events study,

24 there would be a lot more than 14. I just didn't

1 consider other statistically significant stock price

2 movements attributable to fraud related disclosures.

3 Q I'm looking at days where there was no

4 statistically significant movement controlling the

5 industry and market factors.

6 Whatever new information might have been

7 available on those days wasn't sufficient to cause

8 the stock price to change?

9 A In a statistically significant way,

10 correct.

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

12 A Sure.

13 THE VIDEOGRAPHER: Going off the record at

14 10:17 a.m.

15 (Whereupon, a short recess

16 was taken.)

17 THE VIDEOGRAPHER: This marks the beginning

18 of tape two in the deposition of Daniel Fischel.

19 Going on the record, the time is now

20 10:26 a.m. Please proceed.

21 MR. BURKHOLZ: Excuse me, Mr. Owen, I think

22 there was a discrepancy in his second to last answer

23 regarding whether he said fraud or non-fraud related

24 disclosures that I think he wants to clarify.

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

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

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

11 BY MR. OWEN:

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

16 A Correct.

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

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

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

1 characterization.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

24 A I'm not sure I agree with that

1 significance to me anyway.

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

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

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

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

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

24 MR. BURKHOLZ: Objection, form.

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

6 BY MR. OWEN:

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

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

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

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

17 A That they claim they are interrelated.

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

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

1 disclosurewise with respect to the restatement
 2 theory?

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

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

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

15 MR. BURKHOLS: Objection, form.

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

21 BY MR. OWEN:

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

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

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

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

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

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

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

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

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

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

1 the restatement, as I describe in my --

2 Q Page 16?

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

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

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

16 A That's correct.

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

20 A That's right.

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

23 Let's look at the reage theory.

24 A Okay.

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

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

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

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

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

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

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

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

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

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

1 Household's predatory lending practices.

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

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

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

9 Q So you don't know?

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

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

16 MR. BURKHOLZ: Objection, form.

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

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

24 BY MR. OWEN:

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

4 MR. BURKHOLZ: Objection, form.

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

8 BY MR. OWEN:

9 Q I agree with that.

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

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

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

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

1 it not?

2 A Correct.

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

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

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

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

13 Q Fair enough --

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

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

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

24 Q And those disclosures on the first day of

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

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

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

12 Would that affect your inflation analysis?

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

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

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

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

1 with this group of Multi-state Attorneys General.

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

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

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

12 MR. BURKHOLZ: Objection, form.

13 BY MR. OWEN:

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

19 MR. BURKHOLZ: Same objection, form.

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

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

4 BY MR. OWEN:

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

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

14 Q You identify inflation on that day though?

15 A I do, that's correct.

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

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

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

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

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

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

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

16 MR. BURKHOLZ: Objection, form.

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

21 BY MR. OWEN:

22 Q Are you offering any opinion regarding
23 scienter?

24 A No, I'm not.

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

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

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

7 Going off the record, the time is now
8 12:11 p.m.

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

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AFTERNOON SESSION

(12:48 p.m.)

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

6 Going on the record, the time is now
7 12:48 p.m. Please proceed.

8 DANIEL R. FISCHEL,
9 the witness at the time of recess, having been
10 previously duly sworn, was examined and testified
11 further as follows:

EXAMINATION(continued)

BY MR. OWEN:

14 Q Turn back to your rebuttal report at
15 page 27.

16 A Okay.

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

24 Do you see that?

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1 A I do.

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

4 A That's my understanding of the claim.

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

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

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

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

13 Q Do you recall anybody explaining that
14 theory to you?

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

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

24 BY MR. OWEN:

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

5 MR. BURKHOLZ: Same objection.

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

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

BY MR. OWEN:

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

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

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

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1 Court as to the proper use of regression analysis.
 2 And the purpose of the statement, as is
 3 clear from the context as well as the footnote, is to
 4 make clear that there can be situations where there
 5 is no stock price reaction to particular disclosures
 6 but, nevertheless, the particular disclosures can be
 7 responsible for creating inflation in the price of
 8 the stock in terms of a divergence between price and
 9 true value.

10 That's what's explained in this particular
 11 paragraph and surrounding paragraphs.

12 Q Okay. Now, in your inflation chart, you
 13 have 7.97 in inflation from July 30 all the way
 14 through to November 15 -- I'm sorry -- well, let me
 15 start again.

16 In your inflation chart, you have \$7.97 in
 17 inflation on July 30, 1999, and the same 7.97 all the
 18 way through to November 15th, 2001.

19 Is it your assumption that the plaintiffs'
 20 claims during that period relate only to omissions?

21 A First, just by way of making sure there is
 22 no misunderstanding, as you know, I have different
 23 inflation charts, and I'm just following procedure --

24 Q Right -- as I said before, we are only

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1 talking about the event studies.

2 A Both are event studies.

3 Q Okay. Fair point. The event study with
 4 specific disclosure.

5 A Quantification of specific disclosures.

6 Q Uh-huh.

7 A Now, turning back to your question, I guess
 8 it's a combination of my understanding of the thrust
 9 of the plaintiffs claim at the beginning of the class
 10 period being based on omissions, and the findings of
 11 our analysis of relevant stock price movements in
 12 relation to particular disclosures.

13 I would say the analysis of inflation as
 14 opposed to this more theoretical discussion in this
 15 particular paragraph -- not just an assumption, it's
 16 also based on our analysis performed under my
 17 direction of stock price reactions to particular
 18 disclosures.

19 Q Let me go back to -- with respect to one
 20 part of your answer.

21 Am I to understand from your statements
 22 that this two-sentence passage that I just read is
 23 not accurate with respect to the leakage analysis, or
 24 doesn't apply to the leakage analysis?

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1 A I think you are asking about several
 2 different things simultaneously.

3 First, you are asking me about this
 4 paragraph which deals with the proper scope -- proper
 5 use and interpretation of regression analysis, and
 6 the implication of that discussion of regression
 7 analysis for the fact as discussed in the next
 8 sentence that I didn't find any statistically
 9 significant price increases that resulted in
 10 inflation from the beginning of the period, and
 11 through November 15th, 2001.

12 So I would say that's one set of issues.

13 And then a second set of issues is what
 14 actually I did for -- with respect to my analysis of
 15 quantifying inflation using -- or taking into account
 16 leakage where the existence of statistically
 17 significant price movements are part of the analysis,
 18 but only part of the analysis, which I can describe
 19 in more detail if you want to ask me about it.

20 Q I want to leave leakage to the side for the
 21 moment.

22 Let me see if I understand what you are
 23 saying is, because what the plaintiffs are alleging
 24 are omissions, you wouldn't expect to see a stock

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1 price movement from an omission.

2 Therefore, you can make conclusions about
 3 what was happening in the stock irrespective of any
 4 actual price changes?

5 A I would say not exactly. Whether a
 6 statement that's alleged to be an omission results in
 7 a price reaction depends on -- or causes a price
 8 reaction depends on the facts and circumstances of
 9 that particular statement.

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

15 Q You call this "plaintiffs claim" and, then,
 16 say "under this theory".

17 Now, is this something that you assume to
 18 be true for the purposes of your opinion?

19 A Not really. I could just as easily -- this
 20 again is a discussion of the proper interpretation of
 21 regression analysis. That's the purpose of it.

22 If I make the opposite assumption, not for
 23 purposes of illustrating the limits of regression
 24 analysis, but if I make the opposite assumption that

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

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

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

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

20 A I do.

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

23 A On what theory?

24 Q This theory that we are talking about,

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

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

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

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

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

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

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

24 A For purposes of understanding what the

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

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

9 MR. BURKHOLE: Objection, form.

10 BY MR. OWEN:

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

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

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

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

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

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

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

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

9 A No, public statements in the nature of
 10 quarterly financial statements. So 10-Q's, 10-K's,
 11 8-K's, if there were any, public disclosures that
 12 dealt with the subject matters of the alleged
 13 falsehoods.

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

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

20 MR. BURKHOLE: Objection, form.

21 BY MR. OWEN:

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

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

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1 just giving you my understanding of what the
2 allegations are.

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

6 A Is that a question?

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

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

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

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

24 Q But they had to relate to financial results

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1 at the very least?

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

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

9 MR. BURKHOLZ: Objection, form.

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

14 BY MR. OWEN:

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

17 A Okay.

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

22 MR. BURKHOLZ: Objection, form.

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

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

10 BY MR. OWEN:

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

15 MR. BURKHOLZ: Objection, form.

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

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

21 BY MR. OWEN:

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

24 Assume that Household had disclosed its

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

4 A Which inflation chart?

5 Q The specific disclosures chart.

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

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

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

15 In what sense --

16 A I'm sorry, on all --

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

20 A Correct.

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

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

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

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

13 So we really examined every single day
14 during the entire class period, and selected, really,
15 14 days where there was a statistically significant
16 reaction to a particular disclosure related to the
17 plaintiffs' allegations in ways that are described at
18 length in the report for purposes of my first method
19 of quantifying inflation.

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

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

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

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

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

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

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

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

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

20 A Correct --

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

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

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

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

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

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

16 A That's correct.

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

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

24 Q So you are not agnostic as to how it might

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1 move. You have actually an anticipated direction of
2 movement?

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

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

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

9 Just as a shorthand, if I look at Exhibit G
10 of my rebuttal report, which is my regression
11 analysis with the inclusion of the additional
12 independent variable that Doctor Bajaj indicated
13 should be used, it looks like all 14 would meet the
14 test of statistical significance under either the
15 1-tail or 2-tail test.

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

22 A I do.

23 Q Now, that t-statistic does not meet the
24 2-tail test?

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

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

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

8 Q Right, of the 14 days.

9 A Price reaction. That looks right.

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

12 A Correct.

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

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

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

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

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

1 significant days here.

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

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

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

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

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

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

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

1 end up in the 14 that you picked?

2 A Correct.

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

5 A Correct.

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

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

12 Q One in 20 times --

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

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

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

1 to a particular new piece of information.

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

5 Q Okay --

6 A -- a price is going to move.

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

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

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

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

18 Is my understanding correct on that?

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

21 Q It's Exhibit S3.

22 A Correct. And you are asking about October

23 --
24 Q 10th and 11th.

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

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

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

7 Going off the record, the time is now
8 4:28 p.m.

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

15
16 IN THE UNITED STATES DISTRICT COURT
17 FOR THE NORTHERN DISTRICT OF ILLINOIS
18 EASTERN DIVISION

19
20 LAWRENCE E. JAFFE PENSION PLAN,)
21 on behalf of Itself and All)
22 Others Similarly Situated,)
23 Plaintiffs,)
24 vs.) No. 02 C 5893

1 HOUSEHOLD INTERNATIONAL, INC.,)
2 et al.,)
3 Defendants.)
4

5 I, DANIEL R. FISCHEL, state that
6 I have read the foregoing transcript of the
7 testimony given by me at my deposition on
8 the 21st day of March 2008, and that said
9 transcript constitutes a true and correct
10 record of the testimony given by me
11
12
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15
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17
18
19
20
21
22
23
24

1 at said deposition except as I have so indicated
2 on the errata sheets provided herein.
3
4

5 _____
6 DANIEL R. FISCHEL

7 No corrections (Please initial) _____
8 Number of errata sheets submitted _____ (pgs)

9
10 SUBSCRIBED AND SWORN TO
11 before me this _____ day
12 of _____, 2008.

13 _____
14 NOTARY PUBLIC
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24

1 STATE OF ILLINOIS)
2) SS:
3 COUNTY OF C O O K)
4

5 I, RICHARD H. DAGDIGIAN, Illinois CSR No.
6 084-000035, Registered Professional Reporter and
7 Notary Public in and for the County of Cook, State of
8 Illinois, do hereby certify that previous to the
9 commencement of the examination, said witness was
10 duly sworn by me to testify the truth; that the said
11 deposition was taken at the time and place aforesaid;
12 that the testimony given by said witness was reduced
13 to writing by means of shorthand and thereafter
14 transcribed into typewritten form; and that the
15 foregoing is a true, correct, and complete transcript
16 of my shorthand notes so taken as aforesaid.

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

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

1 I further certify that this certificate
2 applies to the original signed IN BLUE and certified
3 transcripts only. I assume no responsibility for the
4 accuracy of any reproduced copies not made under my
5 control or direction.
6

7 IN TESTIMONY WHEREOF, I have hereunto set
8 my hand and affixed my notarial seal this ___ day of
9 _____, 2008.
10

11
12 _____
13 Richard H. Dagdigan, CSR, RMR, CRR
14

15 My Commission expires
16 May 1, 2011.
17
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23
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EXHIBIT 4

UNITED STATES DISTRICT COURT

NORTHERN DISTRICT OF ILLINOIS

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

AFFIDAVIT OF BRADFORD CORNELL

October 30, 2008

I. Qualifications

- (1) I am currently a visiting Professor of Finance at the California Institute of Technology. Previously, I was a Professor of Finance and Director of the Bank of America Research Center at the Anderson Graduate School of Management at the University of California, Los Angeles (“UCLA”) for 26 years.
- (2) I earned a master’s degree in Statistics from Stanford University in 1974 and earned my doctorate in Financial Economics from Stanford in 1975. I have served as an editor of numerous journals relating to business and finance and have written more than 80 articles and two books on finance and securities, including Corporate Valuation: Tools For Effective Appraisal and Decision Making, published by McGraw-Hill, and The Equity Risk Premium and the Long-Run Future of the Stock Market, published by John Wiley and Sons. To complement my academic writing, I have also authored articles for *The Wall Street Journal* and the *Los Angeles Times*.
- (3) In 1988, I was cited by the Financial Management Association as one of the ten most prolific authors in the field of finance. I have also received prizes and grants for my research from the Chicago Board of Trade, the Chicago Mercantile Exchange and the Institute for Quantitative Research in Finance. My article, “Corporate Stakeholders and Corporate Finance,” received the 1987 Distinguished Applied Research Award from the Financial Management Association. In 1999, I was awarded the I/B/E/S prize for empirical work in finance and accounting (with Wayne Landsman and Jennifer Conrad). More recently, Richard Roll and I received a Graham and Dodd Scroll Award from the Financial Analyst Society for our work on delegated agent asset pricing theory.

- (4) I have served as a Vice President of the Western Finance Association. I am also a past director of both the American Finance Association and the Western Finance Association. I have served as an associate editor of numerous professional journals including: *The Journal of Finance*, *The Journal of Futures Markets*, *The Journal of Financial Research* and *The Journal of International Business Studies*. I have served as a reviewer for nearly a dozen other professional journals.
- (5) My teaching and writing have focused on a number of different financial and economic issues, many of which are relevant to the subject matter of this declaration. I currently teach Applied Corporate Finance and Investment Banking at Caltech. I have drawn upon this experience in order to formulate the opinions provided herein. In addition to my teaching, writing, and research studies, I also serve as senior consultant to CRA International (“CRA”), an international consulting firm. In my position as a senior consultant, I advise business and legal clients on financial economic issues. Prior to my affiliation with CRA, which began in March of 1999, I operated FinEcon, a financial economic consulting company, through which I also advised business and legal clients on financial economic issues. I have served as a consultant and given testimony for both plaintiffs and defendants in a variety of securities, regulatory and commercial lawsuits. During my many years of experience as an expert witness and consultant, I have provided economic analyses and expert testimony (again, for both plaintiffs and defendants) related to valuation, corporate finance and damages issues. I have been engaged as a damages expert in numerous high-profile cases that revolved around complex financial and securities transactions.

- (6) My background is described more fully in my curriculum vitae, which is attached as Exhibit 1 to this affidavit. A list of my publications may also be found as part of Exhibit 1.
- (7) My hourly rate in this matter is \$750.

II. Materials Reviewed and Opinions

- (1) In preparing by opinions in this matter I have reviewed:
 - a. The report, rebuttal report and deposition transcript of Prof. Daniel Fischel.
 - b. The report and rebuttal report of Dr. Mukesh Bajaj.
 - c. My published article: "Using Finance Theory to Measure Damages in Fraud on the Market Cases." With G. Morgan. *UCLA Law Review*, Vol. 37, No. 2, 1990, pp. 883–924.
 - d. The expert report of Dr. Blaine Nye and the court opinion in *Re Williams Securities Litigation*.
- (2) Based on my review of his report, I understand Prof. Fischel did the following in developing his leakage model. First, he estimated a regression model which related the return on Household's stock to the returns on the S&P 500 and S&P Financials Indexes during the period from November 15, 2000 to November 14, 2001. Second, Prof. Fischel used the regression model to predict the returns for Household's stock on a daily basis during the period from November 15, 2001 to October 11, 2002 (the alleged "leakage period"). Finally, he calculated a value line based on the assumption that but-for leakage of fraud related information, the return on Household's stock would have equaled the predicted return from the regression model for every day during the leakage period.
- (3) Although Prof. Fischel refers to his leakage model as an event study approach, citing my paper with Mr. Morgan as support, I do not agree. Instead, it is what Mr. Morgan and I

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

- (4) Whether Prof. Fischel's approach is called an event approach or a comparable index approach, it still suffers from the problem that Mr. Morgan and I discuss on page 903 of our paper. There we say, "The trouble with the comparable index approach, . . . is that it attributes any decline in the security price that is not due to movements in the market or the industry to disclosure of the fraud. If the disclosure of the fraud is associated with the release of other company-specific news, the comparable index approach will overestimate the true damages."
- (5) The recognition of this problem with the comparable index approach is not unique to Mr. Morgan and me. It has been widely documented in the academic literature, including published work by Prof. Fischel. In fact Prof. Fischel concedes this issue in his deposition:¹

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

A: Correct.

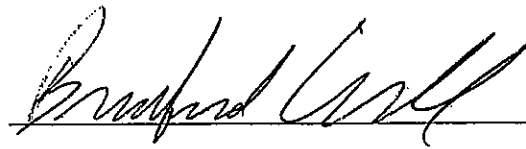
- (6) Furthermore, this comports with common sense. For companies like Household over a period as long as the alleged leakage period, there are hundreds, if not thousands, of news

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

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

- (7) In this respect, I note that in addition to economists courts have also concluded that models such as the one employed by Prof. Fischel do not adequately measure the extent a company's stock price decline that can be attributed to leakage of fraud related news. For instance, in *Re Williams Securities Litigation*, Dr. Blaine Nye used a model similar to Prof. Fischel's also with the goal of estimating the impact of the leakage of fraud related news on Williams's stock price. In response, the court granted a Daubert motion excluding Dr. Nye's testimony saying that "the applicable law requires a securities fraud plaintiff in a 'fraud on the market case' to identify compensable losses by separating the compensable fraud-related losses from losses attributable to general economic conditions, broad market trends, industry-specific stresses, management incompetence, bad luck and other non-fraud factors." In my opinion, the court's thinking in *Williams* is spot on from the perspective of an economist. Although Prof. Fischel's model could take account of market and industry factors, assuming it is properly specified, it does not take account of firm specific factors. Therefore, any estimate of inflation produced by this model cannot be relied upon.
- (8) There is one final issue that arises when regression models are applied over long periods to predict returns as Prof. Fischel does in his leakage model. No regression model

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

A handwritten signature in black ink, appearing to read "Bradford Cornell", written over a horizontal line.

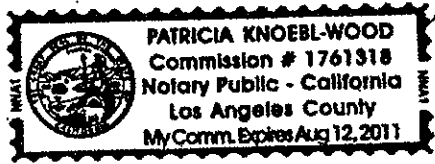
Bradford Cornell

October 30, 2008

CALIFORNIA ALL-PURPOSE ACKNOWLEDGMENT

State of California }
 County of Los Angeles }

On October 30, 2008 before me, Patricia Knoebel-Wood
Date Here Insert Name and Title of the Officer
 personally appeared Bradford Coenell
Name(s) of Signer(s)



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

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

WITNESS my hand and official seal.

Signature Patricia Knoebel-Wood
Signature of Notary Public

Place Notary Seal Above

OPTIONAL

Though the information below is not required by law, it may prove valuable to persons relying on the document and could prevent fraudulent removal and reattachment of this form to another document.

Description of Attached Document

Title or Type of Document: AFFIDAVIT
 Document Date: October 30, 2008 Number of Pages: 7
 Signer(s) Other Than Named Above: _____

Capacity(ies) Claimed by Signer(s)

Signer's Name: Bradford Coenell
 Individual
 Corporate Officer — Title(s): _____
 Partner — Limited General
 Attorney in Fact
 Trustee
 Guardian or Conservator
 Other: _____

Signer's Name: _____
 Individual
 Corporate Officer — Title(s): _____
 Partner — Limited General
 Attorney in Fact
 Trustee
 Guardian or Conservator
 Other: _____

Signer Is Representing: _____

