

**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,)	Lead Case No. 02-C-5893
)	(Consolidated)
)	
Plaintiff,)	CLASS ACTION
)	
v.)	
)	Judge Ronald A. Guzmán
HOUSEHOLD INTERNATIONAL, INC., <i>et al.</i> ,)	
)	
Defendants.)	

**DEFENDANTS’ OBJECTIONS TO CERTAIN CLAIMS INCLUDED
IN THE REPORT OF CLAIMS ADMINISTRATOR GILARDI & CO. LLC**

On December 22, 2011, the claims administrator, Gilardi & Co. LLC (“Gilardi”), filed its Report Regarding Claims Administration. (Docket No. 1790.) Gilardi reported 45,921 claims that, according to Gilardi’s calculations, generate an “allowed loss.” (*Id.* at 4.) Gilardi attached as Exhibit A to its report an Excel spreadsheet listing these claims. By Order dated January 27, 2012, the Court directed Defendants to “enumerate the claims to which they object either in terms of a. calculation of the amount, b. the authority of the claimant to submit the claim, or c. some mechanical deficiency in the claim submissions itself.” (Docket No. 1795.) Defendants respectfully submit this filing in accordance with the Court’s January 27 Order.

I. BACKGROUND

On January 11, 2011, the Court issued an Order approving, as to form and content, the Notice of Verdict, Proof of Claim, and Summary Notice submitted by Plaintiffs. (Docket No. 1721.) The Court: (1) appointed Gilardi to act as the claims administrator; (2) ordered Lead Counsel to mail a copy of the Notice of Verdict and Proof of Claim to class members by January

24, 2011; and (3) ordered publication of the Summary Notice in *USA Today* by no later than February 1, 2011. (*Id.* at 2.) The Court ordered nominees who held Household International Inc. (“Household”) stock for beneficial owners to forward the Notice of Verdict and Proof of Claim forms to the beneficial owners, or to provide the names and addresses of the beneficial owners to Lead Counsel. (*Id.*) The January 11 Order also provided:

Class Members who wish to participate in any award of damages shall complete and submit Proof of Claim forms in accordance with the instructions contained therein. Unless the Court orders otherwise, all Proof of Claim forms must be postmarked no later than one hundred twenty (120) days from the Notice Date. Any Class Member who does not timely submit a Proof of Claim within the time provided for, shall be barred from sharing in the distribution of the proceeds of any award of damages, unless otherwise ordered by the Court.

(*Id.* at 3.)

Gilardi mailed the Notice of Verdict and Proof of Claim forms to class members and nominee holders on January 24, 2011, and published the Summary Notice in *USA Today* on February 1, 2011. (Docket No. 1766-2 at ¶¶ 3–10.) The Proof of Claim advised class members of the need to file a completed and signed Proof of Claim form postmarked on or before May 24, 2011. (*Id.*, Ex. B. at 1.) The Proof of Claim also instructed that “[e]xecutors, administrators, guardians, conservators, and trustees must complete and sign this claim on behalf of persons represented by them **and their authority must accompany this claim** and their titles or capacities must be stated.” (*Id.* (emphasis added).) The Proof of Claim form notified claimants that “[b]rokers’ confirmations or other documentation of your transactions in Household common stock should be attached to your claim. Failure to provide this documentation could delay verification of your claim and result in rejection of your claim.” (*Id.* at 2.)

In addition, Part III of the Proof of Claim form provided:

PART III: YOU MUST ALSO ANSWER THE FOLLOWING QUESTION IN ORDER TO BE ELIGIBLE FOR RECOVERY ON YOUR CLAIM PURSUANT TO THE VERDICT

1. The jury in this case found that certain public statements issued about Household International, Inc. were false or misleading and that the price you paid for Household stock was inflated from March 23, 2001 – October 11, 2002 due to the defendants’ violation of the securities laws. The jury found that Household’s stock was inflated by the amounts on Exhibit A to the Notice of Verdict which accompanies this form.

Question: If you had known at the time of your purchase of Household stock that defendants’ false and misleading statements had the effect of inflating the price of Household stock and thereby caused you to pay more for Household stock than you should have paid, would you have still purchased the stock at the inflated price that you paid? No Yes . (A “No” answer to this question means you may be subject to share in the recovery. A “Yes” answer to this question means you may be subject to additional requests for information and may or may not recover any money.)

TO RECOVER FROM THE SETTLEMENT FUND YOU MUST READ AND SIGN THIS FORM ON PAGE 6.

(*Id.* at 5 (emphasis in original).)¹

At a status hearing on April 7, 2011, Plaintiffs’ counsel advised the Court that certain custodian banks were having difficulty obtaining answers from beneficial owners to the Proof of Claim form’s reliance question by the May 24, 2011 deadline. (Docket No. 1753.) The Court gave Plaintiffs until May 6, 2011 to propose a plan “as to the most efficient way to proceed” in order to obtain responses to the question from beneficial owners. (*Id.* at 2.) Plaintiffs proposed that custodian banks and third-party claims filers “limit their efforts to entities and individuals

¹ Defendants previously raised objections regarding the legal deficiencies of this question to address the element of reliance and do not restate those objections herein. By making these specific challenges and objections to certain of the claims included in Gilardi’s Exhibit A, including with respect to “Yes” answers or failures to answer the Proof of Claim form’s reliance question, Defendants do not waive, and instead expressly reserve, their objections regarding the Proof of Claim form’s reliance question.

that have claims with an allowed loss in excess of \$250,000.” (Docket No. 1756 at 5.) Plaintiffs suggested that a one-page follow-up notice be sent to such claimants and that the banks and third-party filers be allowed an additional 90 days to obtain responses from the beneficial owners. (*Id.* at 6.) On May 31, 2011, the Court approved Plaintiffs’ proposed plan over Defendants’ objections. (Docket No. 1763.) Gilardi mailed the one-page follow-up notice on June 10, 2011. (Docket No. 1766-2 at ¶ 13.) The due date for responses to the follow-up notice was September 12, 2011. (*Id.*)

On June 11, 2011, the parties filed reports regarding the status of discovery and the claims filing process. (Docket Nos. 1764, 1766.) In response to these filings, the Court entered an Order dated August 16, 2011. (Docket No. 1775.) The Court noted that Defendants had raised several issues with respect to the claims filing process, including claims being filed by third parties without proof of authorization, and the filing of duplicate claims. (*Id.* at 1–3.) The Court held that issues regarding the validity of claims “is a determination to be made by the magistrate judge during the claims adjudication process to the extent that a conflict remains after the claims administrator has performed its function.” (*Id.* at 3.)

On August 24, 2011, the Court ordered Defendants to file a list of claims as to which they contend the evidence rebuts the presumption of reliance under *Basic, Inc. v. Levinson*, 485 U.S. 224 (1988). (Docket No. 1777.) Defendants filed their submission on rebuttal of the presumption of reliance on October 14, 2011 (Docket No. 1780.) As set forth therein, Defendants contend that the evidence rebuts the presumption of reliance as to *all* class members. (*Id.*) Briefing on the reliance issue was completed on December 19, 2011. (Docket No. 1787).

On December 22, 2011, Gilardi filed its Report Regarding Claims Administration. (Docket No. 1790.) Gilardi reported:

At this point, we have substantially completed the claims process. Relying on the Court's prescribed method of calculating allowed losses, we have determined that there are 45,921 claims that generate an allowed loss. The aggregate loss amount for these 45,921 claims is \$2,225,884,588.31.

(*Id.* at 4.)

II. DEFENDANTS' OBJECTIONS TO SPECIFIC CLAIMS IN GILARDI'S REPORT

After reviewing Gilardi's report and Exhibit A thereto, on information known to Defendants so far, Defendants have identified 28,735 claims with aggregate allowed losses per Gilardi's calculations of \$850,632,319, which are defective for one or more of the reasons set forth below.²

Many of the 28,735 claims that Defendants are challenging contain multiple defects. Defendants have included as Exhibit 1 in the accompany Appendix a spreadsheet listing specific claims that Defendants challenge and the defect(s) associated with each claim. The headings in Exhibit 1 regarding the specific defects correspond to the subsections of Section II of this memorandum, below. Defendants also have provided to Plaintiffs additional supporting spreadsheets for each category of challenged claims. Defendants have not filed these additional supporting schedules with the Court, due to volume of information contained therein and the possibility of resolving some disputes through the meet-and-confer process, but will do so promptly if requested by the Court.³

² This submission addresses only claims that Gilardi has recommended be accepted, which are set forth in Exhibit A to Gilardi's report. Defendants do not address or dispute Gilardi's rejection of the claims set forth in Exhibit C to Gilardi's report, but reserve the right to do so in the event any such claims are deemed potentially viable.

³ By making these specific challenges and objections to certain of the claims included in Gilardi's Exhibit A, Defendants do not waive, and instead expressly reserve, their argument that all claims should be rejected based on legal, factual, or evidentiary deficiencies, including, among others, the fact that the evidence rebuts the presumption of reliance as to all claimants and the fact that Plaintiffs have failed to establish loss causation or substantiate the \$23.94 per share inflation applied in Gilardi's calculation of allowed losses. Defendants also note that ongoing investigation and
(*cont'd*)

A. Claims Filed by Third Parties Without Evidence of the Third Parties' Authority to File on Behalf of the Beneficial Owners

Number of Claims: 8,290
Dollar Amount of claims \$158,587,130

As noted above, the Notice of Verdict explicitly instructed nominee holders that their authority must accompany each claim filed on behalf of a beneficial owner. (Docket No. 1766-2, Ex. B at 1.) Of the 45,921 claims included in Gilardi's Exhibit A, 8,290 claims, with aggregate allowed losses per Gilardi's calculations of \$158,587,130, were submitted by third parties, purportedly on behalf of beneficial owners of Household stock, without appropriate supporting evidence that the third parties had the authority to file on behalf of the beneficial owners.⁴

Among the claims submitted by third parties totaling over \$1 million that were submitted by third parties purportedly on behalf of beneficial owners, but without evidence of authorization by the beneficial owners, are 957 claims filed by Bank of New York Mellon ("BNY Mellon"), with aggregate allowed losses per Gilardi's calculations of \$61,256,130, and 1,813 claims filed by Northern Trust Company ("Northern Trust"), with aggregate allowed losses of \$31,452,418. In a status report dated June 11, 2011, Defendants raised with the Court the issue of BNY Mellon and Northern Trust filing unauthorized claims on behalf of third parties. (Docket No. 1764 at 6–8.) In particular, Defendants reported that the Rule 30(b)(6) deponents for Oppenheimer Funds ("Oppenheimer") and Capital Guardian Trust Company ("Capital Guardian") testified at their depositions that claims filed by BNY Mellon in this case, purportedly on behalf of Oppenheimer

(cont'd from previous page)

proceedings may bring additional defects to light in claims deemed acceptable by Gilardi, and expressly reserve all rights and arguments with respect to such issues.

⁴ As shown in Defendants' Exhibit 2, included in the accompanying Appendix, the 8,290 challenged claims were submitted by 13 separate third parties, each of which submitted claims totaling more than \$1 million.

and Capital Guardian, had been filed without Oppenheimer's and Capital Guardian's authorization. (*Id.* at 7.) Defendants also reported that the Rule 30(b)(6) deponent for Putnam Investment Management ("Putnam") testified at his deposition that 67 separate Proofs of Claim filed by Northern Trust, purportedly on behalf of Putnam, had been filed without Putnam's authorization. (*Id.* at 6–7.)

The umbrella claim submitted by Northern Trust, purportedly as "trustee or agent" for 4,538 separate class members, provides a cogent example of lack of evidence of authorization by the beneficial owners. A copy of this "claim" is included as Exhibit 3 in the accompanying Appendix. As evidence of its purported authority to assert claims on behalf of the 4,538 beneficial owners, Northern Trust attached to the Proof of Claim a letter from a Northern Trust Second Vice President asserting that, "[p]ursuant to Northern Trust's by-laws, the undersigned is authorized to transact all duties necessary in the filing and processing of class action claims on behalf of Northern Trust's clients." (App. Ex. 3 (emphasis added).) The by-law provision that Northern Trust attached in support of this assertion merely authorizes any Second Vice President (and other designated officers) to effect transactions in securities "when acting for the Company in its fiduciary capacity or as agent, custodian or otherwise." (*Id.*) Northern Trust, however, did not submit any documents executed by *the beneficial owners* giving Northern Trust the authority to file claims on their behalf in this litigation or any other litigation.

Also included within the 8,290 challenged claims are claims filed by State Street Bank & Trust ("State Street"). As in the case of Northern Trust, State Street's submission to Gilardi provided no evidence of authority to file claims on behalf of its customers. State Street's Rule 30(b)(6) deponent testified that State Street submitted to Gilardi as evidence of its authority only a corporate resolution by State Street itself. (Pelissier Dep. Tr. (included as Exhibit 4 in the

accompanying Appendix) at 28:9–23.) When asked directly whether State Street submitted to Gilardi any documents evidencing authorization by State Street’s customers to file claims on their behalf, State Street’s deponent responded: “No, I don’t think so.” (*Id.* at 29:8–13.) State Street’s deponent also admitted that State Street did not review any customer contracts or agreements to determine whether authorization was provided prior to filing claims in this action. (*Id.* at 17:21–18:6.) Rather, State Street filed claims for “all of [its] customers that held the security in question . . . during the class period” (*id.* at 14:9–16), as State Street is entitled to payment of “a fee per filing that we do for the customer.” (*Id.* at 16:6–7.)

In an Order dated August 16, 2011, the Court noted the lack of authorization issue, but concluded that, if a claim has been filed by a third party without authorization, “but the victim desires to file substantially the same claim, there is no harm in accommodating the victim’s desire to file its claim either independently through another custodian or to ratify the claim already filed.” (Docket No. 1775 at 2.)⁵ Absent proper proof of authorization or ratification there is no competent evidence that a given class member desires to prosecute a claim.⁶

⁵ The Court’s August 16 Order appears to assume that all beneficial owners would approve a third party filing on their behalf and would ratify the claim if given a chance to do so. That is not necessarily the case. As Defendants noted in their June 11 status report, Northern Trust, without authorization, filed 67 claims against Putnam’s wishes, as well as claims on behalf of defendants David A. Schoenholz and Gary Gilmer, who never consented to claims being filed on their behalf in this action and would not do so. (Docket No. 1764 at 7 n.4.) Since that time, Defendants have been made aware of other, similar examples of claims having been filed by third party custodians, purportedly on behalf of beneficial owners, without the consent or even prior knowledge of the beneficial owners, and where the beneficial owners would not ratify the claims.

⁶ Without documentation establishing the third parties’ authority, there is no basis to conclude that the action is being “prosecuted” by the beneficial owners as the “real parties in interest,” as required by Federal Rule of Civil Procedure 17(a). Rule 17(a)(3) allows a court to dismiss an action for failure to prosecute in the name of the real party in interest if “after an objection, a reasonable time has been allowed for the real party in interest to ratify, join, or be substituted into the action.” Fed. R. Civ. P. 17(a)(3); *see also RK Co. v. See*, 622 F.3d 846, 850 (7th Cir. 2010).

Despite having been notified of the lack of authorization issue more than six months before Gilardi's final report was due, Plaintiffs and Gilardi apparently failed to take the necessary steps to obtain the required evidence of authorization or ratification from the beneficial owners. Claims filed by third parties without evidence of authorization by the beneficial owners should be rejected. If the Court disagrees that such claims should be rejected outright, it should allow third parties an additional period of time to attempt to obtain documentation *from the beneficial owners* establishing the third parties' authority to file claims on behalf of the beneficial owners. If a third-party filer fails to provide suitable proof of authorization by the deadline set by the Court, any affected claim(s) should be rejected.

B. Claims Containing Incomplete or Defective Proofs of Claim

1. Claims Filed by Beneficial Owners Without Supporting Documentation of Their Transactions

Number of Claims:	351
Dollar Amount of Claims:	\$55,601,681

Defendants have identified 351 claims filed by beneficial owners of Household stock, with allowed losses of \$55,601,681 per Gilardi's calculations, for which the beneficial owners submitted no supporting documentation evidencing their claimed transactions in Household stock, or, in a few cases, submitted illegible documentation.

As noted above, the Proof of Claim form advised class members that "[b]rokers' confirmations or other documentation of your transactions in Household common stock should be attached to your claim." (Docket No. 1766-2, Ex. B at 2.) At a minimum, beneficial owners

must be required to provide competent and authenticated evidence satisfying their burden of proof on the damages element of their claims.⁷

2. Claims Filed by Third-Party Claims-Filing Services Without Supporting Documentation of the Beneficial Owners' Transactions

Number of Claims:	13,844
Dollar Amount of Claims:	\$163,018,409

Many Proof of Claim forms purportedly filed on behalf of beneficial owners of Household stock were filed by third-party claims-filing services, *i.e.*, companies that for a fee (or a percentage of the recovery) offer to file (or unilaterally file) claims on behalf of beneficial owners, typically in the class action settlement context. Among these claims, Defendants have identified 13,844 claims, with allowed losses per Gilardi's calculations of \$163,018,409, for which the third-party filers submitted no underlying documentation (*e.g.*, brokers confirmations or transaction receipts) of the alleged beneficial owners' purported transactions.

For the same reasons discussed above, third-party claims-filing services purporting to act on behalf of beneficial owners must, at a minimum, provide appropriate evidence of the beneficial owners' reported transactions in Household stock during Damages Period.⁸

⁷ In an affidavit filed in this case on June 10, 2011, Gilardi represented that, "where a claim appears to be incomplete in some way, we have sent correspondence to the claimant informing them of the status of their claim and requesting a response and additional information or action. Each of those letters enclosed a specially designed supplemental form to facilitate efficient tracking and intake of responses." (Docket No. 1766-2 at ¶ 14.) However, as indicated in Defendants' Exhibit 1, Gilardi included in its approved claims list many claims for which it sent deficiency letters to claimants but received no response from the claimants. While this may be Gilardi's typical practice in the settlement context, it does not pass muster here. Defendants are entitled to proof that claimants actually transacted in Household stock during the period from March 23, 2001 to October 11, 2002 (the "Damages Period") in the volume and on the dates summarily claimed.

⁸ Third-party claims-filing services differ substantially from bank and brokerage custodians, and there is no reason to believe that any records generated by such services are reliable or accurately reflect the supposed beneficiaries' underlying trading records.

3. Unbalanced Claims

Number of Claims:	1,291
Dollar Amount of Claims	\$236,014,150

As Gilardi noted in its report, Gilardi's Exhibit A contains 692 unbalanced claims, with allowed losses per Gilardi's calculations of \$194,286,344.62. (Docket No. 1790 at ¶ 11.) As explained by Gilardi, "[i]deally, a claim will not show any discrepancies between the beginning and ending share totals, meaning that all shares are accounted for by transactions between those dates, and the claim is therefore exactly balanced." (*Id.* at ¶ 10.) Gilardi further explains that discrepancies resulting in unbalanced claims "are generally due to: a) gaps in recordkeeping when securities are transferred between brokerages, custodial banks, or accounts and/or b) an aged class period and the inability of the claimant to access records or systems to complete the claim." (*Id.*)

In addition to the 692 unbalanced claims identified by Gilardi, Defendants have identified 599 additional unbalanced claims, with aggregate allowed losses per Gilardi's calculations of \$41,727,805, bringing the total of unbalanced claims to 1,291 claims with aggregate allowed losses of \$236,014,150.

In its report, Gilardi states that "[o]rdinarily," *i.e.*, in the settlement context in which the defendants have agreed to a fixed settlement amount, "discrepancies in share balances would not prevent a claimant from receiving a payment in a securities distribution." (Docket No. 1790 at ¶ 11.) This, however, is *not* an "ordinary" settlement context, and the absence of proper supporting documentation establishing claimants' actual purchases and sales of Household stock during the Damages Period cannot be conveniently ignored. Where the underlying records do not support Gilardi's allowed loss calculations, the dispute must be properly adjudicated rather than

left to the discretion of Gilardi, a third-party claims administrator retained by Plaintiffs.⁹

4. Claims with Negative Balances

Number of Claims:	874
Dollar Amount of Claims	\$41,356,197

Gilardi's Exhibit A contains 874 claims, with aggregate allowed losses of \$41,356,197 per Gilardi's calculations, for which the cumulative share balance drops below zero during the Damages Period due to a non-short sale for more shares than the account's share balance at the time of the sale. Because an investor cannot sell more shares than he, she, or it holds, except in the case of short sales, the fact that Gilardi's calculations indicate negative balances resulting from non-short sales reveals that there is a fundamental flaw in Gilardi's methodology. Moreover, it highlights the inherently unreliable, inaccurate and incomplete transactional data submitted by third parties. The discrepancies between Gilardi's calculations and Defendants' calculations must be adjudicated properly, rather than left to the discretion of Gilardi.

5. Claims Relating to Investments Other than Household Common Stock

Number of Claims:	8
Dollar Amount of Claims:	\$12,386

The Notice of Verdict informed class members of the jury's verdict and explained that, as a result of the verdict, class members who purchased Household *common stock* from March 23, 2001 to October 11, 2002 were entitled to submit claims, subject to approval in a claims proceeding. (Docket No. 1766-2, Ex. A at 1.) Eight claims, totaling \$12,386, were submitted by

⁹ Where genuine factual questions exist on issues central to the damages element of Plaintiffs' claims, such as whether reported transactions actually occurred, or the accuracy or trustworthiness of supporting documentation, Defendants are entitled to have such questions adjudicated properly, rather than resolved by Gilardi, an extra-judicial claims administrator that has a clear conflict (given Gilardi's interest in obtaining repeat business from Plaintiffs' counsel and its compensation on a per claim basis).

persons that purchased securities other than Household common stock, *e.g.*, Household bonds or HSBC stock. These claims are not entitled to recover and should be excluded.

C. Claims Containing Overstated Claim Amounts

1. Duplicate Claims

Number of Claims:	40
Dollar Amount of Claims:	\$4,285,685

Gilardi's Exhibit A contains 40 duplicate claims, *i.e.*, claims that were filed twice on behalf of the same beneficial owner, either by two separate third-party filers, or by both the beneficial owner and a third party filer. One of the duplicate claims for each of these beneficial owners must be eliminated.

2. Claims With No Reported Trading Activity During the Damages Period

Number of Claims:	20
Dollar Amount of Claims:	\$602,330

Gilardi's Exhibit A contains 20 claims for which Gilardi calculated allowed losses of \$602,330, despite the fact that the Proofs of Claim contain no evidence of any trading activity in Household stock during the Damages Period. These claims, therefore, should be rejected.

3. Claims for Which Defendants' Calculations of the Allowed Losses Are Less than Gilardi's Allowed Losses

Number of Claims:	1,648
Dollar Amount of Claims	\$104,851,231

Defendants have identified 1,648 claims included in Gilardi's Exhibit A, with aggregate allowed losses of \$104,851,231 per Gilardi's calculations, for which the allowed losses calculated by Defendants, pursuant to the Court-ordered formula, are only \$64,404,030 (\$40,447,201 less than the amount calculated by Gilardi). The differences in Gilardi's and Defendants' calculations must be adjudicated properly, rather than left to the discretion of

Gilardi.

D. Claims With a “Yes” Answer, or Lacking An Answer, to the Proof of Claim Form’s Reliance Question

1. Claims with a “Yes” Answer to the Reliance Question

Number of Claims:	124
Dollar Amount of Claims	\$57,552,922

Among the claims included in Gilardi’s Exhibit A are 124 claims, with aggregate allowed losses per Gilardi’s calculations of \$57,522,922, with respect to which the claimants answered “Yes” to the Proof of Claim form’s reliance question, thereby admitting that they would have purchased Household stock even if they had known at the time that that price was inflated by Defendants’ false and misleading statements. This admission conclusively rebuts the presumption of reliance. *See Basic Inc. v. Levinson*, 485 U.S. 224, 248 (1988) (stating that a defendant can rebut the presumption by showing that “an individual plaintiff traded or would have traded despite his knowing the statement was false”). These claims, therefore, fail as a matter of law and should be rejected.

2. Claims Filed by Beneficial Owners Without an Answer to the Reliance Question

Number of Claims:	2,572
Dollar Amount of Claims:	\$28,684,658

Of the claims filed by beneficial owners of Household stock, 2,572 of the claims, with aggregate allowed losses according to Gilardi’s calculations of \$28,684,658, do not contain an answer to the Proof of Claim form’s reliance question.

The Proof of Claim form notified class members, in capitalized and bolded type: **“YOU MUST ANSWER THE QUESTION IN PART III OF THE CLAIM FORM IN ORDER TO BE ELIGIBLE TO RECOVER PURSUANT TO THE VERDICT.”** (Docket No. 1766-

2, Ex. B at 2.) The claims of beneficial owners of Household stock that chose to ignore this explicit and unambiguous requirement should be rejected.

3. Claims Filed by Third Parties on Behalf of Beneficial Owners with Allowed Losses in Excess of \$250,000 Without an Answer to the Reliance Question

Number of Claims:	101
Dollar Amount of Claims:	\$71,898,101

As noted above, on May 31, 2011 the Court approved Plaintiffs' proposal to have third parties that filed Proofs of Claim on behalf of beneficial owners with allowed losses of \$250,000 or more, but for which the Proofs of Claim did not contain answers to the reliance question, mail a one-page follow-up notice to the beneficial owners. (Docket No. 1763.) The Court ordered that these third-party filers would be allowed 90 days to obtain executed Proofs of Claim from the beneficial owners with answers to the reliance question. (*Id.* at 8.) Despite this accommodation, Gilardi's Exhibit A contains 101 claims, with aggregate allowed losses per Gilardi's calculations of \$71,898,101, which were filed by third parties on behalf of beneficial owners with allowed losses of over \$250,000, but which contain no answer to the reliance question. Because the third parties were afforded an adequate opportunity to obtain answers to the question from the persons they purport to represent, their failure to do so should result in rejection of these claims.

4. Claims Filed by Third Parties on Behalf of Beneficial Owners with Allowed Losses of \$250,000 or Less Without an Answer to the Reliance Question

Number of Claims:	22,667
Dollar Amount of Claims:	\$178,907,639

As discussed above, despite Defendants' objections, the Court refused to require third parties that had submitted Proof of Claim forms on behalf of beneficial owners with allowed losses of \$250,000 or less from making any effort to obtain answers to the reliance question from

these beneficial owners. As a result, Gilardi's Exhibit A contains 22,667 claims filed by third parties on behalf of beneficial owners with allowed losses of \$250,000 or less each, totaling \$178,907,639 in the aggregate, for which the Proof of Claim forms contain no response to the reliance question.

Defendants object to these claims. A class action does not extinguish Defendants' substantive rights to due process. *See, e.g., Marshall v. H&R Block Tax Servs., Inc.*, 564 F.3d 826, 828 (7th Cir. 2009) ("Class actions in federal courts are authorized by Rule 23 of the Federal Rules of Civil Procedure, and those rules 'shall not abridge, enlarge or modify any substantive right.'" (quoting 28 U.S.C. § 2072(b)); *see also Ortiz v. Fibreboard Corp.*, 527 U.S. 815, 845 (1999); *accord Wal-Mart Stores, Inc. v. Dukes*, 131 S. Ct. 2541, 2561 (2011) (holding that "a class cannot be certified on the premise that Wal-Mart will not be entitled to litigate its statutory defenses to individual claims." (citing 18 U.S.C. § 2072(b) and *Ortiz*)).

Notably, since the Court issued its May 31, 2011 Order, the Supreme Court again reiterated that defendants must be afforded an opportunity to rebut the presumption of reliance. *See Erica P. John Fund, Inc. v. Halliburton Co.*, 131 S. Ct. 2179, 2185 (2011) ("The Court [in *Basic*] also made clear that the presumption was just that, and could be rebutted by appropriate evidence."). Defendants' right to obtain any evidence to rebut the presumption of reliance, on an individual basis, with respect to claims submitted by third parties on behalf of beneficial owners with allowed losses of \$250,000 or less has been abrogated.

E. Untimely Claims

Gilardi's Exhibit A contains the following claims that were submitted after the Court-ordered deadlines and which, therefore, should be rejected:

1. Initial Claims Postmarked After May 24, 2011

Number of Claims:	737
Dollar Amount of Claims:	\$36,843,523

Gilardi's Exhibit A contains 737 claims, with aggregate allowed losses of \$36,843,523, which were filed after the May 24, 2011 deadline to submit Proofs of Claim. These untimely claims should be rejected.

2. Responses to the Follow-Up Notice Postmarked After September 12, 2011

Number of Claims:	17
Dollar Amount of Claims:	\$13,112,897

As discussed above, on May 31, 2011, the Court approved Plaintiffs' plan to have third-party filers who had filed claims of over \$250,000 on behalf of beneficial owners send a one-page follow-up notice to beneficial owners for which the Proof of Claim forms did not contain an answer to the reliance questions. (Docket No. 1763.) Gilardi mailed the one-page follow-up notice on June 10, 2011, and the due date for responses was September 12, 2011. (Docket No. 1766-2 at ¶ 13.) Responses to the follow-up notice postmarked after September 12, 2011, therefore, are untimely and these claims should be rejected.

F. Claims Filed by Individuals or Entities that Are Not Members of the Certified Class

By order entered December 3, 2004, the Court certified a class defined as follows:

All Persons who purchased or otherwise acquired the securities of Household during the period between October 23, 1997 and October 11, 2002. Excluded from the Class are defendants herein, members of defendants' immediate families, any person, firm, trust, corporation, officer, director or other individual or entity in which any defendant has a controlling interest or which is related to or affiliated with any defendant, and the legal representatives, agents, affiliates, heirs, successors-in-interest or assigns of any such excluded party.

(Docket No. 198.)

Gilardi's Exhibit A contains claims the following claims filed by persons or entities that are excluded from the certified class:

1. Claims Filed by Household Employees

Number of Claims:	183
Dollar Amount of Claims:	\$1,150,799

Household employees are both affiliated with Household and are agents of Household; therefore, they are excluded from the certified class.

2. The Claim Filed by the HSBC-North America Tax Reduction Investment Plan ("TRIP")

Number of Claims:	1
Dollar Amount of Claim:	\$37,693,268

HSBC-North America's TRIP, an employee benefit plan, is an affiliate of Household and, therefore, is excluded from the class definition. *See In re Motorola Sec. Litig.*, 644 F.3d 511, 513 (7th Cir. 2011) (holding that the Motorola 401(k) Profit Sharing Plan was an affiliate of Motorola and, therefore was ineligible to participate in a securities class action settlement, where the class definition excluded affiliates of Motorola).

3. Claims Filed on Behalf of HSBC as the Beneficial Owner

Number of Claims:	8
Dollar Amount of Claims:	\$1,366,000

HSBC is the parent company of Household and, therefore, is an affiliate of Household. Accordingly, any claims filed by HSBC on its own behalf, or filed by any other person or entity on behalf of HSBC, are not entitled to recover.

4. Claims Submitted by Participants in the HSBC ADS Fund

Number of Claims:	14
Dollar Amount of Claim:	\$129,267

The HBSC ADS Fund is the successor to the Household International Common Stock

Fund (the “Household Stock Fund”), one of the investment options that was available to participants in Household’s 401(k) fund. Participants in the Household Stock Fund did not purchase Household common stock; they purchased units of the Household Stock Fund. The Household Stock Fund was the actual purchaser of Household stock, but the Household Stock Fund is an affiliate of Household and, therefore, is excluded from the class definition. *See Motorola*, 644 F.3d at 513.

Dated: February 27, 2012

/s/R. Ryan Stoll

R. Ryan Stoll
Mark E. Rakoczy
SKADDEN, ARPS, SLATE,
MEAGHER & FLOM
155 North Wacker Drive
Chicago, IL 60606
(312) 407-0700

Patricia Farren
CAHILL GORDON & REINDEL LLP
80 Pine Street
New York, NY 10005
(212) 701-3000

*Attorneys for Defendants Household
International, Inc., William F. Aldinger,
David A. Schoenholz, and Gary Gilmer*

CERTIFICATE OF SERVICE

R. Ryan Stoll, an attorney, hereby certifies that on February 27, 2012, he caused true and correct copies of the foregoing Defendants' Objections to Certain Claims Submitted by Gilardi & Company and the accompanying Appendix of Exhibits to be served via the Court's ECF filing system on the following counsel of record in this action:

Luke O. Brooks, Esq.
Jason C. Davis, Esq.
ROBBINS GELLER RUDMAN & DOWD LLP
100 Pine Street, Suite 2600
San Francisco, CA 94111

Michael J. Dowd, Esq.
Daniel S. Drosman, Esq.
Spencer A. Burkholz, Esq.
ROBBINS GELLER RUDMAN & DOWD LLP
655 West Broadway, Suite 1900
San Diego, CA 92101

Marvin A. Miller, Esq.
Lori A. Fanning, Esq.
MILLER LAW LLC
115 South LaSalle Street, Suite 2910
Chicago, IL 60603

/s/R. Ryan Stoll

R. Ryan Stoll