UNITED STATES DISTRICT COURT

NORTHERN DISTRICT OF ILLINOIS

EASTERN DIVISION

LAWRENCE E. JAFFE PENSION PLAN, On Behalf of Itself and All Others Similarly Situated, Plaintiff, vs. HOUSEHOLD INTERNATIONAL, INC., et al., Defendants.	)))))))))))))	Lead Case No. 02-C-5893 (Consolidated) CLASS ACTION Honorable Jorge L. Alonso

DECLARATION OF DANIEL S. DROSMAN IN SUPPORT OF PLAINTIFFS' OMNIBUS MOTION TO EXCLUDE DEFENDANTS' EXPERTS

I, Daniel S. Drosman, declare as follows:

1. I am an attorney duly licensed to practice before all of the courts of the State of California, and I am also admitted *pro hac vice* in this Court for this action. I am a member of the law firm of Robbins Geller Rudman & Dowd LLP, Lead Counsel of record for plaintiffs in the above-entitled action. I have personal knowledge of the matters stated herein and, if called upon, I could and would competently testify thereto.

2. Attached are true and correct copies of the following exhibits:

Ex. 1: Table demonstrating defendants' experts' cumulative opinions;

Ex. 2: Relevant excerpts from the transcript of the Deposition of Allen Frank Ferrell, III taken Feb. 27, 2016;

Ex. 3: Household International's Investor Relations Report, May-August 2002 [Plaintiffs' Trial Ex. 198];

Ex. 4: Household International's Investor Relations Report, September-October 2002 [Plaintiffs' Trial Ex. 199];

Ex. 5: Household International's Investor Relations Report, November-December 2001 [Plaintiffs' Trial Ex. 820];

Ex. 6: Household International's Investor Relations Report, January- February 2002 [Plaintiffs' Trial Ex. 201];

Ex. 7: Household International's Investor Relations Report, March-April 2002 [Plaintiffs' Trial Ex. 202];

Ex. 8: August 30, 2002 e-mail from Donna L. Taillon to Craig Streem and Thomas Detelich re: Tom [Plaintiffs' Trial Ex. 1156];

Ex. 9: Relevant excerpts from the transcript of the Deposition of Christopher James taken Mar. 14, 2016;

Ex. 10: Relevant excerpts from the trial transcript from the *Household Int'l* 2009 trial;

Ex. 11: Relevant excerpts from the transcript of the Deposition of Bradford Cornell taken Mar. 10, 2016;

Ex. 12: Sur-Rebuttal Report of Daniel R. Fischel dated Feb. 16, 2016;

Ex. 13: Allen Ferrell and Atanu Saha, The Loss Causation Requirement for Rule 10b-5 Causes of Action: The Implications of *Dura Pharmaceuticals, Inc. v. Broudo* [Ex. 8 to the deposition of Allen Ferrell dated Feb. 27, 2016];

Ex. 14: CIBC World Markets Industry Update dated Oct. 3, 2002 [Ex. 11 to the Deposition of Allen Ferrell dated Feb. 27, 2016];

Ex. 15: A.G. Edwards Specialty Finance Quarterly Report, for Fourth Quarter 2001 dated Jan. 2, 2002 [Ex. 12 to the Deposition of Allen Ferrell dated Feb. 27, 2016];

Ex. 16: Chart entitled Business Descriptions of the Six Members of the Consumer Finance Index [Ex. 5 to the Expert Report of Mukesh Bajaj dated Dec. 10, 2007];

Ex. 17: Chart of Number of Companies in Industry Subsectors in the S&P Financials Index, 11/15/00 – 10/11/02 [Ex. 4 to the Expert Report of Professor Christopher M. James dated Oct. 23, 2015]; and

Ex. 18: Email string dated March 13-16, 2016 between Ryan Stoll and Daniel Drosman re Cornell.

I declare under penalty of perjury under the laws of the United States of America that the foregoing is true and correct. Executed this 30th day of March, 2016, at San Diego, California.

s/ Daniel S. Drosman
DANIEL S. DROSMAN

CERTIFICATE OF SERVICE

I hereby certify that on March 30, 2016, I authorized the electronic filing of the foregoing with the Clerk of the Court using the CM/ECF system which will send notification of such filing to the e-mail addresses for counsel of record denoted on the attached Service List.

I certify under penalty of perjury under the laws of the United States of America that the foregoing is true and correct. Executed on March 30, 2016.

s/ Daniel S. Drosman
DANIEL S. DROSMAN

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Jaffe v. Household Int'l, Inc., No. 02-5893 (N.D. Ill.)
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EXHIBIT 1

Defendants' Experts Proffer Cumulative Opinions

Cumulative Expert Testimony of Ferrell, James and Cornell				
Subject No.	**Subject**	**Ferrell's Expert Opinions**	**James' Expert Opinions**	**Cornell's Expert Opinions**
1.	Fischel's quantification including leakage fails to reliably estimate inflation or damages.	"Professor Fischel's leakage model . . . fails to reliably identify economic losses suffered by investors attributable . . . to fraud-related information and instead attributes damages to the fraud that were necessarily nonfraud-related. This flaw is fundamental to how his leakage model works ***and for this reason alone renders his analysis of inflation and loss causation unreliable***." Ferrell Report, ¶24; *see also* Ferrell Rebuttal Report, ¶6 ("***Professor Fischel has failed to meet the burden of reliably establishing damages caused by the fraud***." Ferrell Rebuttal Report); ¶8 ("Professor Fischel's leakage model is fundamentally flawed and cannot produce a reliable estimate of damages given the facts and circumstances of this case.").	"Simply performing a regression analysis as Fischel has done is insufficient to establish that 'no firm-specific, nonfraud related information contributed to the decline in [Household's] stock price during the relevant time period.' ***Fischel's failure to reliably establish this renders the damages resulting from application of leakage model entirely speculative***." James Rebuttal Report, ¶47; *see also id.*, ¶¶31-34 ("Fischel's unsupported assumption renders his analysis of loss causation and damages entirely unreliable.").	"Fischel's failure to reliably control for value-relevant, firm-specific, non-fraud information during the relevant period – a necessary precondition for a leakage model to produce a reliable inflation estimate – ***means that Prof. Fischel's Leakage Model does not reliably estimate inflation***." Cornell Report, ¶23; *see id.*, ¶17; *see also* Cornell Rebuttal Report, ¶17 ("As a result of all of these reasons, Prof. Fischel's inflation estimates based on his Leakage Model are unreliable.").

Cumulative Expert Testimony of Ferrell, James and Cornell				
Subject No.	**Subject**	**Ferrell's Expert Opinions**	**James' Expert Opinions**	**Cornell's Expert Opinions**
2.	Fischel's use of a 228-trading day event window is not supported by academic literature.	"***The sheer length of Professor Fischel's leakage period, which spans 228 days, is inconsistent with the academic literature that he himself cites***." Ferrell Rebuttal Report, ¶9; *see also id.*, ¶¶12-25 ("none of the papers Professor Fischel cites that discusses single-firm event studies advocates an event window of the length of Professor Fischel's 228-trading-day leakage period window").	"[T]he academic literature to which Fischel now cites highlights the implications of that continuous flow of information – the market is constantly re-evaluating Household's stock price as macroeconomic and regulatory news, some of which may have a firm-specific effect, trickles in from a wide variety of sources. . . . ***Moreover, it underscores the problem with using long event windows (such as Fischel's 228-day Observation Window)***." James Rebuttal Report, ¶10.	"The academic articles regarding leakage and event studies that Prof. Fischel now cites in addition to Cornell and Morgan do not support his Leakage Model. ***Indeed, they recognize the problems with measuring the price effect of the relevant event over a long event window like Prof. Fischel's 228-trading-day leakage period – namely, the impact of confounding information entering the public mix of information and affecting the stock price***. . . . Those papers do not support the use of a lengthy event window to address a single firm and are not applicable to the exercise Prof. Fischel performs." Cornell Rebuttal Report, ¶6; *see id.*, ¶¶7-10; *see also* Cornell Depo. Tr. 221:2-223:1; 224:13-225:13.
3.	The 228-trading day event window results in compounding of errors.	"[N]one of the papers Professor Fischel cites that discuss single-firm event studies advocates an event window of the length of	"***[T]he longer the event window, the less certainty a financial economist has that he or she is isolating the effect***	"[A]s the leakage period gets longer, not only does the potential for nonfraud information influencing the

1131513_1

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		Professor Fischel's 228-trading-day leakage period window. This is for the simple reason that the academic literature recognizes ***that over such extended windows, the ability to control for confounding information is severely impaired for a single firm***." Ferrell Rebuttal Report, ¶18.	***of fraud-related news and not capturing the confounding effect of firm-specific, nonfraud news***." James Rebuttal Report, ¶10; James Depo. Tr. 75:21-76:1.	stock price increase . . . the error in the true value stock price compounds as one calculates that price for earlier dates in the leakage period. . . . ***Such a wide interval, which stems from the error compounding during his 228-trading-day leakage period, demonstrates the unreliability of the leakage model in this matter***." Cornell Rebuttal Report, ¶¶14-15; *see also* Cornell Report, ¶¶16-17, 24-30.
4.	Fischel's single-firm regression analysis is flawed.	"***A simple regression cannot eliminate the stock price effect of all nonfraud news over such an extended period***." Ferrell Rebuttal Report, ¶18.	"***No single-company linear regression, like the one that Fischel has employed, can itself reliably estimate the impact of leakage over an extended period during which there was a steady flow of nonfraud news***." James Rebuttal Report, ¶¶31-33.	"The papers [Fischel cites] ***do not suggest that one can simply use a single-firm regression analysis to net out market and industry movements and then assume that all of the remaining residual returns, taken as a whole over an extended period of nearly a year, are the result of leakage***, as Prof. Fischel does." Cornell Rebuttal Report, ¶7.

Cumulative Expert Testimony of Ferrell, James and Cornell				
Subject No.	**Subject**	**Ferrell's Expert Opinions**	**James' Expert Opinions**	**Cornell's Expert Opinions**
5.	Definition of firm-specific, nonfraud information.	'"Other factors' that are firm specific, in the sense that they are not captured by Professor Fischel's model, that can impact a stock's price, would include nonfraud-related information relevant to Household . . . ***[T]his would include information that impacts narrower segments of the financial services industry important to Household and that is not captured by Professor Fischel's industry index***. . . . In this regard, the fact that Household was a consumer finance company that targeted its lending products to subprime consumers is of particular importance." Ferrell Report, ¶¶27-28; Ferrell Rebuttal Report, ¶33 ("one would expect news that disproportionately affects narrower lines of business especially relevant to Household compared to the average effect on firms in the S&P 500 Financials Index . . .	Non-fraud information is information "released during the Observation Window ***that I would expect to have affected Household's stock price, and that of similar subprime lenders, more negatively than such information would have affected the stock prices of the broader set of financial institutions represented by Fischel's S&P Financials Index***." James Rebuttal Report, ¶8; *see also* James Report, ¶¶11, 20, 23-24; *see also* James Depo. Tr. 14:16-17:4; 249:5-12.	

1131513_1

Cumulative Expert Testimony of Ferrell, James and Cornell				
Subject No.	**Subject**	**Ferrell's Expert Opinions**	**James' Expert Opinions**	**Cornell's Expert Opinions**
		to have a firm-specific effect"); *see also* Ferrell Depo. Tr. 193:2-6; 194:1-4 ("non-fraud information includes information that is affecting disproportionally a subgroup of the industry index").		
6.	Household and other consumer finance companies with a subprime focus were affected differently than the broader set of financial services companies in the S&P Financials Index.	"Household was one of five consumer finance companies included in the S&P Financials Index that Professor Fischel uses to control for industry factors in his model. ***His model's index also contains a broader set of financial services companies. . . . This is important because companies such as these may be affected differently or to a different extent by economic and regulatory trends than Household and its closest peers***." Ferrell Report, ¶41. "The effect on Household and narrower industry sub-segments such as consumer finance, credit card, auto finance, or subprime is 'firm-specific' in	"In his regression analysis, Fischel attempts to control for the effect of macroeconomic and regulatory changes on Household's industry using the S&P Financials Index. ***Analysis of that index reveals it to be quite broad, including a handful of companies similar to Household as well as many others with different characteristics***." James Report, ¶21. "Given the differences in business and portfolio mix between Household and many of the companies in the S&P 500 and S&P Financials Indices, ***I would expect Household's stock price to be affected more negatively than***	

1131513_1

Cumulative Expert Testimony of Ferrell, James and Cornell				
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		the context of Professor Fischel's model, which controls only for the average effect during his control period of economic forces on the general economy (using the S&P 500 Index) and the financial services sector broadly defined (using the S&P Financials Index). Indeed, discussion by market observers indicates that changes in the economic and regulatory environment – ***firm-specific, nonfraud-related information – could have adversely affected Household and companies most like it during the leakage period***." Ferrell Report, ¶43; Ferrell Rebuttal Report, ¶¶33-34; Ferrell Depo. Tr. 144:10-145:7 (testifying that Fischel's model "controls for industry in the sense of he's controlled for S&P 500 financials. It would not include industry effects such as the subprime group"); 290:8-291:6.	***those indices by the macroeconomic downturn and regulatory changes affecting the subprime sector that occurred during the Observation Window***." James Report, ¶23; *see also* James Rebuttal Report, ¶¶3, 9; James Depo. Tr. 264:9-265:6.	

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7.	Changes in the macroeconomic and regulatory environment are firm-specific.	"[D]iscussion by market observers indicates that ***changes in the economic and regulatory environment – firm-specific, nonfraud-related information – could have adversely affected Household and companies most like it during the leakage period***." Ferrell Report, ¶43; Ferrell Rebuttal Report, ¶¶33-34.	"***Given the economic downturn and regulatory changes affecting financial institutions with subprime customers that occurred during the Observation Window, I would expect companies like Household, with a subprime customer base, to be disproportionately negatively affected***." James Report, ¶¶11, 23 ("I would expect Household's stock price to be affected more negatively than [the S&P 500 and S&P Financials Indices] by the ***macroeconomic downturn and regulatory changes*** affecting the subprime sector that occurred during the Observation Window."); *see also* ¶¶24, 43; *see also* James Rebuttal Report, ¶9; James Depo. Tr. 266:15-23.	
8.	Concerns about a "double-dip" recession.	"[D]uring the class period the United States experienced an economic downturn . . . ***concerns about the speed of recovery and fears of a double-***	"While it was ultimately determined with hindsight that the recession began earlier, based on real-time data available, financial markets	

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		dip recession persisted throughout the leakage period." "***[T]he recession was particularly hard on financial institutions, such as Household, serving primarily subprime customers***." Ferrell Report, ¶¶44-46 (quoting a June 20, 2002 CIBC World Markets analyst report and a July 18, 2002 Salomon Smith Barney analyst report).	were just beginning to understand ***at the start of the Observation Window that the U.S. economy was in recession***." James Report, ¶25. "[T]oward the end of the Observation Window, ***economists expressed concerns regarding the possibility of a double-dip recession***." James Report, ¶26. "The expectation of regulators that economic downturns would be particularly difficult for subprime lenders is consistent with the performance of and contemporaneous commentary regarding that sector during the Observation Window. Indeed, ***financial institutions such as Household, whose customers were comprised primarily of subprime borrowers, were more negatively affected than***	

1131513_1

Cumulative Expert Testimony of Ferrell, James and Cornell				
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			***others*.” James Report, ¶¶28-29 (quoting a June 20, 2002 CIBC World Markets analyst report and a July 18, 2002 Salomon Smith Barney analyst report); *see also* James Depo. Tr. 127:17-128:6; 181:15-25.	
9.	Concerns about credit quality.	“***[C]oncerns regarding credit quality plagued Household throughout the leakage period***.” Ferrell Report, ¶47 (quoting January 2, 2002 A.G. Edwards analyst report). “***Analysts looked to macroeconomic data such as bankruptcy filings, unemployment data***, ***consumer confidence, used car prices***, and announcements regarding peers' credit performance to assess likely changes in Household's credit quality.” Ferrell Report, ¶48 (citing February 1, 2002 Bernstein Research analyst report discussing the “***Manheim Used Vehicle Value Index***”).	“***[D]eteriorating consumer credit quality was of primary concern throughout the Observation Window***.” James Report, ¶31 (quoting January 2, 2002 A.G. Edwards analyst report). “Financial industry experts understand that, among other things, delinquencies and defaults are influenced by borrowers' inability to repay. . . . Given the importance of assessing ability to repay, it is not surprising that market analysts look to data such as ***unemployment and consumer bankruptcies to estimate future credit losses***. Indeed, my review of analyst reports reveals that market participants	

Cumulative Expert Testimony of Ferrell, James and Cornell				
Subject No.	**Subject**	**Ferrell's Expert Opinions**	**James' Expert Opinions**	**Cornell's Expert Opinions**
			were looking to such factors, as well as credit-related announcement by peers, to assess Household's prospects during the Observation Window." James Report, ¶¶32-33; *see also* ¶37 ("market participants looked to indicators such as the ***Manheim Used Vehicle Value Index***." (citing February 1, 2002 Bernstein Research analyst report)).	
10.	Household's auto lending segment was particularly hard hit.	"***Household's auto lending business . . . raised particular concern*** . . . ." Ferrell Report, ¶47.	"***Household's auto lending segment, which had been a source of recent growth, was particularly hard hit during the Observation Window***." James Report, ¶35.	
11.	Concerns regarding liquidity, access to capital markets and widening bond spreads.	"***Concerns regarding Household's liquidity, access to capital markets and widening bond spreads were discussed by analysts throughout the period***." Ferrell Report, ¶49; Ferrell Depo. Tr. 290:8-291:6.	"***Household was plagued by concerns regarding liquidity and cost of funds throughout the remainder of the Observation Window***." James Report, ¶¶38-39; James Rebuttal Report, ¶17.	
12.	Fitch's downgrade of Household's debt.	"***Household's debt rating was downgraded*** due in part to questions regarding its balance	"***Fitch's downgrade of Household's debt rating*** in early 2002, due in part to a	

1131513_1

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		sheet flexibility in light of its subprime exposure." Ferrell Report, ¶49 (citing January 15, 2002 Credit Suisse First Boston analyst report).	more pessimistic view of the consumer finance sector and concerns regarding its near/subprime lending portfolio, had negative implications for Household's cost of funds." James Report, ¶38 (citing January 15, 2002 Credit Suisse First Boston analyst report).	
13.	Household was subjected to increased regulatory scrutiny during the leakage period.	"[C]ompanies such as Household felt ***increasing regulatory pressure*** directed at firms with subprime exposure" such as "***regulatory scrutiny of and capital requirements for subprime lenders***" which "increased during the leakage period." Ferrell Report, ¶¶50-52.	"During the Observation Window, the regulatory environment was changing in ways relevant to Household and its close peers. New regulations and regulatory discussions covered areas such as ***increased capital requirements for and scrutiny of subprime lenders' portfolio*** . . . ." James Report, ¶¶43-48. "Subprime lenders were particularly hard hit as regulatory scrutiny increased and new regulations called for higher capital requirements." James Report, ¶¶53-54.	

1131513_1

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Subject No.	**Subject**	**Ferrell's Expert Opinions**	**James' Expert Opinions**	**Cornell's Expert Opinions**
14.	Capital One's announcement that it was entering into a MOU had a negative impact on Household.	"[M]arket observers saw announcements regarding Household's peers as providing incremental information regarding the regulatory environment that had implications for Household" ***such as Capital One's announcement that it was entering into a MOU with the national banking authorities***. Ferrell Report, ¶52 (quoting July 18, 2002 Fox-Pitt, Kelton report).	"Analysts inferred additional regulatory scrutiny from competitor announcements regarding regulatory actions. For example, concern regarding the regulatory environment and its implication for Household increased following ***Capital One's July 17, 2002, announcement regarding a Memorandum of Understanding with national banking authorities***." James Report, ¶54 (quoting July 18, 2002 Fox-Pitt, Kelton report).	
15.	Potential impact of new FFIEC guidelines.	"Analysts also noted the increased capital requirements for and increased regulatory scrutiny of subprime lenders, and their adverse effect on Household's stock price," including ***new FFIEC guidelines***. Ferrell Report, ¶51 (quoting October 3, 2002 CIBC World Markets report).	"***Concerns regarding new FFIEC guidelines*** affected credit card issuers like Household toward the end of the Observation Window . . . ." James Report, ¶55 (quoting October 3, 2002 CIBC World Markets report).	
16.	Potential impact of changes to predatory lending laws.	"The rules with respect to what constituted predatory lending were changing as well, and	"Other regulatory developments affecting subprime lenders during the	

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		there was speculation regarding future regulatory changes throughout the leakage period. Analysts expressed concern regarding potential changes in Household's business practices in light of the increasingly political nature of the issue and potentially tighter regulation going forward. . . . ***[W]hile information regarding past violations of predatory lending regulations could be corrective of the fraud, information about prospective changes in the law (which could not have been disclosed at an earlier time) is not corrective*** as it is not information that Household could have provided to investors earlier." Ferrell Report, ¶53; *see also* Ferrell Rebuttal Report, ¶54 ("discussion of future legislative changes that will impact the future profitability of Household's subprime lending business cannot be construed as	Observation Window included ***changes to subprime lending practices resulting from what was perceived to constitute 'predatory lending' practices***." James Report, ¶¶49, 50-52 (quoting May 10, 2002 Bernstein Research report). "[T]here was concern that Household's practices would have to change in the future as a result of regulatory changes – both actual and potential – including changes to the definition of what comprises 'predatory lending.' ***It is important to differentiate the impact of news related to past infractions (which is fraud related) from the impact of news related to regulatory changes (which is not)***." James Report, ¶¶56-57.	

Cumulative Expert Testimony of Ferrell, James and Cornell				
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		revealing past misconduct by Household"). "Analyst comments also speak to the dynamic landscape with respect to predatory lending, and make clear this nonfraud component – changes in the law and political climate, and speculation regarding corresponding changes in Household's business practices – depressed Household's stock price during the leakage period." Ferrell Report, ¶54 (quoting May 10, 2002 Bernstein Research report).		
17.	Fischel's analysis does not account for the nonfraud component of firm-specific news.	"Even assuming, as Professor Fischel asserts, that factors such as ***liquidity, capital access, and bond spreads*** were affected by the fraud during his leakage period, ***this does not establish the absence of nonfraud contributions to those factors***." Ferrell Rebuttal Report, ¶39 (quoting November 14, 2002 CBS MarketWatch report).	"Fischel points to selected statements from market analysts and Defendants purportedly discussing fraud-related causes for Household's funding challenges (specifically, ***decreased liquidity, reduced capital market access, and widening bond spreads***) that contributed negatively to its stock price performance during the	

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		"For example, an analyst quoted by ***CBS MarketWatch in November 2002*** attributed Household's stock price decline to difficulty raising funds in the commercial paper market . . . in light of rising credit delinquencies." Ferrell Rebuttal Report, ¶40. "[M]arket analysts also discussed increasing costs of issuing debt (*i.e.*, debt spreads) for consumer finance companies during the leakage period. ***These widening spreads were not specific to Household, undermining any assertion that they were purely fraud-related***." Ferrell Rebuttal Report, ¶¶41-42 (quoting October 9, 2002 Deutsche Bank report).	Observation Window. However, ***he ignores nonfraud causes for these same firm-specific factors***." James Rebuttal Report, ¶35. "[T]rends such as ***reduced access to the commercial paper market and widening bond spreads for consumer finance companies***, particularly those with a subprime focus, increased Household's cost of funds during the Observation Window, negatively impacting its profitability. ***Indeed, Household's access to commercial paper decreased and bond spreads (a cost of borrowing) increased throughout the Observation Window***." James Rebuttal Report, ¶17. "Contemporaneous market analysis indicates a belief that these factors contributed to Household's stock price	

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			decline during the Observation Window. For example, ***an article by CBS MarketWatch dated November 14, 2002*** points to precisely these nonfraud causes of Household's extended decline." James Rebuttal Report, ¶18 (quoting November 14, 2002 CBS MarketWatch report). ***"[T]he fact that other consumer lending firms, particularly those with a subprime focus, were facing similar issues undermines any assertion that this was simply a fraud-related phenomenon***. . . . Contemporaneous analyst comment point to widening spreads for consumer finance stock generally . . . bond spreads for certain Subprime Lenders experienced an even more dramatic increase than did Household's bond spreads in late 2002. Widening debt spreads during the Observation	

1131513_1

Cumulative Expert Testimony of Ferrell, James and Cornell				
Subject No.	**Subject**	**Ferrell's Expert Opinions**	**James' Expert Opinions**	**Cornell's Expert Opinions**
			Window were particularly problematic for Household." James Rebuttal Report, ¶¶36-37 (quoting October 9, 2002 Deutsche Bank report). "[E]ven assuming that fraud-related factors contributed to Household's funding challenges, ***there is evidence that significant nonfraud causes also contributed*** . . . ." James Rebuttal Report, ¶43; *see also id.*, ¶¶38-42; James Depo. Tr. 245:19-246:18.	
18.	Household's deteriorating credit quality reflected firm-specific, nonfraud information.	"Professor Fischel ignores evidence presented in my Initial Report that the deteriorating credit quality of Household's loan portfolios reflected significant firm-specific, nonfraud information that could have negatively impacted Household's stock price during his leakage period. In particular, he claims that certain purportedly 'positive announcements Household made during the Leakage	"Fischel points to announcements by Household of positive performance relative to expectations set in this difficult environment in an attempt to somehow establish that the performance of Household's assets did not contribute negatively to Household's stock price decline during the Observation Window." James Rebuttal Report, ¶44. "***Contrary to Fischel's indications,***	

Cumulative Expert Testimony of Ferrell, James and Cornell				
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		Period' somehow demonstrate that 'the Company did not disclose negative firm-specific, nonfraud related information about its business performance that can explain its underperformance.'" Ferrell Rebuttal Report, ¶44. "***[E]ven if the announcements themselves had been viewed positively by the market . . . Professor Fischel ignores that they were made in the context of expectations given in a weakening economic environment***. . . . The fact that Household exceeded market expectations in this difficult environment does not show . . . that firm-specific, nonfraud factors – such as the effect of the tough environment on Household's business performance – did not negatively affect Household's stock price over his leakage period as a whole. . . . ***[I]mportant credit measures at Household (performing loans***	***however, neither beating expectations that were set in the context of this difficult environment nor management's optimism about its ability to successfully navigate the difficult conditions establishes a net positive effect of operating results on Household's stock price***." *Id.*, ¶45 (citing "Household Reports Record Quarterly and Full-Year Net Income," *PR Newswire*, January 16, 2002; "Household Reports Record First Quarter Net Income," *PR Newswire*, April 17, 2002"). "[A]nalysis of Household's operating results indicates that its business performance did suffer. ***Analysis*** . . . ***demonstrates that the performance of Household's assets deteriorated throughout the Observation Window***" including an increase in "customer delinquency rate,"	

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		***and collectible receivables) declined during Professor Fischel's leakage period*. . . . *Indeed, the fact that Household's asset quality declined throughout Professor Fischel's leakage period as the stock price declined suggests that business results did not have a positive impact over the period*." *Id*., ¶46 (citing "Household Reports Record Quarterly and Full-Year Net Income," *PR Newswire*, January 16, 2002; "Household Reports Record First Quarter Net Income," *PR Newswire*, April 17, 2002").	and "net charge-offs" of consumer receivables and auto finance. James Rebuttal Report, ¶46; *see also* James Report, ¶31.	
19.	Fischel's regression model may include the effect of market and industry events.	A regression analysis like Professor Fischel's "does ***estimate the average*** relationship over a specified period between the dependent and the independent variable(s)." Ferrell Rebuttal Report, ¶31. "For example, suppose a disclosure revealed that the type	"Fischel summarily dismisses any characterization of industry news that may have disproportionately [negatively] affected Household as firm-specific in the context of his model, claiming simply that he has 'controlled for' industry information 'via regression analysis.'" James Rebuttal Report, ¶23. "Fischel's claim	

Cumulative Expert Testimony of Ferrell, James and Cornell				
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		of subprime lending Household heavily engaged in was going to be significantly less profitable going forward due to adverse legislative changes and, moreover, that these changes would also affect only a handful of other firms that were also substantially engaged in similar subprime lending. The effect that will be 'controlled for' from this disclosure in Professor Fischel's regression analysis will be the effect this disclosure regarding subprime lending has on average for all the firms in his broad industry control, that is, the S&P Financials Index – which comprises approximately 80 firms, the vast majority of which are not engaged in subprime lending. In this scenario Household would be more affected by the disclosure than would be 'controlled for' in the regression given the nature of the industry control. ***This disproportionate impact***	is inconsistent with . . . his own prior testimony in this matter in which he explicitly recognizes that an industry event (in the example, a regulatory change) can have a firm-specific effect." *Id*., ¶24 (quoting Fischel Depo. Tr. 200:18-201:17). Fischel's event study "attempts to control for market and industry factors [but] is not capable of correcting for the entire effect of such factors on a specific firm on each day. Specifically, the linear regression technique assumes that the sensitivities of a company's stock return to market and industry information on each day of interest are the same as those estimated over the control period – ***which are themselves average sensitivities over the entire control period***. That relationship does not hold on each and every day, including	

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		would show up in the residual or 'firm-specific' return in Professor Fischel's regression analysis (a residual which then gets automatically attributed to fraud-related information in his leakage model). Professor Fischel clearly recognizes this. Ferrell Rebuttal Report, ¶32 (quoting Fischel Depo. Tr. March 21, 2008 200:18-201:17); *see also* Ferrell Rebuttal Report, ¶¶33-34.	when market or industry news on a particular day affects only some of the companies in the industry index employed. ***Therefore, what the regression model measures as 'firm-specific' returns on each day may in fact include the effect of market and industry events***. James Rebuttal Report, ¶24 (emphasis in original); *see also id*., ¶¶31-34.	
20.	"Controlling" for market and industry effects is not equivalent to "eliminating" such information.	'"***[C]ontrolling for' market and industry effects through regression analysis is not equivalent to eliminating the stock price effect of anything that can be labeled 'market and industry information'*** (*i.e.*, information that affects not only Household but also some other firms in the market as a whole or firms within its industry disproportionately)." Ferrell Rebuttal Report, ¶32.	'"***[C]ontrolling for' market and industry news via a linear regression, as Fischel has done, is different than removing the effect of market and industry news from the regression's 'firm-specific' returns***, which is what Fischel assumes in his damages model. . . . A linear regression does not always accurately account for the effect of market and industry news in calculating 'firm-specific' returns." James Rebuttal Report, ¶¶27-30.	

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21.	Fischel's leakage model overestimates actual damages.	"***Professor Fischel imposes the $23.94 inflation cap on his leakage model – where $23.94 is equal to the sum of all of the residual stock price changes during the leakage period***. Without this *ad hoc* cap, Professor Fischel's leakage model would commit him to the untenable position of estimating damages per share in excess of the actual economic losses according to his very own analysis." Ferrell Report, ¶21; Ferrell Rebuttal Report, ¶65; *see also* Ferrell Depo. Tr. 157:6-22; 305:2-22.	Fischel makes "two primary adjustments. One is to ignore the effect of the constant term in the – in the regression and to replace that with the risk-free rate – a measure of the risk-free rate. ***And second, he employs a cap on the residual decline***." James Depo. Tr. 44:23-45:5.	
22.	Definition of "fraud-related" information.	"***[F]raud-related . . . is new information to the market that would result in a stock price reaction that is statistically significant*** . . . ." Ferrell Depo. Tr. 178:2-179:7; 182:12-183:4 (same); 56:1-21 ("the fraud that was found by the jury is specifically identified by the jury on the jury verdict form. ***My understanding . . . is that that constitutes the entirety of***	"***[F]raud-related information would be . . . as I understand the findings of the jury with respect to certain alleged misstatements***." James Depo. Tr. 63:8-19; 65:19-66:3 ("fraud-related . . . would be whatever pertains – disclosures pertain to the findings of the jury regarding certain misstatements"); 66:13-25 (fraud-related "would have to	

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Subject No.	**Subject**	**Ferrell's Expert Opinions**	**James' Expert Opinions**	**Cornell's Expert Opinions**
		the fraud at issue in this case. That is, the 17 material misrepresentations and omissions, as found by the jury."); *see also id.* at 155:6-12.	be new information. ***It would have to be related to information that corrects a misstatement that is identified by the jury***, if it be, for example, 'We don't engage in predatory lending.'").	
23.	Fischel attributes all residual price declines to the disclosure of fraud-related information.	Fischel's leakage model "attributes damages to the fraud that were necessarily nonfraud-related." Ferrell Report, ¶24; *see also* Ferrell Rebuttal Report, ¶24 ("Fischel [makes] the assumption that there could not have been similar 'leakage' of firm-specific, nonfraud information over his leakage period just as he assumes to be the case with fraud-related information."); Ferrell Depo. Tr. 186:20-187:1 ("Professor Fischel's model . . . simply assumes that all the price reactions that he can't describe in his misspecified model is due to so-called leakage.").		"Fischel's attribution of Household's residual stock price changes to the fraud on days when no fraud-related news was disclosed – a critical assumption of his Leakage Model – is pure assertion and speculation." Cornell Report, ¶¶16, 18.
24.	Fischel's leakage model is unsupported by academic literature.	"The academic literature does not support Professor Fischel's unique formulation of a leakage		"I am not aware of any academic support for the conclusion that Prof. Fischel

1131513_1

Cumulative Expert Testimony of Ferrell, James and Cornell				
Subject No.	**Subject**	**Ferrell's Expert Opinions**	**James' Expert Opinions**	**Cornell's Expert Opinions**
		model in this matter." Ferrell Rebuttal Report, ¶9; *see also id.*, ¶12; Ferrell Depo. Tr. at 23:11-13 ("I believe his model is unreliable and flawed and inconsistent with academic literature.").		draws regarding his Leakage Model. Prof. Fischel's implementation of the Leakage Model in this matter fails to adequately account for value-relevant, firm-specific, non-fraud information." Cornell Report, ¶¶16, 17; *see also* Cornell Depo. Tr. 231:17-232:6.
25.	Fischel's leakage model fails to account for statistical noise.	"Another potentially important firm-specific, nonfraud factor, also not explained by the estimation of the impact on Household's stock price from market and industry factors in Professor Fischel's model, that can impact a stock's price ***is firm-specific statistical (or random) noise***. . . . ***Firm-specific random noise by definition would not be explained by Professor Fischel's model***." Ferrell Report, ¶29.		"Fischel's discussion of firm-specific, nonfraud factors in his September 2015 Report is conclusory and does not establish that his Leakage Model adequately accounts for nonfraud factors, including firm-specific, nonfraud information (confounding information) and other factors ***such as statistical noise***, or trading volatility, and thus does not produce reliable estimates of inflation and damages." Cornell Report, ¶16.
26.	Fischel improperly attributes to the fraud the residual price	"Professor Fischel's leakage model includes ***171 days during the leakage period for which***		"Prof. Fischel's September 2015 Report does not address the ***171 days during the***

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	movements on 171 days without statistically significant price changes.	***his event study does not find a statistically significant stock price return***. . . . Professor Fischel has provided no reliable basis for including this stock price decline in his leakage model, let alone one consistent with accepted economic principles." Ferrell Report, ¶112; *see also id.*, ¶17; Ferrell Rebuttal Report, ¶¶48-49.		***Observation Window for which his model does not find a statistically significant stock price change***, yet this Leakage Model attributes those price changes to the fraud. I am aware of no academic literature that would support this attribution." Cornell Report, ¶18.
27.	Fischel improperly attributes to the fraud the residual price movements on 15 statistically significant days with no fraud-related information.	"For 15 of the remaining 26 days, Professor Fischel finds no fraud-related information. ***In light of this, Professor Fischel's attribution of this decline on these days to fraud-related information is unreliable and without a proper basis*** . . . ." Ferrell Report, ¶26; *see also* Ferrell Rebuttal Report, ¶8 ("The Second Rebuttal Report fails to provide any support attributing fraud-related information to the price declines on the 15 purported statistically		"Prof. Fischel's September 2015 Report identifies 15 statistically significant price declines during the Observation Window for which his review of the public mix of information finds no value-relevant, firm-specific information (fraud-related, or otherwise), yet this Leakage Model attributes those price changes to the fraud. ***I am aware of no academic literature that would support this attribution***." Cornell Report, ¶19.

1131513_1

Cumulative Expert Testimony of Ferrell, James and Cornell				
Subject No.	**Subject**	**Ferrell's Expert Opinions**	**James' Expert Opinions**	**Cornell's Expert Opinions**
		significant declines with no firm-specific information days.").		
28.	Fischel's leakage model fails to employ the two techniques for addressing confounding information: short event windows or multi-firm studies.	"The literature addresses such confounding information in two ways, neither of which Professor Fischel has implemented in his leakage model. ***The first way is to define the event window over a relatively short time period – usually no more than a few days***." Ferrell Rebuttal Report, ¶17; *see id.*, ¶¶18-19. "[T]hese articles that discuss longer event windows employ a second critically important methodology to attempt to control for confounding information, which Professor Fischel's leakage model does not enjoy the benefit of: ***estimating the effect of the event for a large number of firms. The multiple-firm approach is important in controlling for confounding information*** because the effect		"[T]he papers to which Prof. Fischel cites attempt to control for confounding information in at least one of two ways. ***They either advocate short event windows . . . . or conduct multi-firm studies***." Cornell Rebuttal Report, ¶9. "***Prof. Fischel employs neither technique to address confounding information***. Instead, he includes in his event window all 228 days from his first identified Specific Disclosure on November 15, 2001 through his last identified Specific Disclosure on October 11, 2002, and assumes that any and all deviations of the actual returns from the returns predicted by his single-firm event study are fraud-related. This is unsupported by academic literature, including

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Subject No.	**Subject**	**Ferrell's Expert Opinions**	**James' Expert Opinions**	**Cornell's Expert Opinions**
		of confounding information across many firms is positive for some firms, negative for others, and on average, will not tend to bias the results in either direction." Ferrell Rebuttal Report, ¶20 (emphasis in original); *see also* ¶¶21-22; 23 ("***Professor Fischel's leakage model does not employ either of the two methodologies employed in the literature that he cites*** – that is, using a narrow event window or conducting a study with multiple firms –to attempt to limit the influence of confounding information in this matter.").		the papers he cites in the November 2015 Fischel Report." Cornell Rebuttal Report, ¶10.

EXHIBIT 2

IN THE UNITED STATES DISTRICT COURT
FOR THE NORTHERN DISTRICT OF ILLINOIS
No. 1:02-CV-05893
- -
LAWRENCE E. JAFFE PENSION PLAN, on behalf of itself and all others similarly situated,
Plaintiffs,
vs.
HOUSEHOLD INTERNATIONAL, INC., et al.,
Defendants.
- -
VIDEOTAPED DEPOSITION OF
FRANK ALLEN FERRELL, III
Saturday, February 27, 2016 9:02 a.m.
Skadden Arps LLP
500 Boylston Street, Boston, MA 02116

Reported by:
Janet Sambataro, RMR, CRR, CLR
Job No. 10022056

February 27, 2016
9:02 a.m.

Videotaped deposition of FRANK ALLEN FERRELL, III, held at the offices of Skadden Arps LLP, 500 Boylston Street, Boston, Massachusetts, pursuant to Agreement before Janet Sambataro, a Registered Merit Reporter, Certified Realtime Reporter, Certified LiveNote Reporter, and a Notary Public within and for the Commonwealth of Massachusetts.

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my instructions and supervision. I did have Cornerstone, for some of the non-fraud information, I asked them to sort of put in the block quotes that I had selected. There was some editing, grammatical work that they helped me on. But with those caveats, I wrote the report.
Q. You know Professor Fischel personally. Correct?
A. I do.
Q. And you have a contract to do work for his company, Lexecon. Is that right?
A. I do have a contract with Lexecon.
Q. And that contract gives Lexecon a right of first refusal to support your expert work. Is that right?
A. Yes.
Q. And you often use Lexecon's support staff to support your expert work. Correct?
A. Yes.
Q. And, in fact, you're currently using Lexecon support staff to support some of your expert work. Right?
A. Yes.
MR. FITZGERALD: Objection to form. You mean in other cases?

MR. BROOKS: In other cases.
A. So with the clarification, I want to clarify for the record, not in this case.
BY MR. BROOKS:
Q. And does that include Mike Keable at Lexecon?
A. Yes.
Q. And what is your opinion of Mike Keable as an economist?
A. I like Mike and I think -- I think -- and I think highly of Mike.
Q. Is he reliable?
A. In the cases I've worked on, I found him to be reliable.
Q. Do you think he's talented?
A. I do.
Q. Do you think he's honest?
A. I do.
Q. Do you think that -- withdrawn.
And have you worked with Peter Clayburgh before?
A. I have.
Q. And what do you think of Mr. Clayburgh?
A. I like him, and I think he's smart.
Q. Is he reliable?

A. In the -- I don't have as much experience with him that I have with others, but in the few matters I worked with him, I found him to be reliable on the cases that I worked on.
Q. Did you find him to be talented?
A. Yes.
Q. And honest?
A. Yes. I wouldn't work with somebody I didn't think was honest.
Q. And have you worked with David Strahlberg?
A. I know I've talked to him. It's possible I worked on a case with him, but I don't recall, offhand, working with him on a case. Again, I could be misremembering. It's possible that he was involved in some capacity on a matter that I was involved in, but I don't have a specific recollection of him working on a case.
Q. What is your opinion of Professor Fischel as an economist?
A. I think he is very smart and talented, and I like him.
Q. Would you say he's brilliant?
A. I would say he's a brilliant legal academic.

Q. And do you think Professor Fischel is honest?
A. I do.
Q. So turning to Paragraph 14 in your report, Exhibit 1 here, this is your assignment. Correct?
A. The assignment in this report is reflected in Paragraph 14.
Q. And who defined the assignment?
A. Counsel for Household.
Q. And I see that you cited the appellate order in Footnote 21 in that paragraph. Do you see that?
A. I do.
Q. And that's the Seventh Circuit's appellate order in this case. Right?
A. Yes.
Q. And was your assignment informed by the appellate order?
A. Well, as I said, the assignment was defined by counsel for Household. And that was to assess Professor Fischel's second supplemental report. And in the second supplemental report, he references the appellate order, is my memory.
Q. Was the scope of your work informed by

the appellate order?
MR. FITZGERALD: Objection to form. Go ahead.
A. I'm sorry. So in the sense that I was asked to assess the second supplemental report, and my memory is Professor Fischel references the appellate order in how he defines his scope in the second supplemental report.
BY MR. BROOKS:
Q. Did you read the appellate order?
A. I did.
Q. Did you read it carefully?
A. Yes.
Q. Do you believe that you adhered to the Seventh Circuit's opinion in performing your analysis?
A. That calls for a legal opinion. I'm not going to offer a legal opinion. All I can say is this was the scope of my assignment, as defined by counsel for Household.
Q. What did you do to prepare for the deposition today?
A. I reviewed my reports. I reviewed Professor Fischel's reports. I listened to Professor Fischel's deposition. I reviewed the

surreply report. I looked at underlying documents, and I met with counsel.
Q. When did you meet with counsel?
A. So I met with counsel yesterday. And I met with counsel several times in person before that, as well.
Q. To prepare for the deposition?
A. Correct.
Q. How many times?
A. So I met with counsel in Chicago a few days ago. I remember meeting with counsel -- I'm just going to blank on the location, but I did also, prior to Chicago, meet with counsel in person, as well. So that's three meetings. So there might be a fourth. I just -- I don't have a clear recollect --
Q. How long --
A. -- a clear recollection.
Q. How long was the meeting before the Chicago meeting?
A. I want to say a day or a part of a day.
Q. How about the meeting in Chicago?
A. So I -- so that was two days, but just to be clear, I met -- I believe it was two days. I can be misremembering the exact length of time.

I do remember meeting with counsel in Chicago for a day and then the second day I was listening to Professor Fischel.
Q. So you met on Tuesday and listened to Professor Fischel's deposition on Wednesday?
A. Yes. And now you reminded me. I actually didn't meet the entire day. I flew out Tuesday morning. So I actually -- now that I remember, I got to Chicago midday on Tuesday. And then you can remind -- my memory is that -- then that Professor Fischel was deposed the following day, the Wednesday.
Q. That's my memory too.
Was anyone at these meetings, other than counsel for the defendants?
A. Yes.
Q. Who else was there?
A. There was -- I don't know. I'm not exactly clear on how you define counsel for defendants. But counsel from HSBC was there as well.
Q. Anyone else?
A. No.
Q. How many lawyers were at these meetings, approximately?

A. I mean, it varied.
Q. What was the most?
A. So counsel present here were at some of the meetings, and the other person that comes to mind is Ryan Stoll from Skadden Arps.
Q. So five or six?
A. Well, just to be clear, all five or six were not present in every meeting. So it was -- but those -- as well as counsel for HSBC. But I'm not saying they were all present for every meeting. That's not accurate.
Q. Do you know Dr. Mukesh Bajaj?
A. I do not.
Q. Do you understand he was Household's prior expert in this case on loss causation and damages?
A. I believe that's right.
Q. You read his reports and transcripts, right?
A. I did.
Q. So you know he was their expert, don't you?
A. Yes. I was just pausing, because I don't remember how he characterized who he was -- whether he was retained by counsel or by

Household directly; but yes, he performed those types of analysis.
Q. So you read all of his reports. Is that right?
A. Yes.
Q. And you read his trial testimony. Correct?
A. I did.
Q. You read his deposition testimony. Correct?
A. I did.
Q. And was there anything that stood out to you about his methodology that was incorrect, in your opinion?
MR. FITZGERALD: Objection to scope here.
A. So you can look at Paragraph 14 in my original report and Paragraph 7 of my second report. That was not within the scope of my assignment. So you can direct me to particular portions of what he said, but it was something that I did not focus on.
BY MR. BROOKS:
Q. You read all his stuff. Right?
A. I did read it back in the summer, last

year. But again, assessing his work is outside the scope of these two reports.
Q. So I'm not asking you whether it was in the scope of your reports. I'm asking whether there was anything you disagreed with from a methodological perspective about Dr. Bajaj's reports?
MR. FITZGERALD: I object. Going down the line of inquiry, if he's not retained to analyze Dr. Bajaj's testimony, you have an expert, asking him to do it on the fly doesn't seem to me to be appropriate.
MR. BROOKS: Are you going to instruct him not to answer? I think I'm entitled to ask.
MR. FITZGERALD: You're asking him to critique somebody he wasn't asked to critique before on the fly, which I don't think is appropriate.
MR. BROOKS: You can instruct him not to answer. I don't think it's proper. But I don't want to get in a big discussion with you.
MR. FITZGERALD: Why don't we move on from this. Let me talk to co-counsel at a break as to what the understanding is, so we can revisit it. I just don't -- I just don't think

you have a right to take an expert who is testifying about a topic, then make your expert analyze something else. But why don't we talk about it at a break, so I don't run the clock on you? You move on and we'll come back.
MR. BROOKS: I mean, he's testifying about loss causation and damages. That's what Dr. Bajaj testified about. Right?
MR. FITZGERALD: Right.
MR. BROOKS: It's the same topic.
BY MR. BROOKS:
Q. In performing your work, did you believe it was important to stay consistent with Dr. Bajaj's prior opinions?
A. No. My understanding of my role is I was to provide my own independent expert analysis within the scope, as defined in Paragraph 7 of my -- of my rebuttal report, and Paragraph 14 of my original report.
Q. You understand that Dr. Bajaj worked with Cornerstone, just like you're working with Cornerstone, don't you?
A. That, I didn't know.
Q. His deposition?
A. You know, that could well be the case,

but I don't have a recollection of that.
Q. So you didn't think it was important to stay consistent with Dr. Bajaj's opinions because that wasn't the scope of your work. Is that your testimony?
MR. FITZGERALD: Objection to form. You can answer.
A. My -- my role, as I understand it, is to provide my -- my own best independent analysis within the scope of my assignment, as defined in Paragraph 14 of my original report and Paragraph 7 of my rebuttal report.
BY MR. BROOKS:
Q. So whether or not you conflicted with prior evidence that Household had put on at the previous trial was not your concern?
MR. FITZGERALD: Objection --
BY MR. BROOKS:
Q. Is that fair to say?
MR. FITZGERALD: -- to form.
A. That's not fair to say. I reviewed the evidence and provided an independent analysis of the evidence within the scope. And the scope, again, is to assess -- reading from my original report, to assess Professor Fischel's second

supplemental report. So that would obviously include his analysis, his statements in that report. And then Paragraph 7 of the rebuttal, I was asked to assess Professor Fischel's second rebuttal report. And so that was my scope.
Q. Do you know who William Aldinger is?
A. Yes. Generally speaking.
Q. Who is that?
A. He's a Household official, and I think I have a footnote where I list the individual defendants. I don't -- I didn't memorize them. But he's -- he was, at some point, a Household official.
Q. Did you read his trial testimony?
A. My memory is -- my memory is that Professor Fischel cites to -- I would have to review Professor Fischel.
My memory he does cite to some trial testimony. It might have been of that individual. I just -- I just would have to look again to refresh my recollection.
Q. I asked if you read his trial testimony, Mr. Aldinger's?
A. Yeah. So my memory is that Professor Fischel cites to some of that trial

testimony, and I did review that. But I would have to look at that to refresh my recollection. But that's my best recollection.
Q. You reviewed the portion that Professor Fischel cited to?
A. Well, I reviewed the portion and then obviously the context in which it's been -- the back and forth. So that's my best recollection.
Q. You didn't read his entire testimony. Is that correct?
A. That's -- that's right. So my memory is -- and again, I could be mistaken. There's a lot of documents in this case. My memory is that Professor Fischel cited to certain portions. I skimmed through the transcript, but I focused on what he's citing to and in the context. Anyway, that's my best recollection.
Q. Did you read Mr. Aldinger's deposition transcripts in this case?
A. Again, my memory -- and there's a lot of documents in this case. I'm just --
Q. Let me ask a different question. Did you read Mr. Aldinger's complete deposition testimony?
A. My memory is -- give me one second

here.
So my memory is that when Professor Fischel cited to depositions or transcripts, that I focused on those portions in the context in which they're happening and that I skimmed the rest. But it's fair to say I focused on the portions and the context that he is citing to as a basis for his opinion.
Q. Do you think you skimmed the rest of Mr. Aldinger's trial and deposition testimony?
A. I remember I received, for the day, the trial transcript. And I remember skimming through -- I'm not representing I did every day. But the transcript that he's citing to, I did receive.
Q. Who is David Schoenholz?
A. My memory is that he was a Household official. But again -- and I don't remember whether he was an individual defendant or not --
Q. He is.
A. -- in this litigation. But I have a footnote listing those individuals.
Q. Without looking at that footnote, you don't know his position. Is that fair to say?
A. I don't recall, offhand. I do remember

that he was a Household official, and Professor Fischel cites to various statements by him for -- as evidence of certain propositions.
Q. And did you read Mr. Schoenholz' trial testimony?
A. Same answer as before. So I'm going to have the same answer with respect to the citations by Dr. Fischel to -- that he has for certain propositions in his -- in his various reports.
Q. Have you spoken to Mr. Schoenholz about this case?
A. No.
Q. Have you spoken to any current or former Household employees, other than lawyers, about this case?
A. No.
Q. And your answer is the same, I take it, for Mr. Schoenholz' deposition transcripts, if Professor Fischel cited them, you reviewed the citation and the areas around it. Is that fair to say?
A. Well, that wasn't my testimony. I received -- my memory is I received the transcript that he's citing to. I skimmed

through it, but it's fair to say I focused on the portions that he's relying upon and obviously the context in which it's happening. So it's the same answer.
Q. And what about Gary Gilmer, what was his position at Household?
A. I don't recall, offhand.
Q. Did you read any of his trial testimony?
A. Again, same answer, I don't -- I haven't mem- -- you know, Professor Fischel, in all these various reports, cites to a lot of things. I did review the citations he has. And it would be the same testimony that I gave earlier.
Q. You didn't think it was important to review Household's executives' testimony for anything other than what Professor Fischel cited?
A. Well, Professor Fischel cites a lot, so I did review a lot of transcripts, and I felt that was sufficient for my assignment, which was to assess Professor Fischel's second supplemental report, and then in the expert rebuttal report, to assess Professor Fischel's rebuttal report. Make sure I'm getting that right.

Yeah, so -- so it is fair to say that I'm focused on what Professor Fischel's analysis is and whether -- and to provide an assessment of that.
Q. Were you provided exhibits with the testimony that you -- that you received?
A. I do remember -- I do remember receiving exhibits.
Q. Which exhibits did you receive?
A. Now -- now you're beyond my memory. I do remember receiving exhibits.
Q. Who is Edgar Ancona?
A. I don't recall, offhand.
Q. You never read his deposition transcript. Is that correct?
A. Again --
Q. He's not cited in Professor Fischel's report.
A. So if it's not cited in Professor -- if it's not something cited in Professor Fischel's report, and it's not otherwise cited in my documents relied upon list, then I have not reviewed it.
Q. So you haven't read any deposition testimony or trial transcripts from anyone other

than those people who are cited in your documents relied upon?
A. I didn't --
MR. FITZGERALD: Object to the form. You can answer.
A. That was not my testimony. So my testimony was that I obviously reviewed the depositions listed. I also reviewed Professor Fischel's -- the materials that he's relying upon, which did include, as I remember it, citations to transcripts.
Q. Okay. So why don't you turn to Exhibit B [sic] to your initial report.
(Witness complies.)
MR. FITZGERALD: Do you mean Appendix B?
MR. BROOKS: Appendix B.
BY MR. BROOKS:
Q. Appendix B, it's before the exhibits.
A. Do you want me to be in the initial report or --
Q. In the initial report, yeah.
A. Okay.
Q. So for the initial report, you list deposition testimony of Professor Fischel,

Dr. Bajaj, trial testimony of Professor Fischel, trial testimony of Dr. Bajaj, and the rebuttal trial testimony of Professor Fischel. Do you see that?
A. I do.
Q. So for the initial report, you didn't read any other deposition transcripts or trial testimony. Is that correct?
A. That's not --
MR. FITZGERALD: Object to form.
A. That's not correct, so --
BY MR. BROOKS:
Q. Okay. So in addition to what you've listed here, is it true that the only deposition or trial testimony that you read was testimony that was cited in Professor Fischel's first report?
A. That's not quite accurate, because I testified that I obviously read what he's citing to, but also the surrounding context. So with that -- you know, so incorporating my earlier answer to your question, that's accurate.
Q. And let's just take a look at Appendix B. For your rebuttal report, there's no deposition or trial testimony relied upon.

Page 53

A. So I'm just -- I'm utilizing, for this purpose, the Consolidated Class Action Complaint and Professor Fischel's characterization, and I think those documents characterize it as reaging the restatement or the account -- I'll leave it at that. The restatement and the predatory lending.
Q. So describe your understanding of the predatory lending fraud that defendants committed.
A. You're testing my memory here. I would -- to give an accurate answer, I would just go to the jury verdict form. So there's 17 misstatements that have been specifically identified on the verdict -- verdict form. And I really would not be able to add beyond that.
Q. So you don't understand any of the details underlying the false statements relating to predatory lending. Is that your testimony?
MR. FITZGERALD: Objection to form.
A. That's not what I said.
BY MR. BROOKS:
Q. What are the details that you understand about the predatory lending fraud that the defendants committed?

Page 54

A. Well --
MR. FITZGERALD: Objection. Asked and answered.
A. So the predatory lending fraud, my understanding is the material misstatements that the jury found on the jury verdict form, which is listed in my Appendix B, that relate to predatory lending. And that would be the most accurate and complete answer to your question, as to what constitutes the fraud with respect to predatory lending.
BY MR. BROOKS:
Q. Can you state for me any details related to the widespread predatory lending that Household was engaged in that you're aware of?
MR. FITZGERALD: Objection to form and asked and answered.
A. So, again, you know, if you're asking me to recall, off the top of my head, the jury verdict form, I did review that very carefully, and there are misstatements and misrepresentations that the jury found that related to predatory lending. And so the most accurate and complete answer would be to look at the specific misstatements the jury found to be

Page 55

materially misleading.
BY MR. BROOKS:
Q. What types of predatory lending did Household engage in?
MR. FITZGERALD: Objection. Asked and answered. You can answer.
A. You know, again, I would just go to the jury verdict form for the fraud that was found by the jury as relates to predatory lending.
BY MR. BROOKS:
Q. Well, you understand that the fraud is securities fraud. Right?
A. Yes.
Q. Defendants committed securities fraud?
A. That's my understanding.
Q. And those are false statements and omissions. Right?
A. I'm not here to provide a legal opinion, but that is accurate.
Q. That is your understanding?
A. It is.
Q. And those false statements and omissions were about certain business practices. Right?
A. Agreed.

Page 56

Q. So the verdict form lists the false statements and omissions. You understand that, right?
A. Right.
Q. But the verdict form doesn't list the details of the fraudulent business practices.
MR. FITZGERALD: Objection to --
BY MR. BROOKS:
Q. Do you understand that?
MR. FITZGERALD: Objection to form.
A. I disagree with that characterization. The fraud -- the fraud that was found by the jury is specifically identified by the jury on the jury verdict form. My understanding, but I'm not giving a legal opinion, is that that constitutes the entirety of the fraud at issue in this case. That is, the 17 material misrepresentations and omissions, as found by the jury. I do not -- my understanding, but I'm not providing a legal opinion, is that there's not other fraud beyond that.
BY MR. BROOKS:
Q. So you understand that the jury, on the verdict form, checked a box for each statement as to which part of the fraud applied to that

Page 57

statement. Right?
MR. FITZGERALD: Objection to form.
A. My memory -- you'll have to show me the jury verdict form to refresh my recollection, but my memory of the jury verdict form is they identified the material misstatements and omissions.
BY MR. BROOKS:
Q. And you don't remember one way or another whether they identified if material misstatements or omissions dealt with predatory lending, reaging, or the restatement?
A. I do remember that. So my memory, not having the jury verdict form in front of me, is that's consistent with my memory.
Q. And what you're saying is other than what's on the jury verdict form, you have no idea what that predatory lending box means. Correct?
MR. FITZGERALD: Objection to form.
A. Again, I think you're asking me a legal opinion. My understanding of the jury verdict form, but I'm not providing a legal opinion, is that it was identifying the nature of the material or what category the material misrepresentation fell into, according to the

Page 58

jury.
BY MR. BROOKS:
Q. You didn't look for details about the fraud from any source, other than the jury verdict form?
MR. FITZGERALD: Objection to form.
A. I don't understand the question. My understanding, but I'm not giving a legal opinion, is that the actionable -- not the actionable -- the material misstatements and omissions that forms the basis for liability in this case are the material misstatements and omissions as find -- found by the jury on the jury verdict form.
My understanding, without giving a legal opinion, is that there's not other fraud beyond that that would form a basis for liability. Without providing a legal opinion, I'm just giving you my understanding of what constitutes the fraud.
BY MR. BROOKS:
Q. So can you tell me what reaging was?
MR. FITZGERALD: If we're going to move to reaging, do you want to take a break? We've been going about an hour.

Page 59

MR. BROOKS: Let's just get through a couple more questions.
MR. FITZGERALD: Okay.
BY MR. BROOKS:
Q. Can you tell me what reaging was?
A. So, again, the complaint and Professor Fischel discusses this, so my memory of their discussion, the complaint, and the -- and Professor Fischel's discussion of reaging involved whether a certain -- how certain accounts were treated in terms of delinquencies and the timing thereof. So at a very general level.
But, again, the specific answer would be the reaging fraud or the fraud relating to reaging as found by the jury. So the specific material misrepresentations and omissions relating to reaging, as found by the jury.
Q. So reaging was a practice that Household engaged in. Do you understand that?
A. That's my --
MR. FITZGERALD: Objection to form.
A. That's my general understanding.
BY MR. BROOKS:
Q. And how did it work?

Page 60

A. Well, again, my understanding is that the jury found certain statements concerning reaging constituted fraud. And --
Q. I'm asking --
A. -- so that's what -- that's what I'm focused on in terms of thinking about damages and loss causation.
Q. Do you understand how reaging worked? Yes or no?
A. I --
MR. FITZGERALD: Just objection to scope. He's being offered on a damages case, and objection, asked and answered.
A. I did review the complaint and Professor Fischel's description of that. I reviewed Household's 10-Ks and 10-Qs, where they talk about treatment of certain accounts and how those are going to be reported. But again, for purposes of my analysis, I was focused on the fraud and how to properly and scientifically think about damages and loss causation in that context.
BY MR. BROOKS:
Q. What financial metrics did reaging impact at Household?

Page 61

MR. FITZGERALD: Same objection.
A. So, again, my understanding is the jury -- you know, if you want to put the jury verdict form in front of me to remind me of the specific material misrepresentations about reaging, that would be helpful. But my memory from the complaint and Professor Fischel is that it involved whether an account was delinquent or not or whether it was going to be caught up in some sense. But that's a very general understanding. Again, what's important for me and my scope is what constitutes the fraud.
BY MR. BROOKS:
Q. You understand that reaging impacted Household's two plus delinquency statistics. Right?
MR. FITZGERALD: Objection to scope. If you're going to ask him about the findings and the fraud, we should probably put the exhibit in front of him.
MR. BROOKS: I'm just asking about reaging.
BY MR. BROOKS:
Q. You understand that reaging impacted Household's two plus delinquency statistics.

Page 62

Right?
MR. FITZGERALD: Same objection to scope.
A. You know, my -- that's consistent with my general memory, but I would want to -- you know, I would need to confirm that. So -- but that's generally consistent with my memory. But, again, what's relevant for my purposes is what actually constitutes the fraud.
MR. BROOKS: Okay. We can take a break.
MR. FITZGERALD: Great.
THE VIDEOGRAPHER: The time is two minutes after 10:00. We're off the record.
(A recess was taken.)
THE VIDEOGRAPHER: We are back on the record. The time is 10:18.
THE WITNESS: Can I make a clarify -- there's something I remembered in response to an earlier question, if I could, which you had asked me if there was other people at the meeting when I met with counsel, and I should have added, I just remembered, is that personnel from Cornerstone were at those meetings, as well. So I wanted to add that to my earlier answer.

Page 63

BY MR. BROOKS:
Q. Who from Cornerstone was at the meeting or meetings?
A. So Kristin Feitzinger was there. I mangled that. Also present was Nick Yavorsky, Yavorsky. I'm just trying to remember if there's anybody else. Those are the two -- those are the two names that come to mind.
Q. Are they senior people from Cornerstone?
A. Yes. I believe so. I would say Kristin Feitzinger, Feitzinger is certainly a senior person. As I understand it, she's a principal at Cornerstone.
Q. You divided them between senior and junior --
A. Yes.
Q. -- people for compensation, so that's why I asked it that way.
A. Sure.
Q. Who else from Cornerstone?
A. Well, just to be clear, I don't -- I know that my understanding is that Kristin is -- is senior, is my understanding.
Q. And what are her credentials?

Page 64

A. She went to Stanford. She has a master's from Stanford. I believe she also has an MBA from Stanford.
Q. What's her master's in?
A. I don't know. You asked about her credentials. I also know that she's been working -- has done work for the last 20 some years in the -- in the area of damages and event studies and that general area.
Q. Sorry. What about Nick Yavorsky? What are his credentials?
A. So, again, my understanding is for the last seven, eight years, he's been working in this area. This area being damages, event study, loss causation, economics, in that. And I believe he has an MBA. I'm blanking on the name of the school now.
Q. Where are they based?
A. Los Angeles.
Q. Who else from Cornerstone has worked on this engagement with you?
A. So to my knowledge, in terms of people that I've interacted with, in addition to those two people, I would add Jamie Lee and Katie Galli.

Q. And are they senior or junior?
A. Well, Katie Galli, again -- this is my understanding, I could be mistaken -- heads or coheads the LA office. And Jamie Lee, I know, is less senior, but I don't -- frankly, I don't know where he is in the hierarchy.
Q. What are Katie Galli's credentials?
A. So I know she went to Stanford. I know that she worked at Stanford doing research. I don't recall what her graduate degrees are in. Let me restate that. I know she did work -- she worked at Stanford doing research. And I also know that for several decades now, she's -- 20 years or so, 15, 20 years, she's been working in this area.
Q. What about Jamie Lee, what are his credentials?
A. So Jamie Lee, as I remember it, has a Ph.D. in economics from Harvard. I don't remember where he went undergraduate. And I don't know how long he's been working at Cornerstone.
Q. Cornerstone is supporting defendants' other two experts in this case. Is that correct?
A. That's my general understanding.

Q. Mr. James and Cornell. Is that right?
A. That's my general understanding, for what it's worth.
Q. And are the same folks supporting Christopher James as are supporting you?
A. I don't know.
Q. And what about Cornell, are the same folks supporting Cornell?
A. I don't know.
Q. And you don't know one way or the other whether anyone from this team at Cornerstone worked with Dr. Bajaj previously. Is that your testimony?
A. It is.
Q. Do you have an understanding as to whether anyone on this Cornerstone team was working on Household before you were retained?
A. I don't know either way.
Q. How did you select Cornerstone, if you did?
MR. FITZGERALD: Objection to form.
A. So as we discussed earlier, I do have a contract with Compass Lexecon, and unless -- sorry, I would use them unless they're conflicted. That's obviously the case here. And

I've worked with Cornerstone, and more specifically the Cornerstone LA office on a -- on several matters in the past. So I had a high level of confidence in the quality of the work and the support that I would receive.
BY MR. BROOKS:
Q. So did you choose Cornerstone or did counsel suggest them?
A. My -- again, this is going back to the summer. My memory was it was a conversation about what would make sense in terms of support. I gave my views. And I just remember there was a back and forth. So I don't remember it as being a directive from either party.
Q. So Compass Lexecon is your first choice provider of support for these expert engagements. Correct?
MR. FITZGERALD: Objection to form.
A. That's not quite my testimony. My testimony is I have a contractual obligation to use them as support unless they're conflicted, which was -- which was the case here.
BY MR. BROOKS:
Q. So you entered into a contract requiring you to make Compass Lexecon your first

choice on expert engagements. Right?
MR. FITZGERALD: Objection to form.
A. Well, if it's a contract, it's not a choice. So, yes, I do use Compass Lexecon unless they're conflicted or for whatever other reasons Compass Lexecon decides not to provide support.
BY MR. BROOKS:
Q. You entered into this contract with Compass Lexecon on your own freewill. Is that right?
A. Yes.
Q. That was a choice you made?
A. It is.
MR. FITZGERALD: Objection to form.
BY MR. BROOKS:
Q. And that contract that requires you to go to Compass Lexecon first for support. Right?
A. Yes. They have a right of first refusal pursuant to my contract.
(United States Court of Appeals for the Seventh Circuit Opinion, No. 13-3532 marked Exhibit 3.)
BY MR. BROOKS:
Q. The court reporter has handed you Exhibit 3. This is the Seventh Circuit's opinion

Page 69

in this case, which is listed in your reliance materials. Right?
A. Correct.
Q. So turn to Page 2 of Exhibit 3. And in the last paragraph, in the first column, it begins "Between." Do you see that?
A. I do.
Q. It says, "Between the summers of 1999 and 2001, Household's stock rose from around $40 per share to the mid 60s and by July of 2001 was trading as high as $69," and you agree with that. Right?
A. I have no reason to disagree with that.
Q. And then looking up to the prior paragraph it says, in the second sentence, "In 1999, company executives implemented an aggressive growth strategy in pursuit of a higher stock price." Do you see that?
A. I do.
Q. Do you disagree with that finding?
MR. FITZGERALD: So let me stop you here. Are you asking him to verify what the words are on the Seventh Circuit opinion or -- he's not offered, I mean, to ask him to agree or disagree with facts and opinion. That's not the

Page 70

scope of his testimony. He's here to offer testimony about damages that flow from a finding. And asking him if the judge found it was raining on a certain day, agree or disagree, it's beyond the scope.
MR. BROOKS: Okay. You can answer.
MR. FITZGERALD: He's not here to offer an opinion on facts -- we can all argue about what the legal significance of the findings. But I don't understand why you're going to ask him to opine on whether or not sentences in a legal opinion are true. That's not within the scope.
BY MR. BROOKS:
Q. Go ahead and answer. Just answer the question.
MR. BROOKS: Are you going to instruct him not to answer? This isn't a 30(b)(6) deposition. This is one of his reliance materials and I'm entitled to examine him on it. He relied on this.
MR. FITZGERALD: Okay.
MR. BROOKS: He said he read it carefully.
MR. FITZGERALD: What are you asking? Are you asking --

Page 71

MR. BROOKS: I'm asking him whether he agrees with these findings. If he agrees with them, he can say yes. If he doesn't, he can say no.
MR. FITZGERALD: And on what basis --
MR. BROOKS: And then we'll follow up.
MR. FITZGERALD: Okay. I'm going to direct him not to answer. He's not here to offer factual opinions. He's here to offer a scientific method to calculate damages based upon a finding of liability. And to ask an expert witness, agree or disagree with fact findings, if that's what they are, from the Seventh Circuit opinion, I don't think is appropriate.
MR. BROOKS: Okay. I think it's completely inappropriate to instruct him not to answer. If that's your instruction, that's fine. I'm going to ask my questions and you can instruct him or not instruct him. All right?
MR. FITZGERALD: Okay.
BY MR. BROOKS:
Q. So you're not going to answer that question?
MR. FITZGERALD: I'm directing him not to answer that question.

Page 72

A. I will follow the instruction.
BY MR. BROOKS:
Q. The next sentence reads, "Over the next two years, the stock price rose dramatically but the company's growth was driven by predatory lending practices." Do you see that?
A. I do.
Q. Do you disagree with that finding by the Seventh Circuit?
MR. FITZGERALD: Same objection. Same instruction.
A. I'll follow the instruction.
BY MR. BROOKS:
Q. The Seventh Circuit continued, "This, in turn, increased the delinquency rate of Household's loans, which the executives then tried to mask with creative accounting." Do you agree with that?
MR. FITZGERALD: Same instruct -- same objection. Same instruction.
BY MR. BROOKS:
Q. Do you disagree with it?
MR. FITZGERALD: Same objection. Same instruction.

Page 73

BY MR. BROOKS:
Q. Do you understand what that means, sir?
MR. FITZGERALD: Same objection. Do you --
BY MR. BROOKS:
Q. Do you understand what it means that Household's predatory lending increased the delinquency rate of Household's loans, which the executives then tried to mask with creative accounting?
MR. FITZGERALD: Same objection. Same instruction.
BY MR. BROOKS:
Q. Do you have any understanding as to what that means, sir?
MR. FITZGERALD: Same objection. Same instruction. You're going to have him opine on an opinion --
BY MR. BROOKS:
Q. They continue, "Their technique was to reage delinquent loans to distort a popular metric that investors use to gauge the quality of loan portfolios, the percentage of loans that are two or more months delinquent." Do you see that, sir?

Page 74

A. I do see that.
Q. Do you agree with that?
MR. FITZGERALD: Same objection. Same instruction.
A. I'll follow the instruction.
BY MR. BROOKS:
Q. Do you dispute that finding by the Seventh Circuit?
MR. FITZGERALD: Same objection. Same industry.
A. I'll follow the instruction.
BY MR. BROOKS:
Q. Do you understand what that means, sir, that sentence?
MR. FITZGERALD: Same objection. Same industry.
A. I'll follow the instruction.
BY MR. BROOKS:
Q. Do you have any idea what it means that Household and the executives' technique was to reage delinquent loans to distort a popular metric that investors used to gauge the quality of loan portfolios, the percentage of loans that are two or more months delinquent? Do you have any idea what that means?

Page 75

MR. FITZGERALD: Same objection. Continuing instruction.
A. I'll follow the instruction.
BY MR. BROOKS:
Q. They continued, "Household also improperly recorded the revenue from four credit card agreements that would ultimately issue corrections in August 2002." Do you see that?
A. I do see that.
Q. That was the restatement. Right?
MR. FITZGERALD: Same objection. Same instruction.
A. I'll follow the instruction.
BY MR. BROOKS:
Q. You don't know whether that was a restatement. Is that fair to say?
MR. FITZGERALD: Same objection. Same instruction.
A. I'll follow the instruction.
BY MR. BROOKS:
Q. Do you have any idea what that sentence means, sir?
MR. FITZGERALD: Same objection. Same instruction.

Page 76

BY MR. BROOKS:
Q. You're unwilling to tell me whether you know what that means?
MR. FITZGERALD: Same objection. Same instruction.
A. I'll follow the instruction.
BY MR. BROOKS:
Q. Turning to the next paragraph, skipping the sentence we already covered, the Court continued, "But the reality of Household's situation" --
A. I'm sorry. Where are you?
Q. In the next paragraph.
A. On the second column?
Q. Second sentence, first column.
A. Okay. First column.
MR. FITZGERALD: Is it okay if I point him to it?
MR. BROOKS: Yeah.
MR. FITZGERALD: He's over here (indicating), the truth --
THE WITNESS: Oh, but the reality, is that what --
MR. FITZGERALD: Yes.
THE WITNESS: Okay. I see that. Sorry

about that.
BY MR. BROOKS:
Q. The Court wrote, "But the reality of Household's situation eventually caught up with its stock price. The truth came to light over a period of about a year through a series of disclosures that began when California sued Household over its predatory lending."
Do you see that?
A. I do.
Q. Do you understand what that means, sir?
MR. FITZGERALD: Objection. Same objection.
BY MR. BROOKS:
Q. Do you agree or disagree that the --
A. I follow -- I'll follow the instruction.
Q. Do you agree or disagree that the truth came to light over a period of about a year through a series of disclosures that began when California sued Household over its predatory lending?
MR. FITZGERALD: Same objection. Same instruction.
A. I'll follow the instruction.

BY MR. BROOKS:
Q. Independent of this document, do you agree that the truth about Household's fraud came to light over a period of about a year through a series of disclosures that began when California sued Household over its predatory lending?
MR. FITZGERALD: Objection to form.
A. So in my report, and I would go to my rebuttal report, I do have a specific disclosure model where I analyze Professor Fischel's 14 purported specific disclosure days. And it is true that those 14 days are over a period of time, but on specific days. I believe the first of those 14 -- but I would just go to my Exhibit 3a and 3b of my rebuttal report.
So looking at Exhibit 3a of my rebuttal report, the first purported corrective disclosure in Professor Fischel's specific disclosure model is November 15th. And in Professor Fischel's specific disclosure model, it ends on October 11, 2002. And, of course, I also have my corrected Fischel regression with respect to these dates.
MR. BROOKS: So I'll move to strike that as nonresponsive.

BY MR. BROOKS:
Q. My question is: Do you agree that the truth about Household's fraud came to light over a period of about a year through a series of disclosures that began when California sued Household over its predatory lending?
MR. FITZGERALD: And same objection. If you're reading the Seventh Circuit opinion and asking whether he agrees with the fact-findings or not, same instruction. If you want to ask him questions independently of the Seventh Circuit opinion as to when the disclosure period was, I think he properly answered it. You can ask him that.
BY MR. BROOKS:
Q. Do you agree or not that the truth about Household's fraud came to light over a period of about a year?
A. That's a very general statement. My -- my specific analysis, my scientifically based rigorous methodology for analyzing the disclosure period, you know, is reflected in Exhibit 3a, among other exhibits, and discussion that I have in the report. And it is true that the first date in that model is November 15th, 2001.

Q. Is it your opinion that the truth about Household's fraud emerged at any point and impacted Household's stock price?
A. Well, yeah, I -- yes, in the sense that I specifically -- and spent a great deal of time discussing my report, the 14 purported corrected disclosure dates, the six that are actually statistically significant using a proper and scientifically rigorous methodology, and the confounding information on four of those six. That's my analysis of that question.
Q. I'd like an answer to the question. Do you agree that the truth came out about Household's fraud and impacted Household's stock price?
MR. FITZGERALD: I object to the statement. You had an answer. Just so we understand, when he talks about the fraud, he's accepting whatever the jury findings were. And I assume you're asking that without him stating whether it's a fraud or not. He's accepting the jury's findings. I think he just gave an answer about how information emerged during the disclosure period.
A. I do want to make clear in my answer

Page 137

BY MR. BROOKS:
Q. You're correct.
A. Okay.
Q. So with that in mind and with the period of November 15th to October 11th, 2002 in mind, November 15, 2001 to October 11, 2002, do you agree with the Court's observation there?
A. I'm not going to comment on the Court -- what the Court is saying or not saying. I guess I'm hesitant to opine on whether it overstates or understates, based on my opinion, because the model is fundamentally misspecified. So I wouldn't work within the model. I would say that the leakage model, as defined by Professor Fischel, is fundamentally flawed and I would use a specific disclosure model. And so in that sense, it does overstate it, because I come up with $4.19, putting aside the confounding information, whereas he comes up with $23.94.
Q. So you can't say one way or the other whether it's true that if during the relevant period, there was significant negative information about Household unrelated to these corrective disclosures and not attributable to market or industry trends, then the model would

Page 138

overstate the effect of the disclosures and, in turn, of the false statements. Correct?
MR. FITZGERALD: Objection to form.
A. Well, my understanding of the leakage model is that Professor Fischel is automatically attributing every residual to the fraud or revelation of the fraud or fraud-related information. So I guess in the sense that he's attributing every negative residual to fraud-related information automatically in his model, it would increase the estimates of inflation in his model. But again, I just fundamentally reject the model, to begin with.
BY MR. BROOKS:
Q. So you can't say whether or not this Court's statement is true that I just read. Right?
MR. FITZGERALD: Objection to commenting on the Court's statement.
MR. BROOKS: Withdrawn.
BY MR. BROOKS:
Q. You can't say whether or not the sentence I just read from the Seventh Circuit's opinion is something you agree with. Right?
MR. FITZGERALD: I'm objecting to

Page 139

these -- he's already answered the question. If you want to ask him what the effect of certain things will have on the model, but he's not going to opine on whether or not the Seventh Circuit is right or wrong in a sentence from context -- sentence removed from an opinion where he's not here giving a legal opinion. I'm fine with you asking him about if X or Y happens, what happens to inflation. But he's not going to comment on --
MR. BROOKS: I think it's completely inappropriate for you to interfere.
MR. FITZGERALD: You can ask the substance of the question. But if you're going to frame him as a witness to opine on what the Seventh Circuit said and what they meant and whether they got it right or wrong, I have a problem with it. If you want to ask him the effect of what alleged leakage does or doesn't do, I'm fine with that.
A. Could you reread the --
BY MR. BROOKS:
Q. You can't say one way or another whether the sentence that we've been discussing from the Seventh Circuit's opinion is something

Page 140

you agree with. Correct?
A. I agree --
MR. FITZGERALD: Same objection.
A. I agree with it in the sense of my earlier question -- my earlier answer, which is in the model, which I fundamentally reject as inconsistent with the evidence in this case and the academic literature, in the context of this model, where you're automatically associating every residual to the fraud or fraud-related information as he defines it, then I think it's mathematically true, in his -- the context of his model that the more negative residuals you have, that that would result in a greater inflation calculation, under his model, which is fundamentally flawed to begin with.
BY MR. BROOKS:
Q. Do you agree or disagree with the next observation that the Seventh Circuit made in this paragraph, which was, of course, this can cut both ways, if, during the relevant period, there was significant positive information about Household, then the model would understate the effect of the disclosures?
MR. FITZGERALD: I have the same

objection about asking him to agree or disagree with the Seventh Circuit. You can ask him if X happens, does Y happen, I'm fine with that. But he shouldn't be opining on what he thinks of a legal -- of a Court opinion.

A. So I have two response -- two parts to my answer. One is I agree that in his model, which is fundamentally flawed, that if there's more positive residuals, then that would decrease inflation -- that would result in a decrease in inflation that he would otherwise calculate in that model. I disagree with the statement that it would understate the effect of revelation of the fraud, assuming there's revelation of the fraud, because the model, itself, is fundamentally flawed.

So I'm not agreeing that -- you know, I'm not -- so what happens to the residuals does affect the model, Professor Fischel's leakage model calculations. But I don't -- whether it goes up or down, the whole model is flawed.

BY MR. BROOKS:

Q. Go ahead and turn to Page 8.

(Witness complies.)

BY MR. BROOKS:

Q. And on Page 8, the second paragraph from the bottom on the left, it starts, "Fischel's models."

A. Mm-hmm.

Q. "The Court found Fischel's models controlled for market and industry factors and general trends in the economy. The regression analysis took care of that." You disagree with that finding. Correct?

MR. FITZGERALD: Objection. He's not going to opine on whether he disagrees or -- agrees or disagrees with the Seventh Circuit findings. You can ask him whether the model controls for X or Y, but you shouldn't be asking him to opine on an opinion by the Seventh Circuit.

BY MR. BROOKS:

Q. You reject this finding that Fischel's models controlled for market and industry factors and general trends in the economy, the regression analysis took care of that --

MR. FITZGERALD: Same objection. I direct him not to answer whether he agrees with the finding as stated. I don't know the full

context, but as stated language in the opinions. If you want to ask him the underlying facts, does he think that Fischel's model controlled for something or not, I have no objection to him answering that. But to frame the answer to a witness, who is testifying about a damage calculation, as to interpret particular sentences in an opinion, I -- I direct him not to do that.

BY MR. BROOKS:

Q. Do you agree or disagree that Fischel's model controlled for market and industry factors and general trends in the economy because the regression analysis took care of that?

A. I guess -- you know, putting aside -- I'm not opining on what the Court meant or didn't mean, whether there's a finding or non-finding. I'm not opining on the meaning of the Seventh Circuit opinion. Whether -- what is reflected in the residual in a market model, in a regression model is going -- is going to be a function of how you control for market and industry.

And so in Professor Fischel's model, as I spent a lot of time talking about in my report, he has a two-factor model. And given his definition of "industry," there would be industry

effects in the sense of affecting a subgroup of firms that would show up in the residual. So, for -- not to leave this at 1,000 feet, or 30,000 feet. So, for example, in his model, if there's effects on subprime lenders -- so I have five in my report, subprime consumer finance companies -- then, as a general matter, that would not be controlled for in his regression with, because he has a two-factor model.

So it controls for industry in the sense of he's controlled for S&P 500 financials. It would not include industry effects such as the subprime group.

Q. So with that in mind, do you agree or disagree that Fischel's model controlled for market and industry factors and general trends in the economy because the regression analysis took care of that?

MR. FITZGERALD: Objection to form.

A. You know, I agree with that in the context of my answer. It would not control, and I -- I understand his testimony to agree with this. It would not control for effects on Household's business that are -- that have a disproportionate effect.

So, for example, impact on the subprime consumer finance companies, that would not be controlled for in his industry control. You can consider that industry effect. And in that sense it would not be controlled for. Effects that are mediated through the S&P 500 financials would be controlled for.
Q. You agree that it's possible for news to impact a stock price even if the price reaction is not statistically significant. Correct?
A. As a general matter, that could be true, depending on the facts and circumstances. But you would want a scientifically rigorous basis to make -- to make that -- in order to reach that conclusion.
Q. But it's possible that news affects a stock price in ways that's, you know, not necessarily statistically significant. Right?
A. Framed at that level of generality, I agree with that.
Q. And in some circumstances, market agents learn about valuation relevant events from many sources over a long period of time. Correct?

A. Can you reread the question?
Q. In some circumstances, market agents learn about valuation relevant events from many sources over a long period of time. Correct?
A. That could be true, depending on the facts and circumstances.
Q. So information can reach the market gradually through many sources. Right?
MR. FITZGERALD: Objection to form.
A. I don't know what you mean by the word "gradually," but -- but I agree that in an efficient market, all publicly-available information will be reflecting in the stock price.
BY MR. BROOKS:
Q. And if information is released gradually about a certain topic, it can reach the market gradually through many sources. Right?
MR. FITZGERALD: Form objection.
A. I agree that in an efficient market, the source for public information could be many sources.
BY MR. BROOKS:
Q. And that information, if -- about a certain topic, if released gradually, will reach

the market gradually. Right?
MR. FITZGERALD: Form objection.
A. You know, I just would say that the public information set can change in an efficient market from day-to-day, from many different sources. I do want to be clear that when you say gradually, I would not view a change in the public information set that's being impounded in the stock price to -- to consist of the same information that's been expressed earlier.
BY MR. BROOKS:
Q. Well, in this case, Professor Fischel opines that information about Household's predatory lending practices reached the market at various points during the leakage period. You understand that. Right?
MR. FITZGERALD: Form objection.
A. That's consistent with my memory of what he's saying.
BY MR. BROOKS:
Q. And, in addition, the defendants in this case falsely denied that they were engaged in predatory lending throughout the leakage period, didn't they?
MR. FITZGERALD: Objection. He's not

here as a fact witness. Whatever the Seventh Circuit found or whatever the jury found, it is what it is. He's not here to testify that it did or did not happen.
A. I don't have a view on what constituted the misrepresentations beyond noting what's on the jury verdict form.
BY MR. BROOKS:
Q. Do you dispute in this case that there was a continuous flow of fraud-related information that occurred in the face of ongoing company denials over the disclosure period?
MR. FITZGERALD: Form objection.
A. If what you're referring to in your question is Professor Fischel's justification for his leakage model, what he calls his leakage model, then I very much disagree.
BY MR. BROOKS:
Q. I'm asking a factual question. Do you dispute that there was a continuous flow of fraud-related information that occurred in the face of company denials over the disclosure period?
MR. FITZGERALD: Objection to form.
A. I disagree with --

MR. FITZGERALD: You can answer.
A. I disagree with that in the context of how Professor Fischel is defining that.
BY MR. BROOKS:
Q. Outside of Professor Fischel's context, okay, as a factual matter, do you dispute that there was a continuous flow of fraud-related information that occurred in the face of ongoing company denials over the disclosure period?
MR. FITZGERALD: Objection to form.
A. I don't have a view beyond what I say about Professor Fischel's analysis, which he claims that there's continuous flow of information that is causing all the residuals in Household's stock price. And I disagree with that.
BY MR. BROOKS:
Q. So separating what Professor Fischel claims caused the residuals in Household's stock price, okay?
A. Okay.
Q. He also claims that there was a continuous flow of fraud-related information that occurred in the face of ongoing company denials, as a factual matter. Do you dispute that?

MR. FITZGERALD: Objection to form.
A. I dispute -- I reject as inconsistent with the economic evidence the claim that there's continuous leakage that's causing the residuals in his market model.
BY MR. BROOKS:
Q. I asked you to separate what Professor Fischel claims caused the residuals in his market model. Okay?
A. Yeah.
Q. I'm asking you as a factual question, do you dispute that there was a continuous flow of fraud-related information that occurred in the face of ongoing company denials over the disclosure period?
MR. FITZGERALD: Standing objection that he's not here to testify as to whether the fraud happened or didn't happen or how it happened. We're proceeding from the jury's verdict. And that's the objection to form since it's compound.
Are you asking him about the facts of what happened or are you asking him about the facts of information and what effect it has on the market? You've got two questions in there.

BY MR. BROOKS:
Q. Do you understand my question, sir?
A. I don't.
Q. Okay.
A. If you could read it.
Q. My question is: As a factual matter, do you dispute that there was a continuous flow of fraud-related information that occurred in the face of ongoing company denials over the disclosure period?
MR. FITZGERALD: Again, the same objection.
A. So I analyzed that question in the context of Professor Fischel's so-called leakage model. And I do dispute that there's a continuous flow of so-called fraud-related information that's impacting the stock price on a continuous basis. There's no factual predicate or rigorous scientific analysis to establish that. Basically, Fischel is assuming leakage to find leakage.
BY MR. BROOKS:
Q. Okay. So as a predicate for his conclusions, Professor Fischel has observed a continuous flow of fraud-related information that

occurred in the face of ongoing company denials over the disclosure period. You agree with that, don't you? That Professor Fischel has observed that as a predicate for his analysis?
A. My understanding -- I mean, maybe it's -- we're meaning the same thing. My understanding of the predicate that he needs, among other things, for his leakage model, his so-called leakage model is that every single day, the entire residual in his model is due to leakage of the fraud. And there's no factual predicate to establish that.
Q. I don't understand why you won't answer my question.
MR. FITZGERALD: Objection.
BY MR. BROOKS:
Q. I've asked you to set aside your opinions about is the residuals in his model. Okay?
A. Yeah.
Q. There are two parts. And you've answered every time with the residuals. So just answer my question.
MR. FITZGERALD: Objection.

BY MR. BROOKS:
Q. Do you dispute --
MR. FITZGERALD: Just ask a question. We don't need to lecture him. He's trying to answer a compound question --
MR. BROOKS: You've been lecturing me all day.
MR. FITZGERALD: I haven't lectured all day. What I'm saying is you're asking a compound question, and he's not going to answer a compound question --
MR. BROOKS: The question is not compound.
BY MR. BROOKS:
Q. Do you dispute that there was a continuous flow of fraud-related information that occurred in the face of ongoing company denials, as observed by Professor Fischel?
MR. FITZGERALD: That is a compound question. And if you're going to ask him a compound question that he's going to answer, he's got to explain so he doesn't take in multiple assumptions in his question, and there's nothing improper about that.
MR. BROOKS: We've -- we've been very

clear about separating the impact of those fraud-related -- of the fraud-related information from this question. Okay? There's no doubt about that, because I've said it seven times. So separate that impact out and answer this question.
BY MR. BROOKS:
Q. Was there, in your opinion, a continuous flow of fraud-related information that occurred in the face of ongoing company denials over the disclosure period?
MR. FITZGERALD: Just -- my objection, you still haven't -- there are assumptions about what denials are and who's making denials, which he's not here as a fact witness. If you want to talk about information flowing, if you're going to ask a compound question, he's going to answer appropriately.
A. So my understanding of what Professor Fischel is saying in his reports is that there's a continuous leakage of fraud-related information, as he defines fraud-related information, that's causing -- and I'm going to use the word again -- the residuals. That's the factual predicate that he needs, among

other things, not solely that, or he claims he needs for his model. And, for that, there's no -- that's flatly inconsistent with economic evidence. It's just an assertion.
BY MR. BROOKS:
Q. Do you agree that there was fraud-related information that leaked into the market during the disclosure period?
A. Well, I would define "fraud-related information" as information -- reasonably that information, new information is reaching the market every day that's causing the residual. And there's no factual basis for that. And that's the reason, among other things, that his so-called leakage model is fundamentally flawed and unsupported.
(Cumulative Residual Price Change on Fraud Related Event Dates Identified in Company Investor Relations Reports marked Exhibit 4.)
BY MR. BROOKS:
Q. I've handed you Exhibit 4, which is a document that we created that summarizes Household's investor relations reports, parts of them during the leakage period. Okay? Have you

ever reviewed the investor relations reports?
A. I have.
Q. And so these are --
A. I'm not representing -- I have reviewed some investor relations reports.
Q. They're cited in the various expert reports. Right?
A. That's correct.
Q. Okay. And in the trial testimony?
A. That's correct.
Q. So you're familiar with them?
A. Generally speaking, yes, but -- and the specific context that Professor Fischel is utilizing them.
Q. Okay. You understand that they contain comments from the company's investor relations department about Household's stock price movement and why the price was moving over time?
A. There's a lot of comments in those reports. You can just direct me to specific comments. I don't have an overall characterization of the nature of the comments. They say a lot of different things in a lot of the different reports.
Q. So this exhibit is a compendium of

Page 157

comments that are related to the fraud and the residual price change per Fischel's second supplemental Exhibit 1 over the leakage period. Okay?
A. Understood.
Q. Okay. And take a look at the cumulative residual price change on Page 5.
(Witness complies.)
A. Okay.
BY MR. BROOKS:
Q. It's $23.91. Correct?
A. That's what this document says.
Q. And that's very close to the artificial inflation that Household -- that Fischel's leakage model calculates. Correct?
A. Without having Professor Fischel's report in front of me, my memory, such as it is, is $23.94, if you start at the beginning of the disclosure period.
Q. That's the cap. Right?
A. That's one of his ad hoc fixes to his model. Yes.
Q. The highest amount of inflation that Professor Fischel finds is $23.94. Right?
A. That is consistent with my memory.

Page 158

Q. So it's 3 cents from the residual price change using the specific disclosures model from the dates in this report --
MR. FITZGERALD: Objection to form.
BY MR. BROOKS:
Q. -- in this exhibit?
A. I don't understand the question. Are you asking --
MR. BROOKS: Withdrawn.
A. -- me to opine where the $23.91 is coming from?
BY MR. BROOKS:
Q. No. I'm representing to you that the 23.91 is the cumulative price change for the dates that are shown in the second column in this report. Okay?
A. The fourth column?
Q. The second column. See the dates in the second column?
A. Oh, I see. Okay. I understand your representation.
Q. Okay. So I want to go through this, so I'm not going to have you look at every single entry and ask you some questions. The first entry --

Page 159

MR. FITZGERALD: One question. Are the entries verbatim from the reports or are they abstracts when you have --
MR. BROOKS: No, they're -- they're cut and pasted from the report.
MR. FITZGERALD: Thank you.
A. So I didn't follow that. So these are verbatim from the report?
BY MR. BROOKS:
Q. My understanding is they're cut and pasted. Yeah.
A. Okay.
Q. First is on November 15th, Household responds to a lawsuit filed by California Department of Corporations alleging that HFC and Beneficial overcharged various fees and the stock dropped from $60.91 on November 14th to 57.80 on November 16th on over 5.8 million shares traded. Do you see that?
A. I do.
Q. Okay.
A. On the 15th and the 16th.
Q. Correct. Do you consider this to be fraud-related information?
A. I do have, in my Exhibit 3,

Page 160

November 15th as a non-confounded statistically significant residual of $2.21. The one caveat is I do note in my report that there's an earlier disclosure, I believe, on November 9th, that reflected all or most of this information.
Q. My question is simpler. Do you consider this information about the California Department of Corporations lawsuit to be fraud-related information?
MR. FITZGERALD: Form objection.
A. So I do view this as a specific disclosure day that's not confounded. But the question -- but the question I raise in my report is whether, you know, there's an issue as to whether this residual is due to this information given the November 9th disclosure. So that would affect my judgment as to whether all or any of the residual is attributable to this information that's being disclosed on this day.
BY MR. BROOKS:
Q. So because you view this as a specific disclosure day that's not confounded, you agree that it's fraud-related information. Right?
MR. FITZGERALD: Objection to form.
A. I believe it's a specific disclosure

date that's not confounded with the caveat that there's a November 9th disclosure.
BY MR. BROOKS:
Q. If it was not fraud-related, it would not be a specific disclosure date. Right?
MR. FITZGERALD: Objection to form.
A. So I'm assuming in the report that this is corrective information, but -- but -- let me put it this way: In my report, this is not a confounded day. The issue that I raise with this date is the November 9th. And there's nothing else I have to say about November 9th -- November 15th.
BY MR. BROOKS:
Q. Why are you so reluctant to say whether this is fraud-related information or not?
MR. FITZGERALD: Objection to form.
A. Because I wasn't asked to opine on what the fraud was. I was -- I'm assuming the -- the misrepresentations in the jury verdict, without opining on it. So that was my hesitation, is not to be viewed as providing an opinion on what -- on what the fraud actually is, if there is any, rather than just noting -- merely noting what's on the jury verdict, without providing an opinion

on that.
BY MR. BROOKS:
Q. Do you agree that in order to determine whether something is fraud-related or not, one has to understand the fraud?
A. I agree with that.
Q. Skipping down to December 3rd, 2001, this is an entry discussing "articles published by "Barron's" and "Business Week" that alleged Household's strong results were in part driven by aggressive chargeoff policies." Do you agree that this is a fraud-related disclosure?
MR. FITZGERALD: What day are we on? 12/3/01?
MR. BROOKS: Yeah.
A. You know --
MR. FITZGERALD: Thank you.
A. -- I don't have the investor relations report. You know, I -- I feel uncomfortable commenting on a sentence that's been cut and pasted from a larger report without knowing the context. So I'm just not going to provide an opinion on the investor relation report without being given an opportunity to read the whole thing, what the basis is for this in the report.

I do talk about December 3rd in my report, and I'll be happy to talk about what I do say about December 3rd.
BY MR. BROOKS:
Q. Well, yeah. I mean, I'm asking you about the disclosures, as summarized here. Right? So you understand that there were disclosures on December 3rd, 2001, don't you?
A. I have in my report a discussion of December 3rd. That's correct.
Q. And a discussion of disclosures on December 3rd?
A. I believe so.
Q. And were those --
A. You know, hold on a second. So there's a lot of dates here. I mean, I do have in my Exhibit 3a, December 3rd. So let me -- let me restate my answer.
So I do have December 3rd in my Exhibit 3a. And I just don't remember if I have a specific discussion of that. I have to -- let me flip through my report.
I certainly reviewed Professor Fischel's claimed disclosures on that date. But I'm flipping through my report to see, beyond my

Exhibit 3a, if I have a discussion of that. So I'm looking at my initial report.
It looks like my first specific disclosure date is December 12th. And I'm looking at my rebuttal. And I'm looking at Page 32 of my rebuttal. Oh, so I do have December -- are we talking about December 12? So it's on page --
Q. We're not talking about December 12.
A. I'm sorry. December 3rd. So I won't eat up any more time. I'm just flipping through it. I can't readily find December 3rd, but I do have, on Exhibit 3a, the statistical significance on that date. And I did review Professor Fischel's discussion and citations on this date.
Q. Did you review the "Barron's" and "Business Week" articles?
A. I believe so.
Q. And --
A. My memory is certainly the "Barron's" is discussed in Fischel. I reviewed a lot of articles. I -- I -- I probably reviewed it. I certainly reviewed it if it's discussed in Professor Fischel, but I certainly reviewed this date.
MR. FARINA: The lunch is here if you

A. I'm sure I did, because I read this report in its entirety. And it's an exhibit to it. So I did review it at some point.

Q. And without reading Exhibit 8, you can't tell me whether an article referencing the fact that Household tricked and trapped customers is fraud-related. Is that your testimony?

MR. FITZGERALD: Objection to form.

A. It is my testimony that I will not comment on an article without refreshing my recollection about the entire article.

(Exhibits to Professor Fischel's August 15, 2007 report marked Exhibit 6.)

BY MR. BROOKS:

Q. We'll mark as Exhibit 6 the exhibits to Professor Fischel's August 15, 2007 report. There's Exhibit 8 for you.

A. Thank you. So I'm going to -- I'll read Exhibit 8.

Q. If that's what you need to do to tell me an article about tricking and trapping customers is related to fraud, sir, then go ahead.

A. I will read Exhibit 8.

MR. FITZGERALD: Objection to form.

A. Okay. I've read the document.

BY MR. BROOKS:

Q. What's the answer?

A. Could you restate -- if you could reread it, that would be helpful.

Q. Is this February 18, 2002 National Mortgage News article referenced in Paragraph 14 about California subsidiaries of Household tricking and trapping customers into high-cost mortgages fraud-related, in your opinion?

MR. FITZGERALD: Objection to form.

A. So if -- I want to be clear on this language of fraud-related information. If, by "fraud-related information," one means corrective information, corrective of the misstatements, as identified by the jury verdict, there will be a series of questions that one would want to ask. So, number one, I would want to know whether this document and the statements in it are new information. If it's not new information, then it's not news.

So just reading this document, by itself, one would not be able to conclude that is a corrective information in the sense of representing new information to the market.

Q. I think you've --

A. Now --

Q. -- misinterpreted my question.

MR. FITZGERALD: Let him finish.

Q. You misinterpreted --

A. So I --

Q. -- my question. I'm not asking about whether it's corrective information. I want you to listen very carefully. I'm asking --

A. I wasn't finished.

Q. -- about whether the information in this article --

A. I wasn't finished --

Q. -- relates to the fraud.

MR. FITZGERALD: And he was explaining how he understood the terms, and --

MR. BROOKS: And I'm telling him he's wrong. Why are we wasting time if he's answering the wrong question?

MR. FITZGERALD: He's explaining to you what was ambiguous about the words you used in your question, so he's not answering the wrong question. He's addressing the question you asked.

A. So if by -- as I was saying, if by

"fraud-related information" we mean corrective --

Q. I do not mean that.

A. -- information --

Q. I don't mean that.

A. -- then -- or information that would elicit a stock price reaction to which one could attribute damages or inflation, one would want to know whether this is new information. Otherwise, it would not be fraud-related information in that sense.

One would want -- so one would want to make the comparison to the informational environment before this publication to know whether it's new information that could conceivably move the market.

And one would also want to know whether, on this date, there is a statistically significant price reaction so that -- so one could ascertain whether there is any price movement to be explained. So, again, I think this -- this language of "fraud-related," and if we define it as corrective disclosure, one would need to engage in that analysis.

And I would finally note, and then I'm done, is this is not a date that Professor Fischel has

identified anywhere as resulting in a stock price movement that reflects dissipation of inflation.
MR. BROOKS: I'll move to strike that answer as nonresponsive.
BY MR. BROOKS:
Q. By "fraud-related" I mean, does it disclose information related to the fraud? Do you understand that?
A. And how --
Q. Do you understand that definition?
MR. FITZGERALD: Objection to form.
A. Well, I would want to know your definition of "fraud." I know that -- and I asked because Professor Fischel defined "fraud" as somehow untethered or more than what was identified in the jury verdict form.
BY MR. BROOKS:
Q. Based on your understanding of the fraud in this case, your understanding of it, you do have an understanding of it. Right?
A. I -- I'm not opining on fraud.
Q. I'm asking if you have an understanding of it.
A. I have an understanding of the misstatement -- I reviewed the misstatements and

omissions found in the jury verdict form.
Q. Based on your understanding of the fraud in this case, do you consider this information to be fraud-related?
MR. FITZGERALD: Objection to form.
A. I find no basis to say this is fraud-related in the relevant sense, which is new information to the market that would result in a stock price reaction that is statistically significant and could be ascribed to this document. And that's the only relevant sense when we're talking about Professor Fischel's so-called leakage model.
BY MR. BROOKS:
Q. It's a very simple question, and you keep adding additional definitions to it that you shouldn't. Okay? So listen pretty carefully to me.
MR. FITZGERALD: Objection.
BY MR. BROOKS:
Q. Is the information that was disclosed in this article related to the fraud in this case, in your opinion?
MR. FITZGERALD: Objection to form. And asked and answered.

A. So my definition, given that you're asking my opinion, of "fraud-related information" that's relevant to assessing Professor Fischel's leakage model, and so that's a definition I'm using, is new information that would result in a stock price reaction that is statistically significant. And I would note Professor Fischel, himself, has not identified this as a date either consistent with leakage or in a specific disclosure model.
And I should add: And, therefore, he's not reasonably confident -- given that it's not a specific disclosure date, he's not reasonably confident that this has elicited a stock price reaction on that day.
BY MR. BROOKS:
Q. So your opinion is that this article that discusses a California subsidiary tricking and trapping 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 --
A. Are you reading from the document? I'm sorry. Go ahead.
Q. -- is not fraud-related. Correct?

MR. FITZGERALD: Object to form. Asked and answered.
A. So, yeah, I read -- you didn't cite the entire document. So I would --
BY MR. BROOKS:
Q. I'm reading from Professor Fischel's report, which you claim every answer is responsive to, sir.
A. Right. So my opinion is that this document, there's no basis to associate this document with a stock price reaction. And, in fact, that's consistent with Professor Fischel in the sense that he, himself, is not reasonably confident that on this date -- and I'll just double-check his specific disclosure dates, that on this date this represented new information to the market that elicited a stock price reaction.
Q. I'm not asking if it's new information, and I'm not asking about the stock price reaction. Do you understand that? I'm telling you that.
MR. FITZGERALD: Object to the form.
BY MR. BROOKS:
Q. Do you understand what that means?
A. I understand.

Q. Okay. So without respect to the question of whether it's new information and without respect to whether there was a stock price reaction, does this article disclosing a lawsuit, a class action lawsuit alleging that Household's California subsidiaries tricked and trapped customers, relate to the fraud, in your opinion?
MR. FITZGERALD: Objection to form.
A. So you're paraphrasing the article. The article has one, two, three, four, five, six, seven, eight, nine, ten, 11, 12, 13, 14 -- 15 paragraphs. And it's not fraud-related for my purposes in the sense that it in no way supports Professor Fischel's inflation band under either theory. And so that's what is relevant for my purposes. And there's no basis to say that this is fraud-related in the sense of corrective information that would support his inflation band.
Q. So you're simply refusing to tell me whether you think that the information in this article relates to the fraud? Is that right, sir?
MR. FITZGERALD: Objection.

Q. Is that your answer?
MR. FITZGERALD: Objection.
A. I've already answered it. I could answer -- I'll give you the same answer, which is for purposes of assessing Professor Fischel's inflation band, whether it's under a so-called leakage model or a specific disclosure model, there's no basis to say that this -- there's no basis to say that this document supports that calculation.
BY MR. BROOKS:
Q. Okay. So in order for a disclosure, for purposes of your report, to be fraud-related, that disclosure has to be new information and cause a statistically significant stock price decline. Is that correct?
A. So to support the conclusion that -- that the residual on this day in a properly specified model should be attributed to so-called leakage on this day, you would have to have some basis to say it's new information. So that is correct.
Q. So --
A. So in an efficient market, the only thing that will move a stock price is new

information. So if we're talking about an inflation calculation, then one needs to point to new information rather than endlessly repeating the same statements.
Q. So is any new information that comes out during the leakage period that creates a statistically significant stock price decline fraud-related, under your definition?
MR. FITZGERALD: Objection to form.
A. So if there's additional specific disclosure dates that Professor Fischel believes represents new information to the market, and that the stock price reaction to that cannot be explained by industry market factors, you know, he was free -- you know, he doesn't do that on this date. So --
Q. I'm asking about your definition --
A. Yeah.
Q. -- which is a very strange definition of "fraud-related." I'm trying to get to the bottom of it. Okay?
MR. FITZGERALD: Objection.
BY MR. BROOKS:
Q. Keep that in mind. Is any disclosure that's new information and that creates a

statistically significant stock price decline during the leakage period, in your opinion, fraud-related, or is something else required?
MR. FITZGERALD: Objection to form.
A. So the proper methodology is to have a specific disclosure methodology using the standard model. Professor Fischel's identified 14 days, and only 14 days, in which he's reasonably confident the price reaction is attributed to information on that day.
So, by definition, February 18th, which is not among those 14, cannot -- the price reaction, if any, on this date cannot be reasonably attributed to this document.
Q. So you've completely ignored my question once again. My question is --
MR. FITZGERALD: Objection to the comment.
Q. With respect to your definition of fraud-related, as used in your report, okay, do you have that in mind? Do you have that in mind?
A. I don't. You have to -- if you ask me about a specific page or paragraph in my report, I'll be happy to take a look.
Q. So you -- as you sit here today, you

Page 185

can't answer a question about what you mean by "fraud-related" in your report. Is that what you're saying?
MR. FITZGERALD: Objection to form.
Q. I have to point you to something?
A. I thought in your question you were -- you were -- you were asking a question about a specific part of my report, because you referenced it. But I gave you my definition, in terms of assessing Professor Fischel's damage calculation, which again is ascribing every residual, every movement in the stock price that's not describable by the market and industry in its misspecified model to new information or -- I'm sorry, to -- to -- to inflation.
Q. You have opinions in your report -- withdrawn.
In your analysis for this case, did you make judgments about whether information was fraud-related or not fraud-related?
A. So I certainly made judgments as to whether with his so-called leakage model is -- is supported by the economic evidence.
Q. In the process of doing that, did you make any judgments about whether evidence --

Page 186

withdrawn.
In the process of doing that, did you make any judgments about whether disclosures were fraud-related or not fraud-related?
A. Again, you keep on using this phrase "fraud-related." Again, I think that's -- one has to define that.
So for purposes of Professor Fischel's model, to ascribe inflation to -- on every day, to the -- to -- to the damages calculation, you have to have new information revealed on that day that is causing that price reaction.
Q. And that information also has to be related to the fraud. It can't just be any random information. Right?
A. I agree it can't be random information.
Q. Okay. It has to be related to the fraud. Right?
A. Again, I want to be careful about the "it" here. So Professor Fischel's model, so-called leakage model, among other flaws, simply assumes that all the price reactions that he can't describe in his misspecified model is due to so-called leakage. And I do have the opinion that that's unsupported by the facts and

Page 187

circumstances of this case.
Q. Do you have an opinion one way or another whether information relating to the fraud leaked out during the leakage period?
MR. FITZGERALD: Form objection.
A. I don't agree with the terminology. So I don't want to answer and implicitly agree with the term leakage model -- "leakage period."
So during the disclosure period, I do have the opinion that economic evidence is inconsistent with his extreme and unsupported so-called leakage model.
BY MR. BROOKS:
Q. Do you have an opinion one way or another whether information relating to the fraud was disclosed to the market during what you're calling the disclosure period?
A. Well, so I do analyze the 14 specific disclosure days and address whether those days represent days where new information is reaching the market that is eliciting a stock price reaction that can reasonably be attributed to a disclosure on that day.
And, again, I would just go back to the point that Professor Fischel himself is not

Page 188

reasonably confident that this date and any residual on this date is attributable to this information.
Q. So in his supplemental report, Fischel identified 11 dates on which there was a statistically significant residual stock price decline and information consistent with leakage was released to the stock market. Right?
A. That's my general memory --
Q. Okay.
A. -- of what he's saying in that report.
Q. And for any of those days, do you disagree that the information he says was related to the fraud was, in fact, not related -- withdrawn. Let me just reask the questions.
For any of those days, do you contend that the information that he says was related to the fraud was, in fact, not related to the fraud?
A. Yes. I do disagree. So in terms of --
Q. Which days?
A. Well, eight out of the 11 are not statistically significant, so there's no new information that's fraud-related that is moving the market on that day in the way that I've defined it.

Page 189

There are three days in a properly specified model that is statistically significant, and then I spend some time discussing those three particular days.
Q. On days where you found confounding information, how would you characterize the information that was not confounding?
A. Which days do you have in mind?
Q. Any of the days. How you would you refer to those days, that information?
A. Well, I have four days under the specific disclosure model, the standard model to estimate damages that are confounded. So I would refer to that information as non-fraud information.
Q. And how would you refer to the other information?
A. The other information for those four days, I'm assuming to be corrective information.
Q. Corrective?
A. Yes.
Q. Why is -- why are they corrective? What criteria do they fall under?
A. So in my report, I'm not offering the opinion that on those four days, the four days

Page 190

that are confounded in the specific disclosure model are corrective. I'm assuming that they -- I'm assuming they're corrective information, and asking the question whether there's also non-fraud-related information on those days.
Q. Well, how do you define non-fraud-related information?
A. I define it in my report.
Q. How?
A. So if you turn to Page 44 of my rebuttal report, I have a discussion of non-fraud information on September 23, 2002, one of the four -- I believe it's one of the four confounded days in my specific disclosure model. Let me just double-check if that's accurate. Correct.
Q. I'm sorry. What paragraph are you referring to?
A. Sure. I'm sorry. I should have given you the paragraph number. It's Paragraph 96.
MR. FITZGERALD: It's Page 44. I did the same thing.
A. I would also reference Exhibit 2I, which accompanies my discussion of September 23rd, one of the exhibits to the rebuttal report.

Page 191

Q. So where does this give a definition of non-fraud-related information?
A. Well, I -- maybe I misspoke. I didn't -- what I -- what I meant to say or hope I said is I identified non-fraud information on this date.
So on this date, I identify information that is affecting a subgroup of my CSFB index, thereby demonstrating that there is non-fraud information on this date.
Q. So when you -- I asked you previously how do you define non-fraud-related information. And you said, I define it in my report, and you pointed to Page 44. That was incorrect. Right? You don't define non-fraud-related information there, do you?
A. I disagree with your characterization. By identifying the non-fraud information, that's reflecting my -- you know, reflecting the concept of non-fraud information.
Q. What was your criteria for non-fraud information in selecting it?
A. Right. So that's going to depend on --
Q. Go ahead.
A. So that's going to depend on the date

Page 192

that we're talking, because the informational environment is changing. And information that's coming out is changing on different days.
Q. So from date to date, you did not apply a consistent definition of "non-fraud information"?
A. That's --
MR. FITZGERALD: Objection to form.
A. That's mischaracterizing my testimony.
BY MR. BROOKS:
Q. Well, you say it depends on the date. I asked you what your definition was, and you said it depended on the date.
So from date to date, you apply a different definition. Right, sir?
MR. FITZGERALD: Objection to form.
A. That's a false statement about my -- that's absolutely false. What -- what my report does is that on different dates, the non-fraud information is different. And so, for example, on September 23rd, I identify information that's affecting Household, but also a subgroup of the CSFB index.
So what the non-fraud information is on a particular date, you know, might be different

than the non-fraud information on another date.
Q. But what criteria do you use to select what's non-fraud information?
A. So on this date, it would include information that has a disproportionate effect on a subgroup of the industry index at issue.
Q. So any --
A. So on Exhibit 2I, I go out of my way to identify subprime companies that are being affected on this particular date.
Q. So --
A. So that would be --
MR. FARINA: Could you not interrupt him? You interrupt him constantly.
MR. BROOKS: Well, he never answers my question.
MR. FARINA: Please. Please.
MR. DOWD: Well, let's not have more than one guy talk. I'll start talking too.
MR. FITZGERALD: All right. Why don't we take it back --
MR. BROOKS: Let's just do that, then.
MR. FITZGERALD: Everyone calm down. Just if we could let him finish the answer. You follow up.

A. Okay. So non-fraud information includes information that is affecting disproportionally a subgroup of the industry index. And I do that in Exhibit 2I.
BY MR. BROOKS:
Q. So any information that's disclosed that disproportionally impacts your subgroup of the industry, under your definition, is non-fraud-related. Is that correct?
A. That's too strong. So the evidence -- that would be evidence that there's information that's coming out that's affecting not just Household, but the sector that -- you know, some subsector.
So, for example, on September 23rd, I identify subprime companies being affected on that date. So that would be non-fraud information. It's not specific to Household. It's not general to the industry index, but it's affecting this subgroup.
Q. Turning back to Professor Fischel's Exhibit 5.
A. Exhibit?
Q. I'm sorry. His report, which is Exhibit 5.

A. Okay.
Q. In Paragraph 16, he discusses information leaking out about the contents of a report by Washington's Department of Financial Institutions. Take a look at that paragraph and let me know when you've read it.
MR. FITZGERALD: If you need this, let me know. I moved it.
A. Okay. I finished reading the paragraph.
Q. Okay. The paragraph identifies articles generally discussing that the DFI report has leaked out. Correct?
A. I -- I can't characterize these documents without reading them. So I would want to read Exhibits 11, 12, and 13 if you want me to make a general characterization rather than the snippets that are quoted here by Professor Fischel.
Q. Do you understand what this paragraph is discussing? Can you comprehend it?
MR. FITZGERALD: Objection.
A. I can. Yes. I can read the paragraph.
Q. Okay. Generally, the paragraph discusses that the Washington DFI report leaked

out. Right?
MR. FITZGERALD: Objection to form.
Q. The paragraph discusses that, doesn't it?
A. I see that -- I can read the words where Professor Fischel says "Moreover, information leaked out about the contents of a report." I won't read the whole sentence.
But if you're asking me to characterize these documents and whether that's consistent with his characterization, I would need to reread those documents.
Q. Okay. I'm just asking you about his characterization. He says that the Washington DFI report leaked out, as reported in these various articles. Doesn't he?
A. He says what he says. "Moreover, information" -- quoting Professor Fischel, "Moreover, information leaked out about the contents of a report by Washington State's Department of Financial Institutions."
So he does say that. I agree that that's what the words say.
Q. And you don't have a factual dispute that the -- that information leaked out about the

contents of the Washington DFI report in this time frame. Do you?

MR. FITZGERALD: Objection to form.

A. I do have a factual dispute as to whether he has established the necessary factual predicate for saying there was leakage in the sense that he's using it, which is there's information that's being revealed that's new to the market that's causing the stock price to change.

Q. Do you have a factual dispute that information was disclosed about the Washington DFI to the -- to the market -- withdrawn.

Do you have a factual dispute that information was disclosed about the Washington DFI report to the market during this time frame?

MR. FITZGERALD: Objection to form.

A. During this time frame, that's a very general statement. I mean, I could -- if you have a specific document or disclosure that you want me to look at, I'll be happy to.

Q. Well, the time frame is April 18, 2002 through August 27, 2002. That's the time frame in the paragraph. You can see that. Right?

A. I do see that.

Q. Okay. So do you have a factual dispute that information was disclosed about the Washington DFI report to the market during the April 18, 2002 through August 27, 2002 time frame?

MR. FITZGERALD: Objection to form.

A. Yeah. That's a very broad time frame. So I -- the documents say what they say. I do have a factual dispute that there's been leakage in the way that he's using it that's causing the stock price to change in a way that justifies his model.

Q. And under your definition of "fraud-related," is the information that's discussed in Paragraph 16 fraud-related?

A. Okay. So I have -- so one of the documents is August 27th, 2002, the Bellingham Herald. And I do have a discussion of that in my report.

That's one of the specific disclosure days that he has. But it's not statistically significant. So I do have a discussion of that -- of that date, in particular.

Q. I didn't ask if you have a discussion of the date. I asked under your definition of

"fraud-related," is any of the information discussed in Paragraph 16 fraud-related?

A. It's not fraud-related in the sense that it's a corrective disclosure or there's an economic basis, rather than just assertion that -- that this -- these documents are causing a price reaction. He's just assuming leakage to find leakage.

Q. Is it fraud-related in any other sense?

MR. FITZGERALD: Objection to form.

A. That's the relevant sense for assessing his inflation band. There would have to be new information where there's a basis for saying that the stock price reaction is not explained by the industry and market, and that traders or the market is reacting to that new information.

Q. My question was: Is it fraud-related in any other sense?

MR. FITZGERALD: Same objection.

A. So I gave you the sense in which I'm using it for purposes of assessing Professor Fischel's inflation bands.

Q. And I'm asking you in any other sense, is this information, in your opinion, fraud-related?

MR. FITZGERALD: I'm objecting to form.

A. I -- for purposes of my report, gave you the complete answer.

Q. So for purposes of your report, this information in Paragraph 16 is, in no sense, fraud-related. Correct?

MR. FITZGERALD: Objection to form. Asked and answered.

A. So, again, there's no basis to say that this information is corrective information or that this is information that is moving the market.

So putting aside, you know -- so, for example, August 18th is not a date that Professor Fischel, himself, is willing to ascribe or -- April 18th is not a date that Professor Fischel himself is reasonably confident caused a price reaction.

(Discussion off the record.)

Q. Did you ever attempt to quantify the impact of leakage in this case, if any?

A. I did carefully review the economic evidence and the appropriateness of using a leakage model or the appropriateness of Professor Fischel's leakage model. I did find leakage on

October 10th. And that met the criteria -- the objective scientific criteria for associating a price change with leakage.
Q. So October 10th -- the price change on October 10th is your quantification of the impact of leakage in this case?
MR. FITZGERALD: Objection to form.
A. Well, what I'm saying is October 10th is an example of a date on which there is leakage. There's a statistically significant price reaction. There's strong evidence that the market is reacting to information about the settlement. But those conditions were not met over the -- you know, for Professor Fischel's so-called leakage period. It's just an assertion that all these stock price changes over such a long period of time are just the result of the market learning new information. There's no basis for it.
Q. What you're calling the leakage on October 10th caused the stock price to increase. Right?
A. I believe so.
Q. And there was a statistically significant positive residual return on that

date?
A. Correct.
Q. So the only evidence that you found of leakage related to the fraud was information that caused the stock price to increase. Right?
A. That's the only date -- I do find a number of days where there's a statistically negative residual for days identified as -- as corrective disclosures or specific disclosures. But you're correct that besides that date, the factual predicates for associating stock returns changes with leakage is -- is lacking. It's just an assertion.
Q. In your -- one of your prior answers -- and I'm not quoting you directly, I'm just referring you to the answer. You said that you reviewed the economic evidence carefully and the appropriateness of using a leakage model, and October 10th was the only date that met the criteria, the objective scientific criteria for associating a price change with leakage.
Do you remember that testimony?
A. Yes.
Q. Okay. What was the objective scientific criteria for associating a price

change with leakage that you used?
A. On October 10th?
Q. No. As a general matter, what is the objective scientific criteria for associating price change with leakage, in your opinion?
A. So the criteria I used to identify October 10th is that the stock price change on that day is not explainable by market and industry. It's not explainable by non-fraud information. And that there's a -- there's evidence -- actual evidence that the market is reacting to new information on that day that's not -- that isn't non-fraud.
Q. So is that the objective criteria that you require to find leakage?
A. That's certainly the -- yes. I would say, just to be clear, the criteria would be there would have to be a basis for saying the stock price changes are caused by new information that the market is getting that's causing the stock price changes, that's not explainable by non-fraud information, including, but not limited to industry and market.
Now, in this case, it's very easy, because at the end of the day, the so-called leakage

model is just based on the assertion that the movement in the stock prices are being caused by new information reaching the market. But there's no economic basis for that.
Q. So part of the criteria is that there has to be a basis for saying the stock price changes are caused by new information. For October 10th, you used a statistically significant residual return. Right? That was the basis?
A. Well, I mentioned a couple of things for October 10th.
Q. I want to focus on the part of the criteria that requires a basis for saying stock price changes are caused by new information that the market is getting that's causing stock price changes. Okay?
A. Understood.
Q. How do you determine that the stock price changes are caused by new information that the market is getting that's causing the stock price changes?
MR. FITZGERALD: Objection only to form.
A. So, again, it has to be new

information, because we're talking about an efficient market. So, by definition, it would have to be new information. If it isn't new, it's not news.

And so how would you attribute a stock price movement not explained by the market and industry, not otherwise explained by non-fraud information to -- you know, to the market learning something new? You would have to have a factual basis for that.

So for October 10th, my memory is that there are documents that talk about rumors in the marketplace on that day and the market reacting to those rumors.

I'm characterizing the evidence on October 10th in a general way. And so there might be some imprecision there. But that fairly -- you know, that's my memory of the evidence on that day.

Q. Under your criteria for leakage, is a statistically significant stock price movement required?

A. It's certainly important evidence. But I would also want to -- I would want to consider all the evidence together. So if it's not

statistically significant, I think it becomes extraordinarily difficult to say it's not explained by the industry and market.

So we discussed earlier today that hypothetically, there could be information that would not be picked up in the statistical test. But you would have to have a rigorous basis for saying that stock price movement, if it's not statistically significant, is caused by something other than the market and industry.

Q. Can you give me an example of such a rigorous basis?

A. Sure. So there's academic articles that look at leakage in the sense of new information changing market prices in the M&A context.

So a question that you could ask is, there's a merger announcement, an announcement of a merger on a particular day, and you could look at the stock run-up in the day or a couple of days leading up to that announcement, and you could ask the question that even if an individual day is not statistically significant, maybe two or three days is statistically significant. And it's a run-up to this announcement.

And so that would be a situation where there might be leakage, given that there's a specific announcement. There's a run-up. You have cumulative statistical significance for a handful of days, and hopefully other evidence that this is what's going on in the marketplace.

Q. Take a look at your rebuttal report, Paragraph 18.

(Witness complies.)

Q. You state in the first sentence that none of the papers Professor Fischel cites that discusses a single firm -- let me start over.

You say in Paragraph 18, "Indeed, none of the papers Professor Fischel cites that discusses single firm event studies advocates an event window of the length of Professor Fischel's 228-trading-day leakage period window." Do you see that?

A. I do.

Q. And you've read the Cornell and Morgan paper that Professor Fischel's model is based upon. Haven't you?

A. Well, I disagree with the assumption in your question. His -- Professor Fischel's so-called leakage model is not a faithful

application of Cornell and Morgan. But I have read the article.

(Cornell and Morgan article in the "UCLA Law Review," June 1990 marked Exhibit 7.)

MR. FITZGERALD: I think I have a copy, if you need one for someone else.

MR. BROOKS: He seems desperate to read this, Mike.

THE WITNESS: Are you talking about me?

MR. FITZGERALD: No. Mr. Dowd.

BY MR. BROOKS:

Q. Okay. This is Cornell and Morgan's article "Using Finance Theory to Measure Damages and Fraud on the Market Cases." Correct?

A. Yes. That's right.

Q. Okay. And you're familiar with this article. Right?

A. I am.

Q. And Fischel cited this article, didn't he?

A. Yes.

Q. Okay. So go ahead and turn to Page 906 of the article.

(Witness complies.)

A. Yes.
Q. And just take a look to familiarize yourself with this page.
A. You want me to read -- look at the entire page?
Q. Just the middle paragraph.
A. Okay.
(Witness complies.)
A. I've read the middle paragraph.
Q. Okay. So they're discussing the appropriate window to use in conducting a leakage analysis. Right?
MR. FITZGERALD: Objection to form.
A. Well, it is talking about the window. Yes.
Q. And the window should begin far enough in advance of the disclosure for the analysts to be reasonably confident that no significant information leakage has occurred, and notes that the window can cover the entire class period. Right?
MR. FITZGERALD: Objection to form.
A. It doesn't say that. It says it's a limiting case in which the observation window is expanded to cover the entire class period.

Q. How is that different, in your opinion, from what I said?
A. So I don't interpret this article to say that you can, in the facts and circumstances of this case, use a 228-day window, or that it's -- I'll leave it at that.
Q. But how is -- you said it was incorrect, my statement that the article notes that the window can cover the entire class period. Why is that incorrect?
A. Oh, I was --
MR. FITZGERALD: Objection to form.
A. I was just putting in the qualifier of it's a limiting case. So all I was trying to say is the actual language in this paragraph is talking about a limiting case. And that's all -- that's all I meant.
Q. And how is that different from the article noting that the window can cover the entire class period?
A. Well, it's just that this is an extreme -- you know, this is a limit of this extension. That's all I was trying to say.
Q. The outer bounds are a window covering the entire class period. Right?

A. Well, it's talking in this paragraph about a generic class period.
Q. The entire generic class period, though?
A. Well, it's talking in the abstract about a class period in talking about this concept of -- of -- this section is -- you know, the comparable index in the event study approaches is the section.
Q. And at the bottom of Page 906, Cornell and Morgan wrote, "Conversely, in a case such as WPPSS in which there is a continuous leakage of information, it may be necessary to use the comparable index approach." Right?
A. I agree that those are the words.
Q. Okay. That's the example that they gave after saying the limiting case is to use the entire class period. Correct?
MR. FITZGERALD: Objection to form.
A. It does come after that language.
Q. Okay. And you understand that the class period in the WPPSS case was over three years. Don't you?
A. Yes. So it's March 2001 -- oh, I'm sorry. I thought -- I got confused. I thought

you were talking about the Household litigation. Can you restate -- can you reread the question.
Q. You understand that the class period in WPPSS was more than four years long. Isn't that right?
MR. FITZGERALD: Objection to form.
A. I remember it's more than a year. But it could be four years. I just don't have a clear recollection in this --
Q. Okay. Turn to Page 892.
A. 892?
Q. Mm-hmm.
A. Okay.
(Witness complies.)
A. Yes. I'm there.
Q. Okay. Look at the middle paragraph.
(Witness complies.)
A. Yes.
Q. Do you see the last sentence says "Between March 1, 1977 and March 17, 1981, WPPSS," and then it continues. Do you see that?
A. Yes.
Q. So you see that it's more than four years, the class period?
A. So you're referring to March 1, 1977 to

March 17, 1981. Yeah. So assuming that's the class.
MR. FITZGERALD: Objection to form. Go ahead.
A. So assuming that's the class period, then I agree it's -- it's about four years.
MR. FITZGERALD: I don't want to interrupt you, but when you get to a natural break point...
MR. BROOKS: Okay.
Q. And you agree that this article cites the WPPSS case as a case where it may be necessary to use the comparable index approach. Right?
A. It does say that. But you're leaving -- it's misleading to leave it at that, because in Footnote 16 on Page 888, Cornell and Morgan quite rightly, in my view, have a qualifier where they say -- and I'll read from the article, "Our primary concern is with conceptual and legal issues rather than with financial and statistical ones."
So I don't read this article to be advocating that this -- to be addressing the statistical issues inherent in using an event

window so long.
And I would also note Footnote 41 and 42 and 47, where, you know, they're saying -- and I'm going to paraphrase -- that this index approach assumes that the parties agree on the proper model --
(Phone interruption.)
A. -- that this index approach is appropriate where the experts agree on the model, which is clearly not the case here. Anyway...
Q. Any other caveats?
A. Yeah. So Footnote 47, they also note that -- and I'll just read from Footnote 47 -- "Over longer periods of time, though misspecification errors accumulate and become more important, thus proper specification of the model is more important when using the comparable index approach than when using the event study approach."
So they caveat -- they have lots of -- they have a very important qualifications [sic] on their discussion.
Q. You agree that Fischel did not use the entire class period for his observation window. Right?

A. I agree.
Q. So his observation window is inside of the limiting case that's discussed on Page 906. Right?
MR. FITZGERALD: Objection to form.
A. If you're asking me is four years longer than 228 days, I agree with that. I don't agree that this is an appropriate -- citing to this article is an appropriate basis for that, given what I just said about the qualification -- you know, the -- that language that I just pointed to.
MR. BROOKS: Okay.
THE VIDEOGRAPHER: Okay. The time is 2:18. We're off the record.
(A recess was taken.)
(Article entitled "The Loss Causation Requirement for Rule 10b-5 Causes of Action: The Implications of Dura Pharmaceuticals, Inc. v. Broudo marked Exhibit 8.)
THE VIDEOGRAPHER: Okay. We're back on the record. The time is 2:35.
BY MR. BROOKS:
Q. You have Exhibit 8 in front of you.

A. I do.
Q. And what is Exhibit 8?
A. An article that I cowrote in "The Business Lawyer."
Q. This is the article that you referred to earlier that the Seventh Circuit cited to. Is that right?
A. Yes.
Q. And it's titled "The Loss Causation Requirement for Rule 10b-5 Causes of Action: The Implications of Dura Pharmaceuticals, Inc. vs. Broudo." Right?
A. Yes.
Q. Turn to Page 167.
(Witness complies.)
Q. There's a section there -- well, before we go there, sorry, what was the purpose of the article, generally?
A. You know, it was really to talk about Dura Pharmaceuticals in the context of loss causation. So I think this article was 2007, if I remember, and I think Dura came out in '05.
Q. Do you still stand by the article?
A. Yes.
Q. Is there anything you'd change in the

Page 221

(Excerpt from Household International, Inc. Form 10-K for year ending December 31, 2001 marked Exhibit 9.)
MR. FITZGERALD: This is number?
MR. BROOKS: Number 9.
MR. FITZGERALD: Thanks.
BY MR. BROOKS:
Q. I've handed you Exhibit 9, which is an excerpt from Household's Form 10-K for the fiscal year ended December 31, 2001. Do you see that?
A. I do.
Q. Okay. Turn to the second page of the exhibit, which says Page 9 of 20 at the top.
A. I'm there.
Q. Okay. Do you see there's a heading "Competition"?
A. I do.
Q. Read that to yourself, if you would.
(Witness complies.)
A. I'm finished.
Q. Okay. So Household told the market that the consumer finance services industry in which it operates is highly fragmented and intensely competitive. Right?
A. Yes.

Page 222

Q. And continued, "We generally compete with banks, thrifts, insurance companies, credit unions, mortgage lenders and brokers, finance companies, securities brokers and dealers, and other domestic and foreign financial institution in the United States, Canada and the United Kingdom." Right?
A. That's what it says.
Q. Okay. So these types of companies that Household is telling the market it competes with are the same types of companies that are in the S&P financials index. Right?
A. I believe that's accurate.
Q. And you don't disagree with this statement about who Household competes with. Right?
A. Well, at a general level, I don't disagree with that.
Q. I mean, they're telling the market this is who we compete with. Correct?
MR. FITZGERALD: Objection to form.
A. The document says we generally compete with these institutions. That's what the document says.
Q. And you're not saying that this

Page 223

document is false in any way?
A. No.
Q. Is it false by omission?
MR. FITZGERALD: Objection to form.
A. I'm not saying this document is false in any sense. That's -- no.
Q. Do you think they should have offered a more specific group to tell investors to they were competing with?
MR. FITZGERALD: Objection to scope and form.
A. Well, it's outside my scope. I would assume the answer to that would depend on SEC regulations in terms of what needs to be disclosed and discussed in the 10-K.
Q. Well, in order to not mislead investors, should they have identified subprime consumer finance companies here?
MR. FITZGERALD: Objection to scope again.
A. No. I'm not -- I'm not provide something an opinion, nor does my choice of industry index lead to any conclusions about whether a particular document or the 10-Ks is misleading or not. You know, I know, generally

Page 224

speaking, there's regulations about the 10-K so I would assume one would look to those in understanding the 10-K. But I'm certainly not providing the opinion that this is a misrepresentation.
Q. Is an appropriate source from which to choose an index. Right? Or a comparables?
A. You can certainly use -- one potential choice is the firm's own financial filings. And, as I said, we both use S&P 500 financials.
Q. And the goal, reading back from Exhibit eight, is to find firms that are truly comparable in terms of their line of business. That's right. Isn't it? Is?
A. Correct.
Q. Okay. And these are the firms that Household is saying are truly comparable in terms of line of business. Aren't they?
MR. FITZGERALD: Objection to form.
A. You're mischaracterizing the document.
Q. Which one?
A. The Exhibit 8.
Q. In what way?
A. So you changed the wording. The wording here is "we generally compete," I'm

reading from 10-K. "We generally compete with banks, thrifts, insurance companies, credit unions, mortgage lenders and brokers, finance companies, securities brokers and dealers and other domestic and foreign financial institutions in the United States, Canada and the United Kingdom." So that's what it says. And I wouldn't change the wording of it.

MR. FITZGERALD: I think you referred to Exhibit 8. I think you meant Exhibit 9. Otherwise, I don't want to interrupt.

A. Oh, yeah. I thought you were directing me to the 10-K.

Q. The 10-K, for the record, is Exhibit 9. The article is Exhibit 8.

A. Okay.

Q. You were discussing the 10-K in your last answer?

A. Correct. There might have been some confusion. I thought you were -- my understanding of the question was you were characterizing the 10-K.

MR. FITZGERALD: I only interrupted, you referred to the wrong exhibit number it. You were reading from a document that was Exhibit 9.

A. Okay.

MR. FITZGERALD: You said you were reading from Exhibit 8. And Mr. Brooks and I both understood that. We just wanted the record to be clear.

THE WITNESS: Okay. Sorry.

MR. BROOKS: No.

Q. So you're saying that when Household tells the market we generally compete with these lines of business, they're not saying that they're comparable to these lines of business. Is that your testimony is this is?

MR. FITZGERALD: Objection.

Q. That's how I'm quote mischaracterizing the document?

MR. FITZGERALD: Objection to form.

A. Well, it doesn't say lines of business. It says different institutions they generally compete with. So that's -- that's what the document says.

Q. Well, looking at the list in Household's 10-K, is there any one of these examples that you think is not a comparable, in terms of their line of business?

A. I think that it's fine, and, in fact, I

do use S&P 500 financials, which as we discussed, includes these institutions. But it's important to include the consumer finance companies as well. And it's a better specified model.

Q. And specifically, the consumer finance companies that CSFB selected. Right?

A. Correct.

Q. What was your process for landing on that particular group of consumer finance companies?

A. Sure. So the process was, it was very important to me to use a third-party identification of comparables contemporaneous with the time period. Not to use -- not to be accused of constructing something for the purposes of litigation, but to use a third-party identifying of comparables during the relevant -- contemporaneous with the -- with the time period at issue. So that was criteria one. Criterion one. The second criterion is consistent with the academic literature, and I'll explain that in a minute, I went to the "Institutional Investor" magazine, which ranks analysts. I identified the star analyst, according to "Institutional Investor" magazine, for 2001. I'm going to

mispronounce the gentleman's name, but it's the person who produced or whose name is on the CSFB report. So was identified for 2001 as the star analyst, and I went to his report, where he identifies those firms. And the final thing I would note, which was important to my thinking, is that the academic literature regularly uses this source, the "Institutional Investor" magazine, to identify star analysts. And so I felt that was an objective way to identify comparables.

Q. Where in your report can I see that academic literature?

A. I don't cite the academic literature. It's just something I'm familiar with as general background information.

Q. What literature are you referring to?

A. So I don't have article citations off the top of my head but there's a number of articles that cite, that use "Institutional Investor" magazine or this publication to identify the star analysts and do various types of analyses.

So some papers look at, do the star analysts do a good job predicting future, you know, the

Page 229

future accounting returns or the future performance of the firm at issue, in some sense. So there's a number papers or -- that use that -- that ranking for analytical purposes.

Q. So you relied on "Institutional Investor" magazine. Why didn't you include it in the documents that you relied on?

A. I believe it is there. My memory is it's there, in some form or another. I'm sorry. I'm in the wrong document. That's -- my memory is it was there, but I could be mistaken.

Q. Well, let's turn to --

A. So it would be in the rebuttal. Oh, no. Maybe it would be in the -- I think we have to look at both.

Q. Why don't you take a look at Appendix B to your original report. I don't see anything about "Institutional Investor" magazine. Do you agree that it's not there?

A. Are you now --

Q. My question was why don't you look at Appendix B to your original report. I don't see anything about "Institutional Investor" magazine. Do you agree it's not there in the original report, Professor?

Page 230

A. So I'm not finding it here. My memory was -- I thought it was contained somewhere here in some form, but I'm not seeing it right here, right now.

Q. It's not in the rebuttal report, either, is it?

A. I'm not finding it right now.

Q. Do you think that you cited the academic articles that refer experts to "Institutional Investor" magazine in your reports?

A. No. I did not cite the academic articles. So my testimony on that was that it's just my general background information. So I would want to spend more time to confirm that it's not here. So there's references to produced files and so forth. But it is correct that, sitting here right now, I don't -- I don't readily -- I don't see it.

Q. So is it your testimony that the academic literature refers to star analysts' selection of peer indices for experts, in cases like this one, to adopt a peer index?

A. That is not my testimony.

Q. Okay. What does the academic

Page 231

literature that you can't tell us about specifically -- withdrawn.

What does the academic literature that you relied on but didn't disclose to us say that you were relying on in going to "Institutional Investor" magazine?

MR. FITZGERALD: Objection to form.

A. Yeah. So I -- so I'm not saying I relied upon it. I'm saying it's part of my background knowledge. It's a publication that ranks analysts. And I did use that to identify this particular analyst.

So -- but in terms of the academic literature, there's articles -- I don't have them memorized, off the top of my head -- that use that ranking to identify star analysts for various purposes.

BY MR. BROOKS:

Q. None of those purposes are for identifying a peer group. Correct?

A. That, I don't know. I'm not -- I'm not making that representation.

Q. Why did you try to identify the star analyst?

A. Because presumably the star analyst is

Page 232

the best analyst, at least according to that ranking. There's a number of analysts. And so you would want some objective criteria -- criterion to identify one of those analysts.

Q. Was this your idea or Cornerstone's idea?

A. It was my idea.

Q. What exactly is the CSFB Specialty Finance Index?

A. Well, it's a group of nine firms identified, I believe, in a March 2001 publication -- let me just make sure I'm not getting the date wrong -- that -- you know, that are listed in that document, in the CSFB report.

Q. Is it a traded index?

A. Not to my knowledge.

(Sur-Rebuttal Report of Daniel R. Fischel marked Exhibit 10.)

MR. BROOKS: I'm going to mark as Exhibit 10 Fischel's surrebuttal report.

THE WITNESS: Okay.

BY MR. BROOKS:

Q. Exhibit 1 to this report --

A. To the surreply.

Q. To the surrebuttal report. That's the

Credit Suisse First Boston Specialty Finance Monthly article from which you pulled your index. Correct?
A. Yes.
Q. Okay.
(Discussion off the record.).
MR. BROOKS: Do you want me to wait?
MR. FITZGERALD: What are you looking for? Fischel's surrebuttal? What day is that?
MR. BROOKS: The last one.
MR. FITZGERALD: The last one.
MR. FARINA: Why don't we take a break.
THE VIDEOGRAPHER: Do you want to take a break?
MR. FARINA: A short one.
THE VIDEOGRAPHER: The time is 2:59. We're off the record.
(A recess was taken.)
THE VIDEOGRAPHER: Okay. We are back on the record. The time is 3:06.
BY MR. BROOKS:
Q. Okay. So we're still looking at Professor Fischel's surrebuttal report and Exhibit 1, which is the Specialty Finance Monthly from which you pulled your peer index. Correct?

A. Yes.
Q. And if you could turn to Exhibit 17.
A. You mean Page 17?
Q. Well, Exhibit 17 to --
A. Oh, I see.
Q. -- Exhibit 1.
A. Oh, I see. Yes.
Q. This is the specialty finance universe that you adopted. Right?
A. Yes.
Q. Okay. And it's comprised of credit card companies, correct?
A. Yes.
Q. Diversified financials, right?
A. Yes.
Q. And auto finance.
A. Yes.
Q. And Household is identified as a diversified financial company. Right?
A. As part of the subgroup. Yes.
Q. Okay. And within the CSFB specialty finance universe, you focused on subprime companies as well. Haven't you?
A. I have, at points. Yes.
Q. And the subprime companies are not

diversified financial companies, the ones you focused on. Right?
MR. FITZGERALD: Objection to form.
A. Well, it's true that's not in the diversified financials group here. That's correct.
BY MR. BROOKS:
Q. In fact -- well, can you tell me from looking at this which are the subprime companies?
A. Well, okay, so my memory is Capital One, CompuCredit, AmeriCredit, Metris and Providian is my memory.
Q. Okay. So all either credit card companies or auto finance companies. Right?
A. As identified here. Yes.
Q. When you say "as identified here," why the qualifier?
A. No. I mean, this is -- I'm just pointing out that it's not a qualifier. It's just that's the categories in this Exhibit 17.
Q. I mean, you, yourself, have said that the subprime companies are all either credit card companies or auto finance companies. Right?
A. Correct. I identified that, and I think there's an Exhibit 2L where I talk about

the subprime description of their business.
Q. Exhibit 2K to your rebuttal report --
A. Yes.
Q. -- is that what you're referring to?
A. Well -- well, I was also referring to 2L, as well, where there's a -- some more information on that.
Q. And is it your understanding that Household's auto lending business was a subprime business?
A. No. I'm not -- that's not my -- I don't have a view on that. My memory is that Household generally, to some significant extent, was focused on the record subprime and nonprime customers. But I don't have a view as to how that breaks out across these categories.
Q. So with respect to the credit card business, you don't have a view on what portion of that business was subprime versus prime credit card lending?
A. No. I don't, beyond the general observation that I just made.
Q. And your testimony is that that's not relevant somehow. Is that right?
MR. FITZGERALD: Objection to form.

Page 237

A. I disagree with that characterization.
BY MR. BROOKS:
Q. When you say -- so a question ago, I asked you whether you had a view on what portion of the credit card business was prime versus subprime, and you said beyond the general observation that you made, you don't have a view.
And what was the general observation?
A. The general observation was the description in the 10-K that -- or I believe it was -- I shouldn't say that. My memory is that -- that the market viewed, and in Household's disclosures, they talked about subprime and nonprime customers. And let me just be -- to give a more complete answer --
MR. FITZGERALD: What are you looking for?
A. So Paragraph 5 of Professor Fischel's report, which is Exhibit 5, he says, and I agree, "across these segments," so he has segments, which are consumer credit card services and international -- I'm sorry. I'll wait until you're there.
BY MR. BROOKS:
Q. No. No. Go ahead.

Page 238

A. Then he states, "Across these segments, Household generally served non-conforming and nonprime subprime customers; i.e., those who have limited credit histories, modest income, high debt-to-income ratios, high loan-to-value ratios or have experienced credit problems caused by occasional delinquencies, prior charge-offs or credit-related actions."
So that's the general observation that I was making that is reflected here as well.
Q. So you're saying that Fischel says that in his report. That's actually from Household's disclosures. Right?
A. That's my understanding. So just to be clear, he is citing, in this paragraph, and I also have in my initial report, which I should also go to, a citation to the 2002 10-K. I believe I have similar language in my report as well. But I agree with, you know, this characterization.
Q. You didn't perform any additional investigation to see if that was true with respect to auto or credit card. Correct?
A. I looked at the 10-K and how Household characterized its customers. And

Page 239

Professor Fischel is correct.
Q. Did you look at what analysts said about the credit card business and its subprime components?
A. I do remember seeing analyst reports talking about credit cards and Household. I don't specifically remember -- you know, there's so many documents in this case -- about analyst reports that talk about credit cards and subprime, about Household.
Q. Why did you choose -- earlier you said you thought it was important to choose a third-party's peer group selection. What do you mean by "third party"?
A. Well, it was important for the purposes that I'm using it. I thought that was beneficial to use, given what I'm using it for -- now I've forgotten the question. I apologize.
Q. My question is, what did you mean by "third party"?
A. So all I meant by that was, you know, a third party that's identified in a group, which would include an analyst.
Q. And you understand that even in your own expert reports, you've cited analyst reports

Page 240

that have much different specialty finance indexes, including Household. Don't you?
MR. FITZGERALD: Objection to form.
A. Well, there are analysts that have -- that do cite to other firms, but I would characterize the analyst reports as often focused on these companies.
So it is true that there are -- you can find analyst reports that have a -- that have a different mix of companies, but it's also true that these companies are often referred to in the analyst commentary in connection with Household is how I would generally characterize it.
BY MR. BROOKS:
Q. There was no analyst consensus on a peer group for Household. Was there?
A. I don't know what you would mean by a consensus. Beyond -- I would just refer back to my earlier answer about -- that this particular group of nine is consistent with the general analyst commentary on Household.
(CIBC World Markets Industry Update entitled "Specialty Finance - Third-Quarter 2002 Preview" marked Exhibit 11.)

THE WITNESS: My report is coming apart.
MR. FITZGERALD: Thank you. This is 11?
MR. BROOKS: 11.
(Phone interruption.)
BY MR. BROOKS:
Q. You have Exhibit 11 in front of you. This is an October 3, 2002, CIBC Equity Research Report titled "Specialty Finance - Third-Quarter 2002 Preview." Correct?
A. Yes.
Q. And I can represent to you this is an analyst report that you cited in your reports --
A. Okay.
Q. -- I believe in Footnote 69.
A. Thank you.
Q. Okay? Turn to Exhibit 1, which is on the third page -- the fourth page of this exhibit.
(Witness complies.)
A. The fourth page?
Q. Yup.
A. Okay.
Q. This is Exhibit 1. CIBC World Markets

Specialty Finance Universe Summary. Right?
A. Mm-hmm. I see that.
Q. And there are 22 companies here. Right?
A. Yes.
Q. Okay. That's more than twice the size of the index you selected. Correct?
A. I agree that 22 is more than twice the nine.
Q. Did you consider selecting the CIBC World Markets Specialty Finance universe?
A. No. I followed the approach I described earlier.
Q. You didn't look at any other analyst reports --
A. That's false.
Q. -- in making the selection?
A. So my review of the analyst -- my general view of the analyst reports, in their totality, is it's consistent with the nine that I'm using.
I'm not saying that there aren't analyst reports that reference other companies, but in my judgment, it was consistent with the nine firms that I've used.

Q. So your testimony is that the 22 companies here are consistent with the nine that you used?
MR. FITZGERALD: Objection to form.
A. That's a mischaracterization of my testimony.
Q. That's not your testimony?
A. No. My testimony was about the general analyst commentary was consistent, in my judgment, with the nine. But again, I want to go back to the -- how I went about selecting these nine. And I would also mention that statistically, the statistics show that it's a better model.
Q. Better model than with the 22 here? You tested that?
A. That's not my testimony. My testimony is with -- relative to Professor Fischel's model.
Q. With all the other adjustments you made or not?
A. Well, I was referring, in my answer, to -- excuse me. In Exhibit 6, the adjusted R-squares.
Q. So turning to the next page of this report, Exhibit 11.

A. Page 5?
Q. Page 6. Sorry.
A. Okay. Page 6.
Q. An analyst report, and the heading is "New FFIEC guidelines could have far-reaching implications for the credit card issuers." Right?
A. I see that.
Q. And when you turn back, Household is not among those credit card issuers, is it?
A. I'm confused. What should I be looking at?
Q. Turn back to Page 4.
A. Okay. Page 4?
Q. And do you see Household is not among the credit card issuers?
A. Well, I see in this document that there's four that are listed here on Page 4, and that does not include Household. I don't know whether, in this different section of the report, that they're referring to those four or to other firms. And I would need to review the document to confirm that.
Q. It does say "the credit card issuers," right, in the heading there?

companies. Right?
A. I would just have to go back. I don't remember if CIT has credit cards or not.
MR. FITZGERALD: Objection to form.
A. Well, I agree that Capital One and CompuCredit, Metris, and Providian have credit card.
(A.G. Edwards report entitled "Specialty Finance Quarterly Fourth Quarter 2001" marked Exhibit 12.)
MR. FITZGERALD: Thanks. Exhibit 12, I assume?
MR. BROOKS: Exhibit 12.
BY MR. BROOKS:
Q. Exhibit 12 is another analyst report that you cited. It's a January 2nd, 2002 specialty finance quarterly for the fourth quarter of 2001 from A.G. Edwards. Do you see that?
A. I do.
Q. And if you turn to Page 4 -- so turn to Page 15, if you would.
A. You want me to be on Page 15?
Q. Yeah.
A. Okay.

Q. Is this A.G. Edwards specialty finance universe?
A. I don't know. I mean, is Exhibit 16 that says specialty finance valuation?
Q. Did you consider this A.G. Edwards analyst report in selecting your peer group?
A. So I told you how I arrived at the March 2001 analyst report. I did -- as I testified, it was consistent with what I saw on other analyst reports. So I reviewed a number. But -- but -- so I really don't have anything to add to that.
Q. Go back to Page 4 of this document.
(Witness complies.)
Q. Do you see there are, in Figure 3, 14 companies, including Household?
A. I see 14 companies.
Q. Household is on there. Right?
A. Yes.
Q. And they're listed as a diversified financial company. Correct?
A. Yes.
Q. And of your peer group, there are only four, Capital One, MBNA, Providian and American Express, in this particular group. Correct?

A. Well, I see AmeriCredit. So that's another. So I see one, two, three, four -- so by my count, five.
MR. BROOKS: You can set that aside.
(Witness complies.)
BY MR. BROOKS:
Q. You understand that in Household's investor relations reports, they used a peer group that was different from yours. Correct?
A. I don't know the -- if they used the words "peer group," but -- I'm not saying they didn't. I just don't remember the exact wording.
Q. I show you what was previously marked as Plaintiffs' Trial Exhibit 820.
MR. FITZGERALD: Thank you. Do you want to mark this with an exhibit number?
MR. BROOKS: No.
MR. FITZGERALD: Okay. That's fine.
BY MR. BROOKS:
Q. This is the investor relations report from November to December, 2001. Correct?
A. Yes.
Q. You recognize the form of this document, don't you?
A. I do.

Q. So turn to Page 5, which is Exhibit 1 in the report.
(Witness complies.)
A. Yes.
Q. Do you see it says "Household International Peer Group Stock Price Report"?
A. I do.
Q. Okay. So they do refer to it as a peer group. Right?
A. I agree.
Q. And tell me -- take a look at the peer group and tell me which, if any, of these companies are in your peer group.
A. Well, you're going to test my memory of the ticker symbols.
MR. FITZGERALD: Do you mind if I --
A. Yeah. I just don't have a good enough memory of the ticker symbols. I'm guessing PVN is Providian, but, you know, I would -- I could be wrong. I don't know. I haven't memorized the ticker symbols.
BY MR. BROOKS:
Q. AXP is American Express. Right?
A. That sounds reasonable.
Q. And COF is Capital One?

Page 253

A. That sounds reasonable.
Q. KRB is MBNA. I can represent that to you.
A. Okay. Fine.
Q. And PVN is Providian.
A. Okay.
Q. So there are four that were in this particular peer group. Right?
A. That appears to be correct.
Q. And some of the companies that weren't in the peer group are AIG --
A. I'm sorry. So could you just go through -- I'm sorry. So there's American -- okay. And what was KRP again?
Q. That is MBNA. KRB.
A. Okay. So American Express, among others, and MBNA are on here.
Q. AIG is not in your peer group. Right?
A. That's correct.
Q. Citigroup was not in your peer group, was it?
A. That's correct, although with a caveat. I should -- it's not in my CSFB peer group. That's true. But, you know, I would say, and I should have said this earlier, that I do have the

Page 254

S&P 500 financials in my peer group, as an industry control as well. And that might well incorporate -- you know, reflect some of these companies, such as Citigroup.
Q. US Bank is not in your peer group?
A. It's not in the CSFB peer group. But again, I would reference my earlier answer about the S&P 500 industry index.
Q. And Wells Fargo is not in your peer group either. Correct?
A. It's not in my nine, but again I would reference my earlier answer about the S&P 500 Financials Index.
Q. Providian and Capital One outperformed Household during the leakage period. Are you aware of that?
A. So I believe Paragraph 60 of my report has some of those figures. So which two companies were you talking about? I'm sorry, if you could repeat the question.
Q. Providian and Capital One.
A. So Capital One fell by 44 percent, and Household fell by 54 percent. So, yes, I agree with that. Providian, I don't know. Or I don't know, offhand.

Page 255

(Exhibit 2a, Exhibit 8a and 8B marked Exhibit 13.)
BY MR. BROOKS:
Q. You read Professor James' reports. Right?
A. Yes.
Q. And you relied on Professor James' analysis for your analysis, didn't you?
A. I did reference Chris James' report for certain propositions.
Q. Okay. I'm going to hand you Exhibit 13, which is three exhibits from Professor James' rebuttal report, Exhibit 2A, Exhibit 8A, and Exhibit 8B.
A. Yes.
Q. So you see that Professor James has compared Household's stock price over the leakage period to a few of the members of your peer group. Right?
A. Well, in this Exhibit 2A, he's -- he has the five subprime companies.
Q. Okay. And you --
A. Subprime consumer finance companies.
Q. You can see from this exhibit that Household -- withdrawn.

Page 256

You can see from this Exhibit 2A that Providian outperformed Household. Right?
A. That appears to be true.
Q. Okay. And you understand that American Express outperformed Household over the leakage period?
A. That sounds right.
Q. And you also understand that MBNA outperformed Household over the leakage period?
A. My best recollection is that's true.
Q. Okay. So all of the peers that are identified in -- by Household that are also in your peer group outperformed Household. Didn't they?
MR. FITZGERALD: Objection to form.
A. I would have to go back to the list. I mean, so Capital One outperformed in the sense of falling a little bit less. I agree with that. Just based -- looking at my Paragraph 60.
Q. You just said American Express did. Right?
A. That's my best recollection. What was the third one?
Q. MBNA and Providian.
A. Providian, looking at Exhibit 2A, looks

like it out -- it did better, in terms of raw returns. And what was the last one?

Q. MBNA, which you testified outperformed Household.

A. That was my best recollection. I mean, there's no need to go off my memory. It's -- you know, the stock returns are what they are.

Q. So you'll agree that the four peers that were included in the companies' investor relations reports outperformed Household that are -- it appears that are also in your group. Right?

MR. FITZGERALD: Objection to form only.

A. Well, when you're using the words "outperform" or "underperform," these are just looking at raw, unadjusted returns rather than residuals. So, yes, as I understand Exhibit 2A, that was just looking at the raw returns.

Q. Is it appropriate to look at the raw returns?

A. It depends on for what purpose you're doing that.

Q. To determine relative performance.

A. Why are you looking at relative

performance? If you want to look at relative abnormal performance, you would want to look at residuals.

Q. Okay.

A. If that's the research question that you have.

Q. Turning to the next page of Exhibit 13, you agree that Household was much, much bigger than the subprime lenders in your peer group, at least as you and Professor James have classified them?

MR. FITZGERALD: Objection to form. Go ahead.

A. It is -- the assets as measured in Exhibit 8A are bigger than the other -- than the other five. The five -- just to be clear, the five subprime that form five out of the nine.

And I would incorporate in my answer my Footnote 130 to my rebuttal report, where I note that given the value weighting of my CSFB, that American Express and MBNA are going to drive a lot of what's going on.

So if you look at Page 43 of my rebuttal, what I'm saying is American Express and MBNA are 81 and 83 percent of my value weighted index, and

so to the extent that what was going on in the market is concerns about subprime, my index will be conservative, given the weighting on MBNA and American Express.

Q. Conservative in what sense?

A. Conservative in the sense that there could be subprime -- concerns in the marketplace about subprime, and American Express and MBNA are not subprime. And they -- they constitute 81, 83 percent of the value weighted.

So it's going to be conservative relative to the concerns in the marketplace, which were obviously very concerned about subprime during this period.

Q. Your --

A. And I would note -- one final note, and then I'll stop, is as we discussed, American Express and MBNA performed relatively well. The subprime five, which is being underweighted, so to speak, in my index or have relatively -- you know, 19 and 17 -- you know, are going to be a minority of my weighting, I believe they had declines around 46 percent during the disclosure period.

Q. Turning to 8B, Household's growth was

much greater during 2002 than four of the so-called subprime five in your peer group. Right?

A. Yes. It's definitely greater, according to Exhibit 8B. And this is, just reading the title of the exhibit, over 2002.

Q. You understand that your peer group is different than the peer group that defendants' expert, Bajaj, testified was the appropriate peer group at the last trial, don't you?

MR. FITZGERALD: Objection to form.

A. That's consistent with my memory.

MR. BROOKS: I'd like to take a break.

MR. FITZGERALD: Sure.

THE VIDEOGRAPHER: The time is 3:43. We're off the record.

(A recess was taken.)

(Second Rebuttal Report of Daniel R. Fischel marked Exhibit 14.)

THE VIDEOGRAPHER: Okay. We're back on the record. The time is 3:54.

BY MR. BROOKS:

Q. Okay. You have Exhibit 14, which is Professor Fischel's second rebuttal report?

A. I do.

Page 261

Q. Yeah. Turn to the report.
A. Oh, you want me to go to the report?
Q. Yeah.
A. Oh. Sorry.
(Witness complies.)
Q. And take a look at Paragraph 11.
(Witness complies.)
A. Yes. I see that.
Q. And do you see at the bottom, where Professor Fischel references Exhibit 2, which shows that Household's stock fell 53 percent while indexes --
A. I'm sorry. I'm not -- I don't mean to interrupt. But can you direct me again to where you're --
Q. Paragraph 11.
MR. FITZGERALD: Can I point?
A. Okay. I see that.
Q. "Household's stock fell 53 percent while the indexes of the firms identified by Professors Ferrell and James declined 19 percent and 16 percent respectively."
Do you see that?
A. I do see that.
Q. And you agree that your CSFB index declined by 19 percent. Right?
A. I have no reason to disagree.
Q. And that's much less than Household's stock fell. Isn't it?
A. I agree that 19 is less than 53.
Q. And the CSFB index also outperformed the S&P financials index, which fell 21 percent. Right?
A. I agree that 19 is less than 21.
Q. You don't dispute Professor Fischel's calculations in this report?
A. I'm not endorsing all his calculations, but I have no reason to take issue with these raw return numbers.
Q. Right. These calculations that we're discussing, the return numbers, you don't dispute them. Do you?
A. I have no reason to dispute. The returns are what they are. It's an objective fact.
Q. And take a look at Paragraph 12.
(Witness complies.)
A. Okay.
Q. Let me know when you're ready to talk about Paragraph 12.

Page 262

Page 263

A. You want me to read it?
Q. Sure.
A. Okay.
(Witness complies.)
A. Okay. I read it.
Q. Okay. So incorporating the CSFB index into the leakage model did not impact the results of the leakage model. Isn't that the right, according to Professor Fischel?
A. Well, according to Professor Fischel, it would change the artificial inflation, according to him, to 27.52 or 27.60, but, you know, these are meaningless results.
Q. Artificial inflation would go up. Right?
A. Well, he is saying that, in his regression, using his faulty and flawed model and the incorrect estimation window that he has this output.
Q. And you don't dispute the output with the caveats that you just had in your last answer. Right?
A. I dispute the output in the sense of this is a meaningless result.
Q. So turning back to your rebuttal report --
(Witness complies.)
A. Okay.
Q. -- and Exhibit 2K.
A. Yes.
Q. These are the business lines of companies with a subprime customer focus. Right?
A. Correct.
Q. We looked at this a little bit before?
A. Correct.
Q. Why did you set these companies apart from the rest of your peer group?
A. Because, generally speaking, it was clear from the market commentary, the analysts, that there was significant concerns during the disclosure period, starting in the fall of 2001 and going forward, about subprime exposure. And so given the market concerns about this -- this type of exposure, it was worthwhile identifying those subprime consumer finance companies within CSFB 9.
Q. And four of the five companies are credit card companies. Right?
A. Correct.
Q. Okay. So turn to Exhibit 17 of

Page 264

I don't understand how Professor Fischel would conclude that fraud, according to him, is increasing the systemic risk, and, therefore, affecting the beta. So it's very unclear to me and puzzling what the theory is for why firm-specific alleged corrective information would manifest itself in a changed beta, which is what the structural break is showing.

BY MR. BROOKS:

Q. Anything else?

A. That's my general response. But I would incorporate the analyses in my reports.

Q. You've identified six general categories of what you opine are company-specific non-fraud negative news released during the leakage period that may have impacted Household's stock price. Right?

MR. FITZGERALD: Objection to form.

A. I don't think I break it out into the six categories, unless I'm misremembering. I'm not saying that's inaccurate. I'm just saying that's not how I bucketed the information. Again, I'm not saying it's an inaccurate, you know, bucketing; but it's not one that I deploy in my report.

BY MR. BROOKS:

Q. You don't dispute that bucketing? You don't think it would be misleading? Is that what you're saying?

A. I would need to review all the non-fraud information that I point to and match it up.

I would emphasize the most -- a very important category would be subprime and nonprime and the concerns that the market had during this period in connection with Household's business.

Q. You're saying that --

A. And I would also add the barring cost, the reliance of Household on the commercial paper market.

Q. So the concerns that the market had about subprime and nonprime and the borrowing costs are the two most significant factors. Is that your opinion?

MR. FITZGERALD: Objection to form.

A. I would say that was -- you know, that's -- you know, sitting here, those are two themes that come out of the market commentary. But I would just simply point to my reports, where I identify on specific days non-fraud

information. And so that would be the most complete characterization.

Those are just two important themes that come out of -- or two market concerns that are reflected in the market commentary during this -- during this period.

BY MR. BROOKS:

Q. So you haven't done anything to quantify the dollar impact of any of these concerns that you claim are company-specific, non-fraud. Right?

MR. FITZGERALD: Objection to form.

A. No. I have my Exhibit 3a and 3b.

Q. Exhibits 3a and 3b quantify the dollar impact of the company-specific non-fraud information?

A. Oh, I misunderstood you. So those exhibits are showing -- okay. So for the dates in Exhibit 3a and 3b, they're showing dates that are statistically significant. And so for those days, you would want to ask the question whether there's, you know, non-fraud information or corrective information.

Q. My question is whether you've done anything to quantify the impact of what you're

calling company-specific non-fraud information on Household's stock during the disclosure period.

MR. FITZGERALD: Objection to form.

A. So an important piece of terminology, company-specific I would define as residuals in a model. And the residuals that I have in my Exhibit 3a and 3b, I do have residuals -- statistically significant residuals in that. And I do discuss, for example, on August 7th, on September 16th, and on October 8th, whether those residuals are explainable by non-fraud information.

BY MR. BROOKS:

Q. Is it your opinion that Household's worsening credit quality was a company-specific non-fraud factor that was impacting Household's stock during the disclosure period?

A. So I would refer to my specific discussions of the -- you know, as a partial answer to that, of the residuals in Exhibit 3b. So those would be days which are company-specific in the sense that I'm using the term and the nature of the non-fraud information I identify on those days.

I can't remember every day off the top of my

Page 293

head, but I would go to that as examples of company-specific, in the sense of a statistically significant residual, that's explainable by non-fraud information.

Q. So why don't you turn to Paragraph 62 of your original report.

(Witness complies.)

A. Okay. I'm there. Is this the January 28th? I just want to make sure I'm at the right place.

Q. January 28th. Right.

A. Okay.

Q. This is one of those dates that was statistically significant under Professor Fischel's analysis. Right?

A. Correct.

Q. And you found that there were company-specific, non-fraud disclosures that contributed to the decline. Right?

A. I have to review to refresh my recollection.

Okay. Could you repeat the question.

Q. You found that there were firm-specific non-fraud disclosures on this date that contributed to the decline. Correct?

Page 294

A. That's not -- that's actually not accurate. So in this report, my initial report, I said may have. In the second report, I quantify it.

So I want to be very clear here. So for firm-specific non-fraud in this report, the initial report is firm-specific, non-fraud in the context of Fischel's regression. So he has a statistically significant residual on this date. And the question is, in his residual, given his model, is there firm-specific, non-fraud information.

Now, when you properly control, you have a properly specified model, it's not statistically significant, proving or establishing that what I identified as firm-specific, non-fraud information in the context of Fischel's model is accurate.

Q. Doesn't the fact that it's not statistically significant show that, under your model, it was industry factors that caused the decline?

A. Yes. But, again, what -- this is a very important point. What I'm saying is, in Professor Fischel's model, there's a

Page 295

statistically significant residual on this day. Okay. And in this initial report, I'm pointing out, on this date, that, in his model, in his residual, there's non-fraud, firm-specific information that's in his residual. And then I discuss that.

In a properly specified model, when you -- which controls for some credit card issues, subprime, as reflected in the CSFB, it's no longer statistically significant. So that proves that in his residual, there was non-fraud information that's removed -- that's being removed by the corrective model.

Q. What it proves is that the information, at least if you're right, was not company-specific. Right? Because when there's no statistically significant decline, that means that it was not company-specific information that caused the decline. Isn't that right?

MR. FITZGERALD: Objection to form.

A. This is missing a very important point, which is company-specific, as I define it, and as is relevant in this case, you know, in assessing Professor Fischel's reports, means the residual in a model.

Page 296

So the -- so it's the -- there's a firm-specific effect in his model on January 28th. You're right, in my model there's no longer a firm-specific effect, and that is proof that what he is labeling a firm-specific effect that's fraud -- that's caused by fraud or fraud information is, in fact, just capturing industry information in a better specified model.

BY MR. BROOKS:

Q. Using your --

A. I have a discussion of this in the report that I can find, if that would be helpful.

Q. Including your index that you claim has a tighter peer group, but leaving all the other specifications the same, Professor Fischel found that it didn't impact his statistically significant --

MR. FITZGERALD: Objection to form.

BY MR. BROOKS:

Q. -- dates. Isn't that right?

A. So are you saying that when he includes my peer index in his estimation window that January 28th remains statistically significant?

Q. Isn't that what he's found?

A. I don't recall that specifically. I

don't recall that exhibit. I could be misremembering. But I don't recall that.

Q. So turning back to Paragraph 62, what is the non-fraud information that you claim is company-specific in this paragraph?

A. Concern -- you know, I would generally characterize it as concerns about subprime.

Q. Well, I'd like you to point to the language.

A. Sure. So -- well, I would point to all the language. "Rotten economy has exposed their borrower base to hard times. Their borrower base is significantly subprime and nonprime, as Professor Fischel himself states. And "the growing deterioration" -- now I'm just reading from the report. "The growing deterioration in subprime lending, it should be noted, has already been -- has already laid low other former Chanos shorts, including AmeriCredit, Conseco and Providian."

Q. What is --

A. And then there's a Reuters report, "Credit card stocks fall in Metris, subprime worries."

Q. What does growing deterioration in

subprime lending mean?

A. Well, I would just go back to the article to get the full context. But there's concerns about subprime lending, is the way I would interpret it.

Q. That's how you interpret growing deterioration, subprime lending is just general concerns about subprime lending?

A. No. There's a couple of articles here that are evidence, at least that -- in the context of Fischel's model, Professor Fischel's model, that his residual is capturing concerns in the marketplace about subprime, about credit cards. But I think, you know, what appears to be most important here is subprime.

Q. So --

A. But there's concern about credit cards as well.

Q. So your conclusion here is that this information may have impacted Household's stock price. Right?

A. In my initial report, it may have. If you go to paragraph 35 of my rebuttal, I point out that what I identify here as "could have" is now, in fact, as proved by the corrected model,

that what he's capturing in his residual are the subprime and credit card concerns, as evidenced by the fact that once you control for that with a better index, his statistically significant residual goes away. So what that means is that his residual is capturing these non-fraud factors.

Maybe I can be helpful here. So Paragraph 36 of my rebuttal -- and I'll just read the language, and this is what I'm referring to --

Q. I don't need you to do that. I understand what you're saying.

Turn to Paragraph 65 of your initial report.

(Witness complies.)

A. Okay.

Q. Just let me know when you've read that.

A. Okay. I'm sorry. Paragraph 65?

Q. Sixty-five.

A. Oh, okay. Okay. I've read it.

Q. Okay. This is February 6th, 2002, which is another statistically significant decline under Professor Fischel's model. Right?

A. Correct.

Q. And in Paragraph 65, you cite an

A.G. Edwards report, which is Exhibit 31, that refers to industry credit quality concerns and accounting concerns. Right?

A. Correct.

Q. So do you agree that the accounting concerns were fraud-related information?

A. Well, again, we're going to get back to our discussion about what "fraud-related" means.

So it's not fraud-related in the sense of corrective information. So if somebody -- if the market hears about the litigation -- you know, the lawsuit on November 15, 2001, and the market keeps -- you know, market actors, analysts keep saying, hey, there's this litigation and they keep on saying that, repeatedly, that's not new information that would account for stock price declines.

Q. Is it your opinion that the accounting-related concerns addressed in the A.G. Edwards report were company-specific non-fraud concerns?

A. No. I don't agree with that, because in my corrected model, there's no statistically significant residual which shows that these concerns --

Q. I think you misheard my question.
A. Okay.
Q. My question is, is it your opinion that the accounting-related concerns in Paragraph 65 -- that you cite in Paragraph 65 were company-specific non-fraud concerns?
A. In whose model? In my model, they're not company-specific, because there's no statistically significant residual.
Q. So in your model, accounting concerns about Household are not company-specific?
MR. FITZGERALD: Objection to form.
A. That's not what I'm saying. I'm saying in these paragraphs that there appears to be concerns in the marketplace about the consumer finance sector.
BY MR. BROOKS:
Q. I'm asking you about a specific piece. And I'll read it to be clear. Because you said that A.G. Edwards also issued a report on February 6, 2002, stating that it "attributes weakness in Household shares to industry credit quality concerns and accounting-related concerns. And that, to be sure, investor sentiment on the consumer finance sector is poor today."

A. Yes.
Q. You see that?
A. I do.
Q. You voluntarily chose to include that in your report?
A. Correct.
Q. Okay. Is it your opinion that the accounting-related concerns in Paragraph 65 are non-fraud-related, company-specific concerns?
MR. FITZGERALD: Objection to form.
A. Not in my model.
BY MR. BROOKS:
Q. What else would it be?
A. And I would also -- in my earlier answer, there's no reason to believe that market actors repeating the same concern is new corrective information that could possibly explain stock price changes.
Q. So are industry credit quality concerns, as referenced here on the A.G. Edwards report, company-specific, non-fraud concerns --
MR. FITZGERALD: Objection to form.
BY MR. BROOKS:
Q. -- in your opinion?
A. In whose model? In Fischel's model,

yes, it would be captured by the residual. In my model, with a better specified model, these industry concerns are actually captured by the model.
Q. So in your --
A. So it's proof what he is saying is caused by corrective information, as evidenced by his residual, is, in fact, industry concerns once you have a better specified model.
Q. So the content of the information doesn't matter whatsoever to your opinion. It's just what the model says?
MR. FITZGERALD: Objection to form.
BY MR. BROOKS:
Q. Is that fair?
A. No. That's not fair.
Q. Are you aware that in your report you cite -- and I'm talking about your initial report --
A. Okay.
Q. -- you cite a number of articles that don't even mention Household and say that they are company-specific, non-fraud information?
A. I do cite -- I do remember citing to some that don't specifically mention Household.

But beyond that, you would have to point me to specific references in my report.
Q. In any of your prior expert engagements, have you attributed stock price declines to a company based on disclosures that don't even discuss the company?
MR. FITZGERALD: Objection to form.
A. I mean, I would have to look back. I mean, there's nothing surprising about that. In fact, Professor Fischel does that himself. That is, there could be information in the model that is not -- there could be information -- information in the context of the model that is not properly being controlled for.
MR. BROOKS: Why don't we take a break.
THE VIDEOGRAPHER: The time is 4:54. We're off the record.
(A recess was taken.)
THE VIDEOGRAPHER: We are back on the record. The time is 5:08.
MR. BROOKS: I'm done, subject to any further examination.
MR. FITZGERALD: Thank you.
CROSS-EXAMINATION

BY MR. FITZGERALD:
Q. So, Professor Ferrell, at some point during your testimony today, you referred to a couple of ad hoc adjustments that Professor Fischel made. Do you recall the substance of that testimony?
A. Yes.
Q. What were you referring to?
A. I was referring to his ad hoc so-called leakage cap and his ad hoc so-called cap M adjustment.
Q. Okay. And why do you call the cap M adjustment that he described so-called?
A. Because the explanation and the justification he gave for it in his deposition made no sense. It's not the capital asset pricing model that's, as he says, the most established in the academic literature. It's -- and it's not -- and it doesn't actually represent the context in which that article is doing it. So it's not cap M. And the explanation for why he's doing it made no sense.
MR. FITZGERALD: Okay. I have nothing further.
MR. BROOKS: Nothing further.

MR. FITZGERALD: Okay. Thank you.
THE VIDEOGRAPHER: Okay. The time is 5:09. We're off the record.
(Deposition concluded at 5:09 p.m.)

DECLARATION UNDER PENALTY OF PERJURY
Case Name: Lawrence E. Jaffe Pension Plan
vs. Household International, Inc.
Date of Deposition: 02/27/2016
Job No.: 10022056

I, FRANK FERRELL, III, hereby certify under penalty of perjury under the laws of the State of _______________ that the foregoing is true and correct.
Executed this ______ day of _________________, 2016, at __________________.

____
FRANK FERRELL, III

NOTARIZATION (If Required)
State of _______________
County of ______________
Subscribed and sworn to (or affirmed) before me on this _____ day of ____________, 20__,
by_______________________, proved to me on the basis of satisfactory evidence to be the person who appeared before me.
Signature: ____________________________ (Seal)

C E R T I F I C A T E
COMMONWEALTH OF MASSACHUSETTS
SUFFOLK, SS.
I, Janet M. McHugh, a Registered Merit Reporter and a Notary Public within and for the Commonwealth of Massachusetts do hereby certify:
THAT FRANK ALLEN FERRELL, III, the witness whose testimony is hereinbefore set forth, was duly sworn by me and that such testimony is a true and accurate record of my stenotype notes taken in the foregoing matter, to the best of my knowledge, skill and ability.
I further certify that I am not related to any parties to this action by blood or marriage; and that I am in no way interested in the outcome of this matter.
IN WITNESS WHEREOF, I have hereunto set my hand this 28th day of February, 2016.

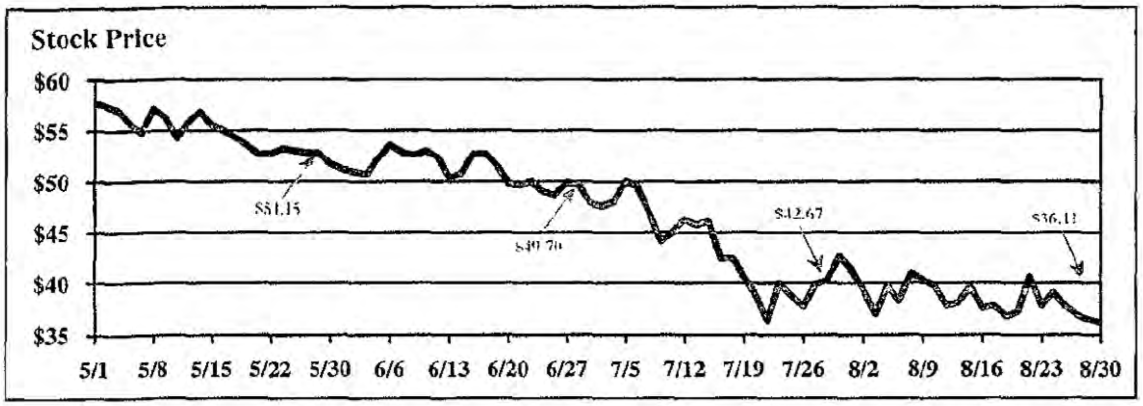
____
JANET M. SAMBATARO
Notary Public

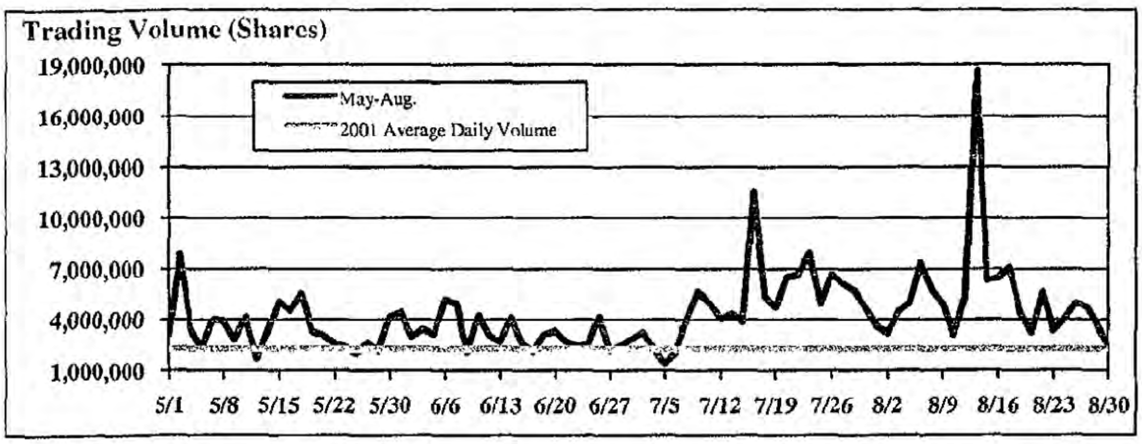
My Commission Expires:
July 16, 2021

EXHIBIT 3

HOUSEHOLD

INVESTOR RELATIONS REPORT
May-August 2002





May-August Stock Trading Commentary
Household shares closed April at $58.29 and declined in each of the next four months, closing August at $36.11. A summary of significant events affecting the stock price follows.

<u>May</u>

- On May 2nd, a class action suit against Household was filed with ACORN's help. However, word of the suit was leaked to the press and the investment community prior to the suit being served. Over 7.8 million shares traded that day, as the stock lost $.26. ACORN's "embargoed" press release was eventually posted on ACORN's web site, although it was never officially disseminated over wire services.

- On May 7th, the *American Banker* and *NewsDay* both ran articles in which the New York Comptroller expressed concerns about Household's lending practices and the state's investment in the stock. In addition, Responsible Wealth issued a press release about the shareholder proposal in Household's proxy and that ACORN and other supporters of the proposal would demonstrate at Household's shareholders' meeting. Over 4 million shares traded that day as the stock dropped $.94.
- On May 10th, Howard Mason of Sanford Bernstein issued a report in which he raised concerns about the legal threat to Household's sales practices and the resultant effect on the sustainability of the business model. Over 4.1 million shares traded that day, as the stock price fell $2.05.
- Beginning on May 15th, numerous articles ran in the press regarding Household's shareholders' meeting. These articles prominently featured ACORN and its sponsored shareholder proposal, which gained support from the prior year. In addition, on May 16th, Howard Mason of Sanford Bernstein spread word that the Washington State Department of Financial Institutions (DFI) was going to file a predatory lending report and ask the Attorney General to file a suit against Household. Nearly 15.2 million shares traded between the 15th and the 17th, with consistent short selling. The stock lost $2.65 during that 3-day period.
- On May 30th, the *New York Post* featured a story about Household's injunction against the release of the examination report by the DFI. A similar story ran in the *American Banker* on May 31st. Household lost $1.65 during that two-day period on heavy volume, to close May at $51.15.

June

- On June 13th, the *American Banker* in an article, "Household Wins Delay of Predator Report," reported the restraining order prohibiting the DFI from making public the results of its examination of Household was extended. The article, coupled with a 111-point drop in the market, contributed to a $2.19 decline in Household's stock on 4.1 million shares.
- On June 19th and 20th, the market fell a combined 274 points on corporate profit warnings and escalating violence in the Middle East. Household's stock price fell as well, dropping $2.95 during the two-day period.
- On June 25th, a California Federal judge allowed a lawsuit against Household to proceed on the grounds that mandatory arbitration clauses are "unconscionable" under California law. On June 26th, WorldCom stunned the market by announcing the restatement of 2001 earnings due to the misclassification of $4 billion in expenses. Over the two-day period, Household's stock dropped $1.34. Household closed June at $49.70 on average daily volume of nearly 3.2 million shares.

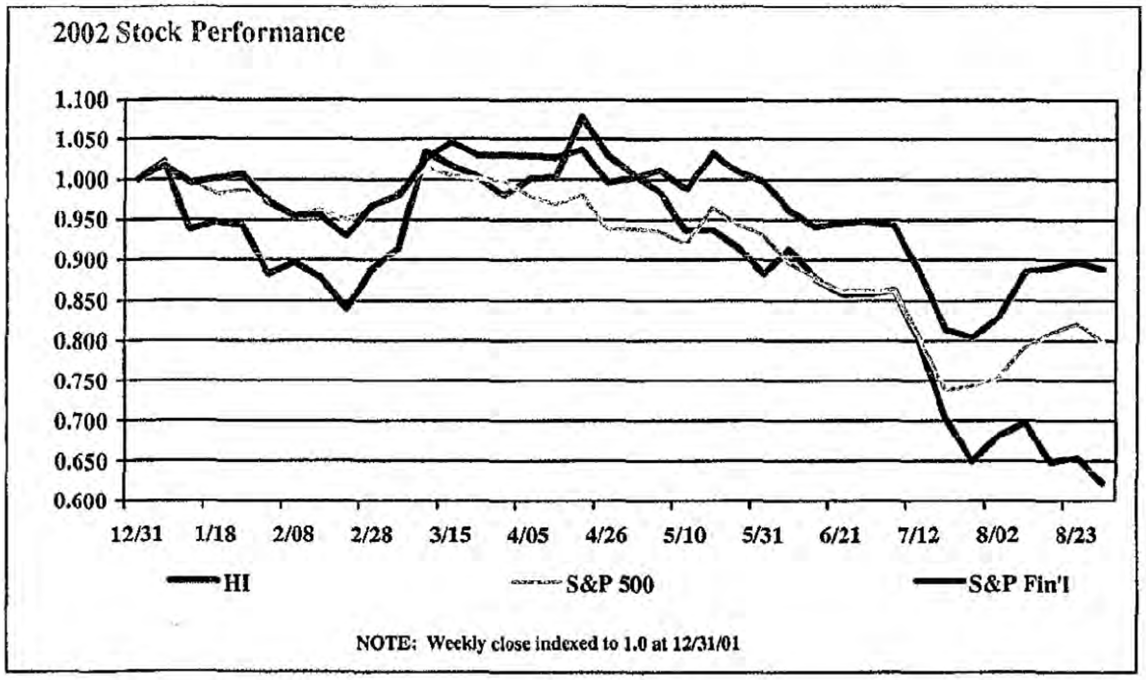
July

- On July 10th, Capital One Financial reported through its credit card trust data a 50 basis-point increase in charge-off. The entire sector suffered on the news, with Household dropping nearly $3, to $44.07, on heavy volume of over 5.5 million shares.
- On July 17th, Household reported record second quarter earnings. The results were well received. However, the stock plunged $3.73, to $42.37, as a result of fall-out from Capital One's announcement that it had entered into a Memorandum of Understanding with its bank regulators over reserve and capital issues. Investors' concerns were that other credit card issuers had similar issues.
- Between July 18th and July 26th, the stock fell $4.75, or 11 percent, on market and sector fears. During that period, WorldCom filed for bankruptcy protection, and it was reported that Citigroup aided Enron in its questionable financing transactions. In addition, on July 23rd, banking regulators issued new, stricter guidelines on reserving and lending practices for credit card issuers. Household's stock dropped $2.55, or 6.6 percent, on that day as investors sought to understand the effects of the proposed guidelines on the sector. Over the last few days of the month, the stock came back to close July at $42.67 or down 7 percent.

August

- On August 14th, Household announced it would restate its earnings and hosted a conference call. Investor meetings with both equity and fixed investors were held. Household's stock was volatile, but closed up 29 cents, on 18.7 million shares.
- On August 15th and over the next four days, articles on Household appeared in *Forbes, The New York Times, Barrons and The American Banker.* For the most part, the articles did not contain new disclosures but rather rehashed information on the potential threats to Household's business model, outstanding lawsuits and the State of Washington Department of Financial Institutions' regulatory report. In addition, on August 15th, ACORN members and others filed in Massachusetts a suit against Household charging it with violations of state banking regulations and engaging in predatory lending practices. Household's stock drifted downward to close at $36.75 on August 20th.
- During the last week of August, the *Bellingham Herald* carried several negative articles of Household and printed the embargoed DFI regulatory report. Household's stock drifted downward and closed the month at $36.11, down almost 7 points, or 15 percent. Volume for August averaged 5.4 million shares.
- For the four-month period, Household's stock dropped $22.18 or 38 percent.

The graph below shows the performance of Household's stock, the S&P 500 and the S&P Financial indices during 2002. Household has underperformed these indicies thus far in 2002.



Performance vs. Financial Indices
The following table compares Household's performance to our peer group and certain indices for May through September, as well as year to date.

Change (%)	May	June	July	August	YTD
Household	(12.2)	(2.8)	(14.1)	(15.4)	(37.7)
Peer Group Average	1.0	(5.6)	(14.3)	2.5	(9.4)
S&P 500	(0.9)	(7.2)	(7.9)	.5	(20.2)
S&P Financial	(0.5)	(4.9)	(8.1)	1.9	(11.2)

Analysts' Estimates
Following are analysts' EPS estimates for 2002.

Firm	FY'02	3Q'02	Opinion
A.G. Edwards	$4.62	$1.20	Buy
Bear Stearns	4.61	1.20	Buy
B of A Montgomery Securities	4.70	1.22	Market Performer
Bernstein Research	4.48	-	Market Perform*
CIBC World Markets	4.58	1.16	Buy*
Credit Suisse First Boston	4.60	1.21	Strong Buy
Deutsche Banc Alex. Brown	4.50	1.15	Strong Buy
Fox-Pitt Kelton	4.55	1.16	Attractive*
Friedman, Billings, Ramsey & Co.	4.62	1.20	Buy
Goldman Sachs	4.45	1.18	Buy
J.P. Morgan	4.55	1.16	Buy
Keefe, Bruyette & Woods	4.54	1.18	Market Perform*
Legg Mason	4.65	1.19	Market Perform
Lehman Brothers	4.59	1.20	Strong Buy
Merrill Lynch	4.65	1.21	Strong Buy
Morgan Stanley	4.56	1.15	Overweight*
Prudential Securities	4.55	1.18	Buy
Salomon Smith Barney	4.45	1.12	Outperform
Stephens, Inc.	4.56	1.18	Buy
Thomas Weisel Partners	4.66	1.17	Buy
UBS Warburg	4.56	1.17	Buy
U.S. Bancorp Piper Jaffray	4.58	1.18	Outperform
Wachovia Securities	4.60	1.19	Buy*
William Blair	4.58	1.17	Long-term Buy
First Call Consensus	$4.57	$1.18	

* New rating/changed since last report. See exhibit #3.

Ten Largest Institutional Shareholders
August 23, 2002

Institution	*Shares*	*YTD Change*	*Orientation*
1. Capital Research & Management	34,900,000	1,078,200	Value
2. Davis Selected Advisers, L.P.	30,890,600	(1,101,100)	Value
3. Fidelity Management & Research	21,300,000	(8,363,400)	Growth/Value
4. Alliance Capital Mgmt.	19,000,000	(3,803,500)	Growth
5. Smith Barney Asset Mgmt.	18,779,400	(1,580,100)	Growth/Value
6. Barclays Bank plc	16,679,100	649,600	Indexed
7. State Street Bank	11,018,500	455,100	Indexed
8. Putnam Investment Management	10,600,000	(1,920,300)	Growth
9. J.P. Morgan Fleming Asset Mgmt.	8,351,400	4,108,000	Growth
10. Wellington Management Co.	7,900,000	7,855,900	Value

Collectively, these shareholders own approximately 39 percent of Household's outstanding common stock.

Peer Group Stock Price Performance

Exhibit 1 – details 2002 stock price performance for Household, our peer group and three market indices.

Research Reports

Exhibit 2 – includes excerpts from analysts' notes on Household's earnings restatement.

Exhibit 3 – includes highlights from notes issued by analysts who changed their ratings on, or initiated coverage of, Household.

Exhibit 4 – includes excerpts from analysts' notes on Household's second quarter earnings.

Exhibit 5 – Includes highlights from analyst's notes on predatory lending issues.

Exhibit #1

Household International Peer Group Stock Price Report
August 30, 2002

	12/31/01 Close	08/30/02 Close	% Change YTD	% Change In August	2001 EPS	2002 Est. EPS	% EPS Growth	2002 P/E	2002 Rel. P/E(1)	PE/G Ratio(2)	Market/ Book
HI	57.94	36.11	(37.7)	(15.4)	3.91	4.58	17.1	7.9	0.44	0.46	1.7
AIG	79.40	62.80	(20.9)	(1.8)	2.89	3.48	20.4	18.0	1.00	0.88	3.4
AXP	35.69	36.06	1.0	(0.6)	0.98	1.99	103.1	18.1	1.01	0.18	3.7
COF	53.95	35.67	(33.9)	11.8	2.91	3.77	29.6	9.5	0.53	0.32	2.0
C	50.48	32.75	(35.1)	(2.4)	2.81	3.18	13.2	10.3	0.57	0.78	2.0
KRB	23.47	20.20	(13.9)	4.2	1.28	1.51	18.0	13.4	0.74	0.74	2.1
ONE	39.05	40.95	4.9	5.2	2.47	2.77	12.1	14.8	0.82	1.22	2.2
USB	20.93	21.49	2.7	0.5	1.32	1.84	39.4	11.7	0.65	0.30	2.5
WFC	43.47	52.19	20.1	2.6	1.97	3.32	68.5	15.7	0.87	0.23	3.0
Peer Group Average			(9.4)	2.5			38.0	13.9	0.77	0.37	2.6
DJ Indust.	10,021.57	8,663.50	(13.6)	(0.8)	391.09	480.00	22.7	18.0	1.00		
S&P 500	1,148.00	916.07	(20.2)	0.5	38.71	50.87	31.4	18.0	1.00		
S&P Fin'l	355.26	315.43	(11.2)	1.9	19.59	24.21	23.6	13.0	0.72		

American International Group (AIG), American Express (AXP), Bank One (ONE), Capital One (COF), Citigroup (C), MBNA (KRB), U.S. Bancorp (USB) and Wells Fargo (WFC).

(1) 2002 P/E ratio relative to the S&P 500 P/E ratio.
(2) (2) 2002 P/E ratio divided by EPS growth.

Exhibit #2

ANALYST REPORTS – EARNINGS RESTATEMENT

U.S. Bancorp Piper Jaffray **August 15, 2002**

Outperform

Household announced this morning that it would restate its earnings from 1994 through second quarter 2002 due to adjustments to amortization of expenses related to cobranding, affinity, and marketing relationships. These adjustments reflect timing of costs and revenues, which were previously approved by Household's prior auditor, for a total reduction of earnings of $386 million.

An important take–away is that the restatement did not affect Household's fundamentals, which we believe remain intact. KPMG, Household's current auditor, has completed a thorough assessment of Household's business, and has signed off on key areas such as the provisioning for credit losses and reserves, as well as Household's policies regarding the re-aging of charge-offs.

We reiterate our Outperform Rating, as we believe Household's fundamentals remain sound and the stock price more than reflects the risks associated with regulatory issues and potential changes to their business model.

J.P. Morgan **August 14, 2002**

Buy

Household International announced this morning it has certified its financial statements with the SEC following the restatement of its earnings from 1994-2002.

We are lowering our 2002 and 2003 estimates for Household to $4.55 and $5.00, respectively, from $4.69 and $5.30 to incorporate the earnings restatements, the temporary suspension of the company's share buyback program, slower loan growth, and higher funding costs.

Today's announcement was surprising but perhaps more surprising was that the restatement did not relate to any of the areas that had been of great concern to investors, such as policies regarding the re-aging of charge-offs or the impact of new FFIEC guidelines. In both cases, management stated they do not expect any impact.

While the stock appears attractively priced, at 7.7 times our 2003 estimate, and with the worst accounting fears likely behind us (pending the release of Household's audited restated financial reports on or around August 31, 2002), the bigger concern for the stock, in our view, is the broader economic picture, namely the U.S. economy.

William Blair & Co. **August 14, 2002**

Long-Term Buy

Household's CEO and CFO certified the accuracy of the company's financial results with the SEC. However, the company restated results dating back to 1994, reflecting revisions to the accounting treatment of MasterCard/Visa co-branding and affinity relationships and a credit card agreement with a third party.

The news is disappointing, as it appears management and previous auditor, Arthur Andersen, were taking a more liberal interpretation of specific accounting rules. The changes were judgmental and complex, and new auditor KPMG is taking a more conservative view on the amortization period of upfront expenses/intangibles in the credit card business. As such, the concern is more of earnings quality. Importantly, in our view, there is no change on credit quality metrics, which would be more disturbing. No other restatements are anticipated according to management.

We maintain our Long-term Buy rating. Shares trade at a highly depressed 8 times our 2002 EPS estimate. Fundamentals are tracking in line to better than expectations. However, the stock is likely to remain under pressure, as management continues to face a difficult period, operating the business under difficult economic conditions, regulatory and political scrutiny, and now heightened questions over the integrity of its accounting.

Salomon Smith Barney **August 14, 2002**

Outperform

Household International announced that its CEO and CFO have certified the company's financial statements. However, in doing so, management restated net income down by $386 million cumulatively over the preceding 8 year period (1994 to Second Quarter of 2002). The restatement represents roughly 3%-4% of reported net income over that period, and a little over 4% of current total common equity.

The changes result from Household's new auditor, KPMG, requiring it to use shorter amortization periods on certain credit card account acquisition costs that it has historically used.

It appears to us that Household's previous accounting treatment was consistent with the rules at the time they were enacted, given that they were "blessed" repeatedly over the years by Household's previous auditor, Andersen. In one case, the company even received such a "blessing" from the senior technical person at Andersen that wrote the conclusion on the new accounting policy that suggested that the accounting practice would be "grandfathered" in under the old (then existing) rule. While Household could have been more conservative by adopting the new accounting policies, even though it didn't have to, we believe a reasonable case can be made for the course of action it took. We do not expect any more material changes to come out of the audit.

We also take comfort from the fact that all three rating agencies S&P, Moody's and Fitch reaffirmed their single-A ratings for Household's debt this morning.

Given the tone of the conference call this morning, it appears that management credibility may continue to be banged up a bit in the minds of investors. And with the continuing backdrop of predatory lending discussions, it is difficult to identify a near-term catalyst that will move the stock higher in the near-term.

Nonetheless, with the stock currently trading at 7.2x our new 2003 EPS estimate, we believe our Outperform rating is still warranted from a risk/reward perspective.

In our mind, the biggest risk to the Household story is that jittery debt markets make the company's cost of funding prohibitive or mechanically difficult. That said, it appears that the company has ample access to funds for near-term liquidity in the form of its liquidity portfolio, the commercial paper market, ABS market, and the potential for whole loan sales. Thus, we do not believe a funding crisis is imminent, and think it is plausible that the term debt market could settle down in the intermediate term

Bear Stearns **August 15, 2002**

Buy

While we were disappointed with the restatement, we do not believe it will significantly impact the company's business or earnings outlook going forward (although there is likely to be some modest increase in expenses). There is no impact to cash flow, and the restatement relative to the earnings that have been generated over the last eight years is small. Further, none of the changes reflect problems with the company's core business practices (i.e. the way it accrues interest and fees, its accounting for provisions or reserve adequacy, securitization accounting, re-aging, etc.). In fact, it appears that all other aspects of the company's books have gotten a clean bill of health. Consequently, Household has certified the accuracy of its SEC filed documents. Also, as we see it, the restatement appears to reflect a difference in opinion between KPMG and Household's audit committee and its old auditor, Arthur Andersen, and is not an indication that Household acted improperly in the past.

We do not mean to make light of the restatement; however, the bigger issues, going forward, in our view, relate to liquidity, leverage, and of course the regulatory environment. All these things that have been on investors' minds for some time now. Credit obviously remains an issue for all consumer lenders if the economy double dips. We think that Household has the tools and the flexibility to address the concerns we cite, though it seems reasonable to assume there will be some earnings impact from the steps that will need to be taken in order to pacify the rating agencies, fixed income investors, and consumer advocates. Still, it appears that the stock price already reflects the potential slowdown in EPS growth.

The liquidity and leverage challenges the company faces and the fact that it must take steps to reach its targets in the near-term are not without cost. We estimate that not buying back any stock in the second half of 2002 will cost the company $0.04 in earnings next year. In addition, the whole loan sales that management indicated are likely (we estimate $1.5 billion in the third quarter and $500 million in the fourth quarter) will cost the company nearly $0.10 per share (assuming a 2%+ ROA on the $2 billion of assets being removed from the balance sheet), although they are likely to help results in the quarters they are sold given the gains on sale that will be recorded (we estimate premiums of 3% to 4% on the assets).

At a meeting that Household hosted for fixed income investors, following its morning announcement about its earnings restatement, the company reviewed, among other things, the regulatory environment. This included a discussion on new FFIEC proposals, capital requirements, and how Household is seeking to reduce headline risk by implementing best practices. It is unclear what the long-term ramifications will be on Household's returns as a result of the best practices initiatives it is implementing. It would seem that the company will have to give up some revenue as it is lowering fees, reducing prepayment penalties, and eliminating highly profitable insurance sales. However there are clear benefits which should provide at least some offset, and these include less pressure from regulators and consumer activists, better credit quality, lower attrition, and perhaps more market share as actual predatory lenders are shaken out of the market.

Our Buy rating is unchanged as we believe most of the bad news is currently in the stock and the valuation, despite the reductions to estimates, is still low. There are few near-term catalysts however.

Exhibit #3

ANALYST REPORTS – CHANGES IN RATINGS/INITIATING COVERAGE

Bernstein Research **September 3, 2002**

Market Perform

Cutting Long-Run Growth Estimates on Impact of Sales Practice Reform in Branch-Based Real Estate Lending.

- 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 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% (with an intra-range swing factor being the stock buyback program that is presently on hold). The short-run effect is less because the earnings impact of the changes phases over time as current loans run-off and are replaced by new, less profitable loans originated under reformed sales practices.

  - The estimated impact of sales practice reform on 2002 and 2003 EPS estimates is 3 cents and 18 cents respectively. The combined effect of this, the suspension of the stock buyback program, and the accounting restatement (related to the amortization of certain marketing expenses) announced by Household on August 14th is 15 cents and 40 cents respectively.

- Reduced earnings growth arises as after-tax returns on the branch real estate portfolio fall over time from the currently estimated 2.5% to 1.9%. Driving factors are lower up-front points, reform of practices involving the 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 (by about 3 percentage points in our estimates to a long-run rate of 10%).

Keefe, Bruyette & Woods **August 27, 2002**

Market Perform

Initiating Coverage of Household International With a Market Perform Rating.
- Right side of the balance sheet is a major issue. $19 billion of notes are maturing by year end 2003.
- Company has put fixed income investors ahead of equity investors.
- Predatory lending concerns, are the issues systemic and will the amelioration of such issues reduce future profitability.
- Accounting practices/philosophy of the company have never been considered conservative.
- Credit costs remain a concern, particularly in auto and unsecured lending.
- On a positive note, the company has assets (1,400 branches, leading market share in secured real estate and private label credit cards) that are attractive to potential acquirers.

Morgan Stanley **July 31, 2002**

Overweight

We're upgrading Household International from Equal-weight to Overweight, thinking that the controversy surrounding predatory lending, combined with a general lack of appetite for risk among investors, has created a buying opportunity. *That's not to say that the predatory lending storm doesn't contain some hail and lightning.* As a result, we are adding a discretionary V to reflect the possibility of volatility in the stock given the likelihood of negative headlines related to predatory lending issues. We've cut our 5-year EPS growth forecast from 14% to 8% and our price target from \$76 to \$55 to account for several risks. New lending practices may impact profitability. The company is experiencing higher funding costs and capital requirements. We can't rule out substantial litigation damages and/or regulatory fines. However, with 38% upside potential to our reduced price target, investors are being compensated to bear the risk, in our view. Further, there may be a silver lining to this cloud. In the wake of the stock market sell off, many segments of retail finance, such as credit cards, may see weak demand, as consumers rebuild their portfolios by borrowing less and saving more. That's not the case in Household's core business, subprime home equity debt consolidation lending, as we recently verified in an extensive survey of subprime branch managers. Strong portfolio growth is not discounted in Household's stock at this time, in our view, and it's part of the reason we see attractive upside to our price target.

The risk may be close to its peak, although we can't promise any near-term catalysts to lift the cloud. Predatory lending has captured a great deal of attention among activists, politicians, regulators, and investors. Bad press is widespread. However, Household and the industry have begun to address these issues by implementing new lending practice standards, which meet many, if not all, of the activists' goals. At Household, senior executive changes, including the promotion of the chief compliance officer, indicate a desire to manage these issues at the highest levels of the firm. Separately, the markets are nervously awaiting a report by Washington State regulators on Household's lending practices, and the content of that report, and its reception by investors, will give us an early read on our investment thesis. With the stock trading at only 8.0x our 2003 EPS forecast, we're inclined to think this report may not be as bad as it widely feared.

To reflect predatory lending risks, we've reduced our 5-year EPS growth rate goes from 14% to 8% and cut our 2003 estimate from \$5.26 to \$5.02. First, we assume slower growth in the company's credit card, private label, and auto finance businesses, consistent with the view that these businesses may see reduced demand, as consumers opt to save more and borrow less in the wake of the stock market selloff. Second, we factor in higher capital and funding costs for the company, as fixed income investors and rating agencies continue to worry about Household's exposure to the predatory lending controversy. Third, we assume that new lending practices reduce the return on managed assets in Household's consumer finance business from 2.0% to 1.5-1.75%.

The reduced forecast may prove conservative. Our survey work indicates that subprime demand is strong and competition healthy. Our research suggests that Household will continue to grow faster than the industry because of superior lead generation systems, which are not part of the predatory lending controversy. Even on our reduced earnings forecast, the valuation looks attractive.

Fox-Pitt, Kelton **July 18, 2002**

Attractive

Household International shares were under pressure yesterday in sympathy with its consumer finance peers. Specifically, Capital One, the perennial leader in the card business, disclosed it is entering into a MOU with the national banking authorities. We think this bombshell announcement signals an era of lower returns, increased capital intensity, and heightened regulatory oversight for consumer lenders of all types. While Household may be less directly affected by the potential regulatory changes to capital levels, the overhang of regulatory hostility does impact the stock. Moreover, accusations of predatory lending, however baseless they may be, gain additional currency in a market seized by fear of events outside of management's control. Whether legislators jump on the bandwagon that the trial lawyers are regulators are riding is a rising risk for Household. Additionally, as Household goes further down the road to securitization, additional questions regarding the quality of earnings may arise. When investors pay attention to key fundamental drivers like loan growth, margins, credit quality, and cost control, Household does fine because it delivers. When the focus moves away from the fundamentals toward unquantifiable factors like litigation and regulatory risk, the upside on the stock will be capped. While we are maintaining our 2002 and 2003 EPS estimates, we do not see Household trading at better than 12 times earnings in this charged environment, and thus have lowered our target price to $63.

CIBC World Markets Corp. ***June 26, 2002***

Buy

We have initiated coverage of Household International with a Buy rating and $63-$65 price target, effective June 21. Although rising rates could affect origination volume, the improving economic outlook and cross-selling opportunities should support EPS growth of 13%-15% annually.

Although the consumer finance industry has undergone significant consolidation over the past few years, primarily as smaller finance companies have sought to improve funding costs, Household still ranks among the leading lenders in each of its product lines. Household has been able to remain competitive with its larger peers through superior customer service and account management, as well as effective target marketing initiatives. Interestingly, the industry consolidation has actually had a positive impact on Household because more rational pricing has returned to the market, which has enabled the company to effectively risk-base price and maintain favorable investment returns.

An improving economy has both positive and negative implications.

The downside of the economic improvement is the likelihood for higher interest rates by late 2002 or early 2003. As rates move higher, Household will likely experience some net interest margin contraction, particularly given the fixed-rate concentration of its home equity loans. The company, however, should be able to effectively manage the changing interest rate environment given that it generally match-funds its loans with similarly structured borrowings. Furthermore, given Household's ability to quickly adjust lending terms on new originations through its centralized operating structure, the company should be able to pass through any rate adjustments to potential customers relatively quickly, thereby minimizing any interest rate impact.

Although higher interest rates may challenge the company's rate management skills, we believe the underlying reasons behind the potential rate increase, i.e., an improving economy, has a significantly greater impact than a 50 or 100 basis point rate rise. As the economy improves, not only should consumer spending activity strengthen, but delinquency and loss rates should also decline. Although consumer spending behavior has remained strong throughout the recession, we believe that as the economy strengthens, volatility in consumer sentiment should diminish, prompting more stable and consistent spending trends.

Despite the solid fundamentals, Household is trading at its lowest level since the first half of 2000.

Although refinancing activity reached record levels last year, enabling Household to enjoy solid 15% earnings growth, the stock is currently trading roughly 15% below the average price/forward earnings multiple achieved over the past four years. While credit quality concerns and the recession have had an impact on the specialty finance sector broadly, and Household in particular, we believe the current discount is overdone. As the economy emerges from recession, the combination of solid fundamentals and discounted valuation could represent an attractive entry point for investors to begin building a position in the stock.

Overall, we believe the growth opportunities and earnings consistency warrant a valuation at least equal to the average valuation achieved over the past five years on either a price/forward earnings or price/book basis. Furthermore, as 2002 unfolds, we believe the company should have the wind at its back owing to the improving economy, while internal initiatives should begin to take hold and position it for sustainable earnings growth of 13%-15% annually. As a result, we believe the combination of the solid fundamentals and attractive stock price valuation represents a compelling investment for Household. As such, we have initiated coverage with a Buy rating and a $63-$65 price target.

Wachovia Securities **May 31, 2002**

Buy

We are initiating research coverage of Household International with a Buy rating on the shares.

We believe investors should buy the shares of this well run, diversified consumer finance company. We are confident that Household can deliver 15% EPS growth in 2002 and 13% EPS growth in 2003. While modestly rising credit losses and general uncertainty regarding the outlook for the U.S. economy is likely to limit valuation expansion in Household shares near-term, we believe the risk/reward ratio is favorable for long-term investors. Household shares trade near the low end of its historic P/E range. Our $64 price target implies over 23% upside in the shares and only assumes Household shares trade at 12x our 2003 estimate, the mid-point of Household's historic P/E range.

Household has delivered consistent EPS growth through the credit cycle. Under the leadership of Bill Aldinger, Household's diluted EPS has more than tripled from 1995, while ROE has increased 780 basis points to 22.4% in 2001. Household has achieved consistent and profitable growth while making several major acquisitions such as Transamerica, Beneficial, ACC Consumer Finance, and Renaissance Holdings over the past several years. Household's combination of good organic growth and success with integrating sizeable acquisitions stands out in the financial services industry. In addition to improved profitability, Household has dramatically strengthened its balance sheet as its tangible equity-to-tangible managed asset ratio improved to 8.41% at March 31, 2002 versus 6.20% at December 31, 1996.

We note that Household has some protection against an economic downturn by virtue of its strong capital and reserve levels. Also, Household's diversified nature of its operations does not leave the company over exposed in any one particular product line or geographic region. Nevertheless, investor concerns about Household International's fundamentals in an economic downturn could constrain Household's valuation.

The current regulatory environment is challenging. Without wrongdoing, Household has made refinements to its business model, which include standardization of certain fees. Household has also made contributions in the form of grants to various local charitable organizations. Household has been able to manage through the current regulatory environment quite well. While it is difficult to precisely measure the higher costs of increased regulatory scrutiny for the industry, we are confident that Household can continue to generate an ROE above 20% for the foreseeable future.

Exhibit #4

ANALYST REPORTS – SECOND QUARTER EARNINGS

Legg Mason **July 19, 2002**

Hold

Household reported fairly solid second quarter 2002 EPS of $1.08, in line with consensus estimates.

Positives included slightly better-than-expected loan growth, and more importantly, impressive asset quality trends including falling delinquencies and a flat re-aged portfolio.

However, we think it's too early to celebrate as we would like to see more sustained declines in the re-aged portfolio along with continued positive asset quality trends to become comfortable with Household's performance in this recession.

Most importantly, we remain concerned about the broader issues in this highly uncertain environment. Essentially, we think the level of scrutiny being applied to both companies with unclear accounting practices and companies with subprime lending activities puts Household at risk. While some are worried about a Capital One-type action at Household, we think this is a remote possibility given the small size of company's regulated bank (less than 10% of assets). As such, it is difficult to define the risk, but we simply don't find Household's valuation compelling enough in this market environment. We also note that predatory lending, while likely overblown, is likely to continue to create additional headline risk (also not treated well in this market) with little visible improvement over the near term. Accordingly, despite better-than-expected asset quality trends and a decent quarter, we are maintaining our Hold rating on the shares until the environment improves.

Merrill Lynch **July 18, 2002**

Strong Buy

Household International reported second quarter 2002 earnings of $1.08 versus $0.93.

Fundamentals and earnings quality were generally good, with robust receivables growth and lower expenses more than offsetting a declining margin, moderate rise in charge-offs, and a healthy reserve build.

However, nervous investors ignored this good earnings report and focused instead on whether regulators would soon be knocking on Household's door after having just finished with Capital One.

Despite a good earnings report, Household's shares were weak over investor concerns about possible regulatory scrutiny of its bank's capital adequacy, reserve adequacy, and operating practices a la Capital One, Metris, and Providian. Given the small size of Household's subprime credit card portfolio and the small size of its bank relative to the company as a whole, the theory that bank regulators can have a significant impact on Household makes no sense. Further, Household added $1 billion in capital to its bank in the first quarter at the regulator's behest, leaving the company very well capitalized and reserved at the bank level. Also, deposits were just $6.1 billion at 3/31/02, or less than 8% of funding, and have been shrinking. This is not the typical target of a regulatory action.

The current disfavor towards subprime lenders is doing Household's stock no favors, particularly when layered on top of increased regulatory scrutiny of subprime real estate lenders in general. Yet, other than being in the "wrong" group, Household has done most everything right in our view. The company has done an excellent job of increasing liquidity and decreasing funding risk given the current environment, reserves and capital are in good shape, and earnings growth continues to look good. Yet the stock languishes near its historic low multiple, where admittedly it has good company.

We continue to like these shares for the stable growth and cheap price, while acknowledging that a rapidly expanding multiple could be several years away until regulatory issues are history.

Deutsche Bank **July 18, 2002**

Strong Buy

Household reported second quarter 2002 EPS of $1.08 versus $0.93.

Household's share price has come under pressure following Capital One's announced MOU (memorandum of understanding) agreement with regulators. However, Household's subprime exposure in its Master Card/Visa portfolio is minuscule, totaling $1.3 billion at the end of the second quarter (versus $1.1 billion last year). This represents less and 1% of the total managed portfolio.

Household remains adequately capitalized based on the regulators' subprime capital guidelines.

As one of the largest consumer financial concerns, Household will continue to be in the spotlight regarding predatory lending (fairly or unfairly), in our opinion. Household operates in all 50 states, which exposes the company to various state laws. A number of states, led by California, have enacted predatory lending statues with other states expected to follow suit, as the issue remains a hot political topic. However, Household's "best practices" initiative exceeds or is in line with most state legislation.

While the issue of subprime loans, the hotbed for predatory lending debates, will continue to receive regulatory scrutiny, Household's diverse business model gives the company an edge, in our opinion. We note subprime card loans represent less than 1% of Household's total portfolio. Moreover, Household remains one of the best capitalized companies in the consumer financial space. We reduced our target price on the stock due to lower market valuations and the cloud overhanging all subprime lenders. As one of the largest consumer finance companies, Household should remain a magnet for consumer advocacy groups and political zealots. To this end, the shares may come under pressure. The stock is currently trading at just under 8x our 2003 EPS following negative announcements by two other card issuers. However, the fundamentals at the company remain solid. Company guidance remains the same even in the tough economic environment. We continue to rate the shares Strong Buy.

Goldman Sachs **July 18, 2002**

Buy

Household International hit the second quarter consensus with EPS of $1.08 versus $0.93 a year ago. Earnings quality was fairly high even with a pick up in securitization income, as loss provisioning ran $186 million above charge-offs.

Credit trends were broadly in-line, with delinquencies sequentially down 10 bps to 4.53% and charge-offs up 17 bps to 4.26%.

Investor backdrop remains unsettled given uncertainty tied to economy/consumer, the potential for changes emanating from 'predatory' lending issues, and heightened regulatory scrutiny on Houschold's regulated banking subsidiaries. On the regulatory front, we note Household does appear to be somewhat ahead of the curve having injected $1.1 billion in capital into its regulated subsidiaries in the first quarter, dedicating $2 billion of its $4 billion liquidity portfolio to these entities, and according to management meeting the well capitalized guideline under the new subprime standards. Though there remains little to suggest the cloud on 'predatory lending' issues will lift near-term, Household has been proactively addressing these issues through its best practices initiatives regarding disclosure to consumers, caps on points and fees, and other pro-consumer activities.

Household is now trading at 8.1x our 2003 forecast and at 2x book value. We believe Household shares are attractive at these levels and see solid upside as fundamentals come back into focus.

Exhibit #5

STREET REPORTS – PREDATORY LENDING ISSUES

Deutsche Bank **August 12, 2002**

Strong Buy

We sponsored a conference call for investors to discuss predatory lending issues, state legislative initiatives, and Household International, in particular. Our guests were representatives of ACORN and Self-Help, two consumer activist groups at the forefront of lending .

A big challenge for home equity lenders is that they must abide by legislation of each of the 50 states, which are often more restrictive than federal legislation (largely HOEPA).

The guest speakers on our call were Lisa Donner, Director ACORN Justice Center and Keith Ernst, Assistant General Counsel Self-Help.

Ms. Donner presented several cases in which Household extended loans that appear to be misleading with respect to terms, or possibly in violation of federal legislation. Mr. Ernst discussed state legislative initiatives as well as holes he sees in Household's 'Best Practices' standards, which Household has been implementing since last year in an attempt to stay ahead of the scrutiny. At the very least, the conference call illustrated that in today's market, scrutiny is outpacing attempts at reform in many areas.

Questions that weren't answered include 1) whether Household has acted systemically and knowingly in misleading borrowers and 2) whether Household is any worse than its competitors. Certainly, even if the answers were 'no,' Household would not be exonerated from responsibility. Nor do we believe that merely not violating the letter of the law is sufficient in today's environment. Any lender that doesn't pass the "smell" test will find its stock valuation penalized, in our opinion. And frankly, the cases which Ms. Donner described probably would offend the olfactory senses of many investors.

From a credit risk standpoint, we've taken comfort in Household's large real estate-secured home equity exposure (particularly relative to unsecured subprime credit card lenders). However, we have probably underestimated the "social" and potential regulatory risk of subprime home equity lending, especially given that Household is something of a "bell weather" for the industry.

Household's lending practices, for better or worse, expose it to economic and headline risk. The ACORN suits are pending in California and Illinois. The State of Washington has conducted an investigation, the report of which has been granted a restraining order until October. Already, Household has paid fines in California and Washington. Violations of HOEPA could result in penalties. And the list goes on. Headline risks include magazine and newspaper articles, and other media attention. Then, of course, there are equity research reports.

In responding to both regulatory and headline risks, Household will undoubtedly sacrifice profitability and potential growth in order to preserve its reputation. This is the right decision, in our opinion. The economic consequences of deliberately misleading borrowers in order to maximize profits would not only be short-sighted, but would ultimately destroy a franchise that has served the low-to-middle income market for over

100 years. At the same time, activist groups such as ACORN, which are also acting in good faith, must make certain that they don't drive legitimate lenders from the underserved marketplace. Certainly, there are more egregious lenders in the form of pawn shops, payday lenders, and check cashing storefronts. If the means to the end is to drive legitimate lenders, regulated by state and federal laws, from serving the low-to-middle income market, the consumer will have the most to lose, both in terms of availability and cost of credit.

While we are not changing our 2002 or 2003 EPS estimates, we are lowering our target price to $53. 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. Still, with about a 30% upside (on a one year basis), we are maintaining our Strong Buy rating.

Bernstein Research **August 5, 2002**

Market Perform

On a conference call we hosted today, Household International addressed sales practices that have caused confusion among some borrowers. Tom Detelich, recently named Group Executive for the 1400-branch US consumer lending business of HFC/Beneficial, acknowledged that some customers had misunderstood their interest rates and other loan terms – particularly in Washington State but also in other States. He added that cases of borrower confusion were not widespread. For example, the firm had identified 42 complaints nationwide over the last 3 years where borrowers were confused about the impact of more frequent payments on their interest rates and placed this in the context of the 1.2 million loans closed each year in the branch network.

Tom noted that in some cases training approaches had been modified by middle managers so that some sales practices went from "potentially confusing to absolutely confusing". For example, some borrowers had been left with the impression that if they paid more frequently then somehow their interest rate would be lower and others had failed to understand that a bi-weekly payment schedule, unlike a semi-monthly schedule, means that in two months there are actually three payments. He added that, given this confusion, the firm had reviewed their training and controls and was committed to raising the bar for customer satisfaction.

We believe Household is now committed to reducing the incidence of borrower confusion and that there is no long-term strategy for the firm to have any sales practices at any level where customers can be deceived. That said, there remains headline risk from the practices that have created confusion over the last 2 years (particularly in relation to the E-Z Pay Plus product offering bi-weekly payments).

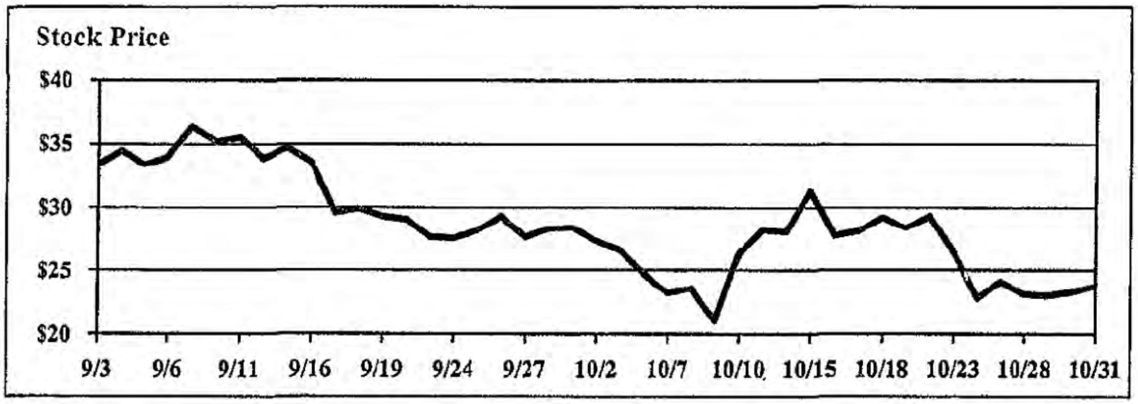
In addition, there will be some earnings impact from the reform of sales practices whose extent will depend on whether borrower confusion has arisen because of the work of a few rogue loan officers, as the firm has suggested, or because of wider systemic factors such as training and compensation. Either way, it is almost sure that Household will have to compensate borrowers who have been confused as a result of private lawsuits and a likely national settlement with State Attorneys General.

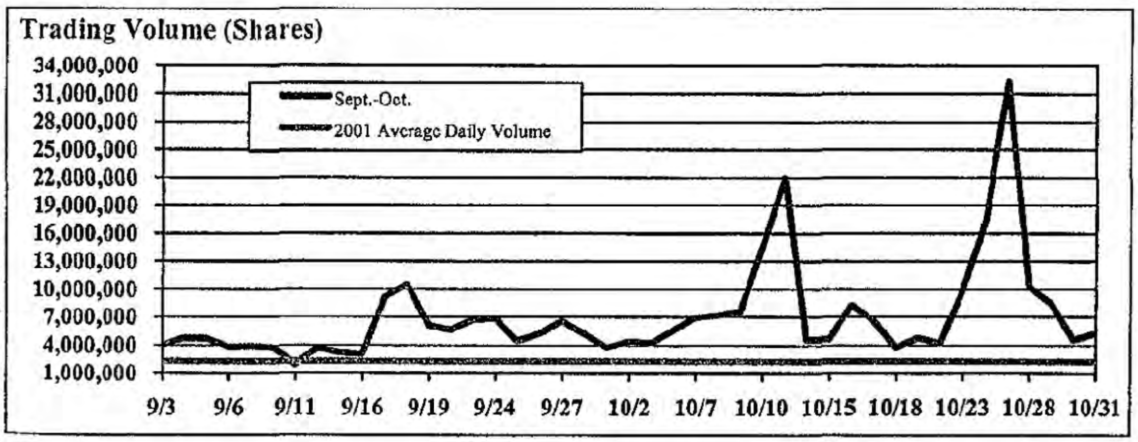
Household International has near-term earning flexibility created by the current environment of low interest rates and the shift in the portfolio mix towards low-loss ratio real estate loans. The firm is using some of these surplus earnings to strengthen the balance sheet and specifically to increase liquidity and maintain higher capital ratios. Despite this flexibility, we are cautious on longer-term returns as the impact of recently announced and possible future changes to business practices on loan volumes, fee income, and profitability becomes clear. In the near-term, we believe that legal and headline risks in the real estate lending business are likely to continue compressing the stock's multiple below historical averages. We rate Household International market-perform and believe the stock will continue to trade at or near its current relative multiple of 49% until longer-term prospects become clearer.

EXHIBIT 4

HOUSEHOLD

INVESTOR RELATIONS REPORT
September-October 2002





September –October Stock Trading Commentary

Household shares closed August at $36.11 and declined over the next two months reaching $23.76 at October 31st. A summary of significant events affecting the stock price follows.

September

- On September 3rd, Household's stock, along with the market, tumbled. The Dow Jones Industrial Average dropped over 355 points, while HI's stock closed down $2.75. Continued fallout from Enron and Worldcom as well as uncertainty over the strength of the economy worried investors. Concerning Household specifically, Howard Mason of Sanford Bernstein issued a report in which he restated his concerns about the sustainability of Household's business model. Mason cut the long-run growth estimates on Household based on his estimate of the impact of sales practice reforms due to regulatory pressure.
- Over the next two weeks, Household's stock, along with the market, was volatile as investors' concerns centered on the uneven economy, geopolitical tensions and corporate profit warnings.

Case # 02-C-5893
Jaffe v. Household
Plaintiffs' Exhibit
P0199

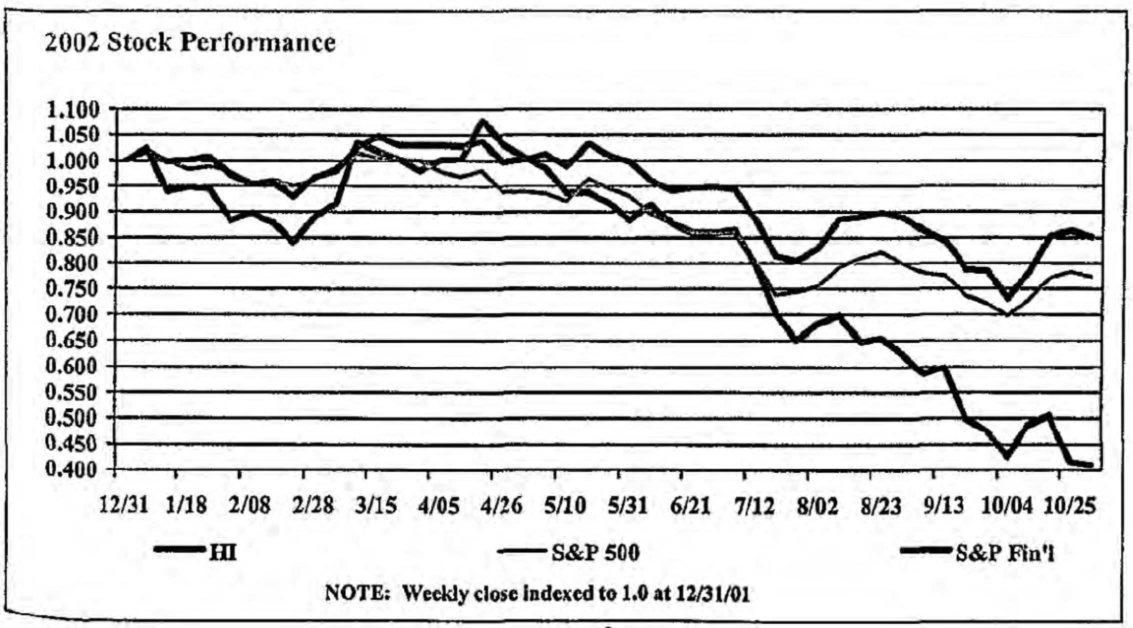
- On September 17th, Americredit significantly reduced its earnings guidance sending shockwaves through the financial sector. Household dropped $4.07 to close at $29.52 on heavy volume of over 9 million shares.
- On September 23rd, stocks tumbled due to concerns over the weak economy and sustained tensions in the Middle East. HI closed $1.44 lower at $27.41 on volume of 6.6 million shares.
- Over the remainder of the month, HI stock recovered somewhat and closed the month at $28.31, down $7.80 or 21.6 percent. Volume averaged 5.1 million shares.

<u>October</u>

October was a very difficult month for Household's shares, posting a 16 percent decline, as compared to 9 percent increases for the S&P 500 and the S&P Financial Stock Index. By far the most significant negative factor affecting the stock price was the widening spreads in the trading of Household's debt. The steady worsening in debt spreads has led fixed income and equity investors alike to question our ability to fund our business at manageable costs.

- The downtrend in the share price was mitigated somewhat on October 10th as reports of a settlement with the group of attorneys general apparently began to circulate in the financial markets. The stock closed up 25 percent that day on very high volume of 14.6 million shares.
- On Friday, October 11th the company announced the preliminary agreement, and the stock closed up another 7 percent, at $28.20, on 21.9 million shares.
- The stock traded in a fairly narrow range through the 22nd, but downward pressure grew once again, fueled by continuing weakness in the trading of Household's debt. This led to stock price declines of $2.83 (10%), and $3.62 (14%), on October 23th and 24th. The weakness on the 24th may have been exacerbated by speculation that the company was about to launch a common stock offering, which was, in fact, announced on Friday morning the 25th. This announcement led to a 6 percent recovery in the share price on Friday, October 25th, on extraordinarily high volume of 32 million shares. The stock price remained essentially flat over the final four days of trading in October, closing the month at $23.76.

The graph below shows the performance of Household's stock, the S&P 500 and the S&P Financial indices during 2002. Household has underperformed these indices thus far in 2002.



Performance vs. Financial Indices
The following table compares Household's performance to our peer group and certain indices for September and October, as well as year to date.

Change (%)	***September***	***October***	***YTD***
Household	(21.6)	(16.1)	(59.0)
Peer Group Average	(9.6)	9.4	(10. 9)
S&P 500	(11.0)	8.6	(22.8)
S&P Financial	(11.9)	8.8	(11.2)

Analysts' Estimates
Following are analysts' EPS estimates for full year 2003 and 2002.

Firm	***FY'03***	***FY'02***	***Opinion***
A.G. Edwards	$4.40	$4.46	Hold
Bear Stearns	4.05	4.46	Outperform
B of A Montgomery Securities	4.15	4.31	Market Performer
Bernstein Research	4.42	4.48	Market Perform
CIBC World Markets	4.35	4.50	Sector Perform
Credit Suisse First Boston	4.35	4.44	Outperform
Deutsche Banc Alex. Brown	4.30	4.50	Buy
Fox Pitt Kelton	4.55	4.52	Attractive
Friedman, Billings, Ramsey & Co.	4.10	4.62	Outperform
Goldman Sachs	3.65	4.42	Market Outperformer
J.P. Morgan	4.15	4.53	Neutral
Keefe Bruyette & Woods	4.00	4.54	Market Perform
Legg Mason	4.45	4.50	Hold
Lehman Brothers	4.30	4.45	Overweight
Merrill Lynch	4.25	4.45	Buy
Morgan Stanley	4.86	4.51	Overweight
Prudential Securities	4.20	4.33	Buy
Salomon Smith Barney	4.35	4.48	In-Line
Stephens, Inc.	4.50	4.46	Overweight
Thomas Weisel Partners	4.14	4.38	Market Perform
UBS Warburg	4.15	4.23	Buy
U.S. Bancorp Piper Jaffray	4.35	4.49	Outperform
Wachovia Securities	4.55	4.48	Buy
William Blair	4.35	4.47	Market Perform
First Call Consensus	$4.31	$4.46	

Ten Largest Institutional Shareholders
October 25, 2002

Institution	*Shares*	*Change Since 6/30*	*YTD Change*	*Orientation*
1. Capital Research & Management	35,000,000	(4,114,900)	1,178,200	Value
2. Davis Selected Advisers, L.P.	32,140,600	(1,250,000)	148,900	Value
3. Fidelity Management & Research	24,300,000	4,335,600	(5,363,400)	Growth/Value
4. Smith Barney Asset Mgmt.	18,779,400	2,600,000	(1,580,100)	Growth/Value
5. Barclays Bank plc	16,679,100	-	649,600	Indexed
6. Oppenheimer Capital	16,500,000	10,495,400	7,460,400	Value
7. Alliance Capital Mgmt.	15,000,000	(6,263,300)	(7,803,500)	Growth
8. Wellington Management Co.	11,300,000	5,588,200	11,255,900	Value
9. State Street Bank	11,018,500	-	455,100	Indexed
10. Putnam Investment Management	8,750,000	(5,400,700)	(3,770,300)	Growth

Collectively, these shareholders own approximately 42 percent of Household's outstanding common stock.

Peer Group Stock Price Performance

Exhibit 1 – details 2002 stock price performance for Household, our peer group and three market indices.

Research Reports

Exhibit 2 – includes excerpts from analysts' notes on Household's equity issuance.

Exhibit 3 – includes excerpts from analysts' notes on Household's third quarter earnings.

Exhibit 4 - includes highlights from analysts' notes on Household's settlement agreement.

Exhibit 5 – includes highlights from notes issued by analysts who changed their ratings on, or initiated coverage of, Household.

Exhibit 6 – includes highlights from analysts' notes on visits/presentations.

Exhibit #1

Household International Peer Group Stock Price Report
October 31, 2002

	12/31/01 Close	10/31/02 Close	% Change YTD	% Change In October	2001 EPS	2002 Est. EPS	% EPS Growth	2002 P/E	2002 Rel. P/E(1)	PE/G Ratio(2)	Market/ Book
HI	57.94	23.76	(59.0)	(16.1)	3.91	4.46	14.1	5.3	0.29	0.38	1.1
AIG	79.40	62.55	(21.2)	14.4	2.89	3.42	18.3	18.3	1.01	1.00	3.4
AXP	35.69	36.37	1.9	16.6	0.98	2.00	104.1	18.2	1.01	0.17	3.7
COF	53.95	30.47	(43.5)	(12.7)	2.91	3.93	35.1	7.8	0.43	0.22	1.7
C	50.48	36.95	(26.8)	24.6	2.81	2.90	3.2	12.7	0.70	3.98	2.2
KRB	23.47	20.31	(13.5)	10.5	1.28	1.52	18.8	13.4	0.74	0.71	2.2
ONE	39.05	38.57	(1.2)	3.1	2.47	2.77	12.1	13.9	0.77	1.15	2.1
USB	20.93	21.09	0.8	13.5	1.32	1.84	39.4	11.5	0.63	0.29	2.4
WFC	43.47	50.47	16.1	4.8	1.97	3.32	68.5	15.2	0.84	0.22	2.9
Peer Group Average			(10.9)	9.4			37.4	13.9	0.77	0.37	2.6
DJ Indust.	10,021.57	8,397.03	(16.2)	10.5	391.09	487.37	24.6	17.2	0.95		
S&P 500	1,148.00	885.77	(22.8)	8.6	38.71	49.00	26.6	18.1	1.00		
S&P Fin'l	355.26	302.46	(14.9)	8.8	19.59	23.28	18.8	13.0	0.72		

American International Group (AIG), American Express (AXP), Bank One (ONE), Capital One (COF), Citigroup (C), MBNA (KRB), U.S. Bancorp (USB) and Wells Fargo (WFC).

(1) 2002 P/E ratio relative to the S&P 500 P/E ratio.
(2) (2) 2002 P/E ratio divided by EPS growth.

Exhibit #2

Equity Issuance

First Boston **October 25, 2002**

Outperform

Raising Equity Capital

We are reducing our 2003 EPS estimate to $4.35 (from $4.70) to reflect the dilution from the new shares. Our estimate does contemplate that Household's debt spreads continue to normalize, but remain wider than their history, and than comparably rated peers.

The completion of the capital raise and thrift disposition should remove key issues, as the settlement is proceeding and accelerating the capital plan should allow debt spreads to improve. While this does reduce our earnings estimate (and our target), the stock sells at 5x our lowered estimate, and we believe that this will reverse the vicious cycle in which they have been mired, improving funding costs, and giving the market more confidence in the earnings outlook. Reiterate Outperform rating.

Stephens Inc. **October 28, 2002**

Overweight

- Houschold remains the premier consumer finance company in the U.S.
- The loan portfolio has steadily migrated towards lower risk loans secured by residential real estate and away from unsecured personal loans.
- The Company enjoys a natural hedge in that a recessionary environment drives down interest rates and enhances margins, which compensates for higher loan loss levels. The reverse should be true in economic growth periods.
- The competitive environment is very favorable, with only a handful of companies capable of handling the new regulatory requirements signaled by the recent settlement on "predatory lending" practices issues.
- At $35, the stock would trade at only 6.9 times our 2004 estimate, which we argue could still be on the conservative side, given our opinion that HI's business model and competitive posture could generate 12% growth in the business.

Prudential Securities **October 28, 2002**

Buy

HI: Issues common & common equivalent; bondholders' interests trump shareholders'

The good news is that capital rises above target (TETMA goes to 9%), rating agencies should be satisfied, and debt markets should calm somewhat.

The bad news is that the move reflects a degree of desperation, the common and converts amount to 18.7 million and 23.4 million shares – estimate 10% dilution, and HI remains dependent on debt market funding.

While the sale and settlement reflect progress toward resolving the regulatory issues, the equity deal reflects a crisis of confidence in the debt markets and HI's recent emphasis on bondholders' interests over shareholders'.

We believe HI's valuation should be around a PE multiple of 11x our '03 estimate (given its historic range of 7x-18x), however the current uncertain environment and the heightened risks should lower the valuation by about one-fifth, resulting in our new 12-18 month price target of $36. Fundamental challenges face consumer lenders, specifically credit card lenders, including potentially slower growth, rising loan losses, and declining net interest margins.

Friedman, Billings, Ramsey **October 29, 2002**

Outperform

Adjusting EPS Outlook to Reflect Dilution from Recent Capital Raise

To reflect approximately 8% dilution from the capital raise, we are lowering our 4Q02 EPS estimate to $0.53 (from $.55) and our 2003 EPS outlook to $4.10 (from $4.45).

Reiterate outperform rating and $45 price target.

We continue to believe the key catalyst for this stock (as with other specialty finance companies) is a peaking of credit losses, which may not be discernible until early 2003. Nevertheless, trading at only 1.1x our pro forma book value and only 5.7x our revised 2003 EPS outlook, we believe HI shares will outperform as credit stabilizes and predatory lending and liquidity fears dissipate.

William Blair & Co. **October 28, 2002**

Market Perform

Lowering Estimates on Capital Raise

- Capital raise, combined with thrift and loans sales, to improve HI's tangible equity to tangible managed assets ratio in excess of 9%--above 8.5% target set by management.

- We are lowering our EPS estimates, due to the dilution from the additional capital and slightly more cautious view on the net interest margin. We lowered our 2002 EPS estimate to $4.47 from $4.55 and our 2003 EPS estimate to $4.35 from $4.70.

- Household's management is acting quickly and decisively with recent actions. The stock trades at depressed levels; however, we believe that several key risks remain at the forefront, including credit quality (particularly subprime), signs of a weakening consumer economy, and highly volatile fixed income markets.

In addition, it is difficult to gauge the extent to which the change in business practices from the recent settlement will affect the business model and earnings. We maintain our Market Perform rating.

Bernstein Research **October 25, 2002**

Market Neutral

Increased Capital Ratio Reduces Risk of Downgrade of Unsecured Term Debt, but has Dilutive Impact on EPS.

The 4% dilution from the common stock offering (18.7 million shares on a base of 461 million) leads to reduced EPS estimates of $3.15 in 2002 from $3.17 and $4.42 in 2003 from $4.60. Given the reduced risk of a ratings downgrade, we are not reducing our target price of $33 despite the reduction in EPS.

Given the risk to the business model under reformed sales practices, the risk to the debt rating, and the likelihood of further charges, we maintain Household at market neutral.

CIBC World Markets Corp. **October 30, 2002**

Capital Raise Should Resolve Liquidity Issues

Although the equity issuance will be dilutive, HI has alleviated its capital issues.

We lowered our 2002 and 2003 EPS estimates to $4.50 and $4.35 from $4.53 and $4.63, respectively. We have maintained our Sector Performer rating on the stock, given that one of the largest overhangs has now been resolved. On a valuation basis, HI continues to trade at a deep discount to many of its peers on a price/forward earnings basis, and is trading at only a modest premium to its tangible book value. Although investors are likely to be skeptical, we believe further downside risk from current levels is limited.

Morgan Stanley **October 25, 2002**

Our Take on HI Equity Offering

-Equity offering should help ameliorate debtholder concerns.
This offering improves the odds of accessing unsecured debt markets and thus reduces the likelihood of having to sell assets or rely totally on ABS markets for funding.
-Risks remain….A weak economy, disappointing credit quality, and an earnings impact from high-cost debt or equity offerings cannot be ruled out.
-…But seem adequately discounted in stock price.
With the stock trading just over book value, we think much of the risk is already discounted. At the same time, the fundamentals in Household's home equity business remain strong, in our view.

Keefe, Bruyette & Woods, Inc. **October 25, 2002**

Market Perform

Raises Equity-Lowering '02 and '03 EPS Estimate

Despite our optimistic assessment of the equity raise and our near term optimism on the stock as a result of the equity raise, we maintain our Market Perform rating. We base our rating on our lack of clarity concerning the financial impact of the recent settlement with state regulators and the implementation of the company's best practice guidelines in its home equity unit and the recent rise in delinquencies in the company's home equity unit.

Bancorp Piper Jaffray **October 25, 2002**

Outperform

Reducing Estimates and Target but Maintain Outperform

This capital raise was forced upon HI by very recent substantial widening of HI's credit spreads, which forced the cancellation of a planned preferred stock offering and raised the nervousness of the fixed income and equity communities.

We believe it should also have a significant positive effect on HI's credit spreads and raise the confidence of the fixed income investors.

We are maintaining our Outperform rating and reducing our target to $37 from $42 (8.5x FY03 EPS of $4.35, down from 9x) due to increased concern regarding the debt markets.

UBS Warburg (US) **October 25, 2002**

Although Dilutive, Equity Offering Should Be A Positive

On the whole, we view these transactions as a positive for the HI shares for three reasons. First, it alleviates the concerns over additional debt rating downgrades by the rating agencies. Second, it makes it likely that the company will surpass its capital targets by year-end. Lastly, it evidences management's level of commitment to maintaining open access to the funding markets.

We expect these transactions to be well-received by the debt markets and may prove to stabilize the company's funding costs, since spreads have widened considerably over the past week. Given that these transactions address concerns about the company's liquidity and adequacy of its capital base, we view them as a positive for the shares despite the expected dilution of earnings.

Deutsche Bank **October 25, 2002**

New Capital in Attempt to Restore Confidence

While dilutive, and smacking of desperation, the new capital hopefully will restore the debt market's confidence in the future.

Aside from the obvious dilutive impact, there are several risks:

- The negative perception of a desperation sale, and management control issues (e.g. managing capital, accounting conservatism, and lending practices).
- The uncertainty that debt spreads will narrow enough for Household to tap the markets. Will the amount raised be sufficient?
- Potential overhang of stock and debt from a "bought" transaction. We note that there were 24 million shares short, and there could be some covering.

Of course, there are always the risks associated with credit losses. Household also hasn't completely put the unfair lending allegations behind it (although it indicated that almost all 46 states in which it operates have agreed to the settlement). And, the growth outlook could be compromised by conditions of the settlement.

But if the transaction restores confidence in the debt markets and placates the rating agencies, then we see significant upside potential in the stock. Our new target price is 7x our 2003 EPS estimate, or $30, on a one year horizon (our previous target was 8x our old estimate, or $38).

Is a $120 billion Subprime Lender Simply Too Big?

Among the questions we are asking ourselves, is "Is Household simply too big as a specialty finance company, particularly a subprime lender, given the market?" The key competitors, including CitiFinancial, American General, Wells Fargo Finance, and GE Capital, are all divisions of larger, more diversified companies, with stronger funding bases. Household would appear to be at a competitive disadvantage, particularly in tough funding markets. If so, then the new capital will not solve all of Household's long term challenges.

Exhibit #3

Third Quarter Earnings

Bear Stearns **October 17, 2002**

Outperform

Q3 Results Largely as Expected; No Change in Estimates or Rating

While delinquencies and losses increased in the quarter, the company indicated it expects little increase in losses and delinquencies in Q4. Reserve coverage was increased as a percentage of loans, non-performing loans, and chargeoffs. Delinquencies rose meaningfully in the real estate secured business, but losses remain very low in that business.

Managing liquidity remains a critical piece of the company's strategy. Loan sales are expected again in Q4 and the company indicated it has encountered no problems issuing CP. Debt spreads narrowed earlier this week, but widened again today. Our estimates assume an increase in funding costs.

We continue to rate HI shares Outperform given the current depressed price and our $55 price target.

Credit SuisseFirst Boston **October 16, 2002**

Outperform

Third Quarter Trends in Line

Household is building a track record of strong and stable internal growth, with continued efficiency and credit quality. Earnings were and will continue to be invested in strengthening the balance sheet, which should benefit future results. Household remains well positioned for the current environment. While the growth rate will be somewhat slower over the next two years due to some of the effects of Best Practices and the settlement agreement, we reiterate our Outperform rating and $55 price target.

U.S. Bancorp Piper Jaffray **October 16, 2002**

Outperform

Follows up Settlement Announcement with Good Earnings Performance

We are maintaining our FY02/FY03 estimates at $4.52/$4.65. Our FY03 estimate is at the low end of management's outlook of $4.65 to $4.90 as we remain concerned about the economy. However, our confidence in our estimate is increased following the current quarter results.

We are maintaining our Outperform rating and $42 target. We believe that HI's stock has potential to trade up to our price target over the next 12 months if the economy improves and HI continues to deliver solid earnings, backing up its claim that the regulatory settlement should have minimal effect on earnings. The stock is currently valued at 6.0x our 2003 estimate, essentially its all-time low valuation.

Probably the most important item was that credit quality in the quarter was in-line to slightly better than our forecast, and HI's outlook is better than we had anticipated. HI forecasts relatively stable losses in 4Q, which was a surprise to us, we continue to model an 18 basis point increase for the current quarter. The most concerning aspect of the credit trends is in the home equity portfolio, which had a 17 basis point increase. Management stated that there was some clean up on the charge off front in this segment, which was partially responsible for the rise. We expect to see the ramp up in credit losses in home equity moderate in 4Q.

Deutsche Bank **October 16, 2002**

Buy

Decent Quarter, But Asset Quality Could be Better

Of primary concern is asset quality, particularly in real estate (45.6% of the total portfolio), in our opinion. Impacted by the soft economy, bankruptcy filings, and seasoning, the chargeoff rate doubled to 103 bps from 52 bps a year ago, far above the loss run rate. The company added $320 million to reserves.

Last week's settlement with state regulators shouldn't put Household at a competitive disadvantage, in our view. As the model holds up over time, we expect the stock to follow suit. However, over the near-term, we would focus our attention on asset quality, particularly in the real estate portfolio. Management expects the ratio to stabilize in the 4Q.

We reiterate our Buy rating and price target of 8x our '03 EPS, or $38 (12-month horizon).

Lehman Brothers **October 16, 2002**

Overweight

HI Continues to Deliver Solid Results

The highlights of the quarter were continued large reserve additions and fee income growth.

While net credit losses were 8 bp higher than our expectation at 4.37%, we continue to believe that the company's decision to focus on real estate secured lending has proven wise in the weaker economy. Though the real estate secured portfolio did show an 18 bp increase, the company remains comfortable with its credit outlook for 4Q02.

Prudential Securities **October 16, 2002**

Buy

Good Quality; Slower Growth Expected Ahead

Positives include good receivables growth, despite loan sales, and improved fee income from credit cards and mortgages.

Negatives include higher loan losses and delinquencies, margin compression, and slightly higher expenses.

The allowance for loan losses increased to 4.36% of managed loans (versus 4.14% in 2Q02) – the provision covered loan losses by 1.26x (versus 1.17x in 2Q02).

While HI appears on-track to generate mid-teens EPS growth in '02, '03 growth should slow to 11%-13%, given likely lower revenues and higher expenses resulting from settlement related business modifications.

Merrill Lynch **October 16, 2002**

Credit deteriorated modestly, as expected.

Reserves were built a healthy 22 bps; now 4.36% of managed loans. Appears the gain from selling assets and revenues from securitization were placed into reserves. Sale was to reduce assets to improve capital ratios.

These results are generally good, and as expected and do not leave much room for controversy.

Our $38.80 price objective reflects a 8x multiple target. This multiple is below the historic average for Household, but reflects concerns of credit deterioration in this shaky economy, and the general low valuations amongst consumer lenders at present.

Exhibit #4

Settlement Agreement

Credit Suisse First Boston **October 14, 2002**

Outperform

Agreement Reached; Business Model Intact

Ongoing changes mandated by the settlement are more benign than expected. Household had already adopted its "Best Practices" and many of the changes were included in these areas. The company agreed to reduce the length of prepayment penalties to 2 years from 3 years. Household must also improve the disclosure to consumers, eliminate "piggyback" second mortgages, and ensure that loans provide the consumer a financial benefit. Household will also use separate loan "closers" to reduce conflicts, and implement a "secret shopper" program to ensure compliance.

Household will regenerate the capital by selling non-strategic assets, in particular its thrift. This will require a charge of $250-$300 million after tax in the fourth quarter.

We are lowering our 2002 and 2003 EPS estimates to $4.55 (from $4.60) and $4.70 (from $5.25) as a result of the lower fees, higher funding costs and asset sales. Our new target price is $55 (from $60) to reflect our new EPS estimates.

Household sells at only 6x our new 2003 estimate. With this settlement behind the company, we believe that a significant overhang will be removed. Despite the downgrade Friday, we believe that this settlement will help debt spreads narrow. We reiterate our Outperform rating.

On the one hand, the size of the monetary settlement was quite large, perhaps a bit larger than expected. However, we would note that the settlement was nationwide in scope, and also required fewer changes to the company's ongoing business practices than we would have expected.

This process will significantly reduce the uncertainty around Household's future prospects. This should give investors greater confidence in the earnings outlook and growth rate, albeit both will be at somewhat lower levels that in the past. Over time, we also believe that this will lower Household's funding costs significantly. In the short term the company will have to overcome the actions of the ratings agencies who reacted to the additional charge for the disposition of the thrift. We believe that as Household replaces that capital, and builds equity to the 8.5% level, the company will make substantial progress reducing its funding costs.

We would have expected that the reduced earnings risk related to the settlement of the predatory lending issues, coupled with the ongoing commitment to 8.5% capital would have been enough to satisfy the ratings agencies. However, Standard and Poors downgraded Household one notch, which could limit the amount of commercial paper that they will be able to issue. Fitch put the company on credit watch with negative implications. These developments could slow the improvement in the company's debt spreads.

Overall, this is a significant positive for the company. We are reducing our current year forecast by about $0.05, and there will be charges of about $0.65 in each of the third and fourth quarters. We would expect to see an 11%-12% growth rate from the 2003 base. This slower, but more achievable growth rate will ultimately earn a stronger multiple. We are reducing our price target by about 10% to $55 to reflect the lower base of earnings and slower growth, but also significantly less uncertainty.

Merrill Lynch **October 11, 2002**

Buy

Nice Settlement, But S&P Spoils the Party

Household disclosed the details of its settlement with states, which was largely positive in that all states are covered and operating changes should not materially impact operations.

We are lowering our 2003 estimate from $5.15 to $4.85. We are also reducing our 5 year earnings growth rate from 15% to 12% to reflect the changes required in operations by the settlement. We believe we have moved from the aggressive side of their earnings range to the conservative side with this cut.

We do not believe that any of the operational changes codified by these new regulations will have a significant impact on the company's operations, but only time will tell for sure, and this is something to be closely monitored.

We are maintaining our 8x multiple target, which gives us a price objective reduction from $41 to $38.80.

Deutsche Bank **October 11, 2002**

Buy

Positive Settlement, But Lowering EPS Ests. and Target Price

On the positive side, the settlement is comprehensive (should include restitution in all states), includes changes in future practices that seem reasonable, does not entail fines or penalties, and Household doesn't plan on issuing stock.

On the negative side, Household will sacrifice fees and margin, S&P lowered its debt rating, and we have to adjust our earnings estimates lower. This reduces our 2002 EPS estimate to $3.26 from our previous estimate of $4.50 (although no change in operating EPS est.). Next year, higher costs and lower margin (pricing and fees) leads to a new $4.70 estimate vs. $5.10 previously (management guidance is $4.65-$4.90).

We reiterate our Buy rating, but are lowering our target price to $38, or 8x our '03 EPS estimate on a 12-month horizon.

Goldman Sachs **October 11, 2002**

Buy

Sizing up the Settlement

While we regard the settlement as a big step forward, the rationale behind our recent EPS adjustment (slower growth, higher uncertainty on economy, capital markets dislocations, and credit losses) continues to leave us materially lower than the street on 2003 estimates throughout a cross-section of specialty finance companies. We continue to rate the shares Market Outperform.

U.S. Bancorp Piper Jaffray **October 14, 2002**

Outperform

Comprehensive Settlement Net Positive; Raising Estimates; Potential Mid-$40s Stock Price

We feel the net results from the settlement with the state attorneys general and Household's discussion of its capital raising actions and earnings outlook on its conference call is a net positive, given the current stock price. It appears the agreement is very comprehensive materially reducing "headline risk" and should have nominal effect on HI's business model.

We are increasing FY02/FY03 estimates to $4.52/$4.65 from $4.50/$4.25. Our FY03 estimate is at the low end of management's outlook of $4.65 to $4.90 as we remain concerned about the economy. The increase in estimates is due primarily to moderating the ramp up in our charge-off estimate. We also want to point out that HI does not plan to raise new equity to attain leverage targets, but to sell its non-core thrift business which has $7.5 billion in assets.

We believe Household should be in a position to continue to be a leader in the growing consumer finance industry due to its strong brand name, industry-leading operating efficiency, strong branch network, and solid cash flow. The valuation is depressed to all-time low levels and we believe it is likely the Company will emerge from its current difficulties. We believe that HI can grow earnings long term by 12% through 10% organic loan growth of its core product lines, from selective acquisitions as well as efficiency improvements.

J.P. Morgan **October 14, 2002**

Neutral

Overhang Hangover Over; Lowering Estimates

We are lowering our 2002 EPS estimate by $1.29 to $3.26 (from $4.55). We are lowering 2003 EPS by $0.70 to $4.30 (from $5.00).

The apparent removal of the settlement cloud was essential for the shares of HI to collect themselves. That said, we always viewed a settlement as inevitable. We believe the weight of the macroeconomic environment, coupled with lingering HI business model concerns, will make it hard for the stock to outperform consumer finance companies, particularly those focused on the higher end of the credit spectrum.

Prudential Securities **October 14, 2002**

Buy

Settlement Helps Clear Some Uncertainty; Yet, Execution Risks Remain – Lowering EPS Estimates And Long Term Growth Expectations

We think the good news is that the settlement relieves a degree of regulatory uncertainty, alleviates most headline risk, allows management to refocus on the business, and should help with pending litigation.

We think the bad news is that the settlement reflects past control weaknesses, managerial missteps, and carries a high degree of execution risk for the future. Business model changes should lower run-rate earnings by $0.30 in '05 (down $0.10 in '03 and $0.20 in '04).

Overall, while the settlement restitution charge was anticipated, the extent, timing and long-term impact of business model concessions remains to be seen. Accordingly, we're lowering our EPS estimates for 2002 and 2003 by $0.10 and $0.45 (the low-end of management's guidance), and reducing our long term growth outlook to 11%-13% (versus 13% + previous).

Lehman Brothers **October 14, 2002**

Overweight

We believe the settlement should ultimately absolve the company of financial liability related to past actions in the branches. Perhaps more importantly, the company seems to have been able to put this issue behind it, with its business intact, albeit with some changes to the profitability of the business.

Wild swings in the publicly traded debt of HI have matched the volatility in the stock. If we are correct about the business model remaining intact, we think the equity will lead the debt recovery.

What does this say about Household?

It says two things. Some good, some bad but – ultimately good. On one hand, we commend management on recognizing that protracted litigation could have kept the issue alive for years and engendered a significant amount of ill will with state regulators. By agreeing to the settlement and setting standards for behavior, the predatory lending issue should cease to be an overhang. On the other hand, by its own acknowledgement, management recognizes that its own compliance practices were not sufficient to prevent the types of behaviors that were alleged. Perhaps the most important thing is that management has made the commitment to hire the compliance personnel and build the information system necessary to make sure such mistakes do not happen again.

Salomon Smith Barney **October 14, 2002**

In-Line

After the Dust Settles.....

Settlement removes considerable overhang, but uncertainty still remains from 1) higher potential cost of funds (S&P downgraded Friday), 2) ongoing impact of business model changes.

Reflecting our initial take on the business model changes dictated by the settlement, as well as a more conservative stance on credit costs, we are reducing our 2003 EPS estimate to $4.60 from $5.05.

New price target is $35 (was $40). Maintain 2H. Sector rating is marketweight.

We think that, initially, it may be difficult to discern the impact of economic conditions from the impact of business model changes in areas such as loan growth. Thus, there is likely to be some ongoing debate among investors about the longer-term effects of the settlement, particularly in light of management's guidance for increasing impact in future years. Our initial view is modestly more conservative than that of management.

Banc of America Securities **October 14, 2002**

Market Perform

Impact on the Business Model and Capital. Cutting Estimates.

Household made some very general estimates of the impact of the required changes in business practices. We made some of our own estimates.

We believe the market has historically underestimated these changes. When Providian settled its case, while the settlement was high, the market breathed a sigh of relief that the cloud was lifted. We now believe it was at that point that PVN's model became impaired. We do not believe Household will make the same bad decisions Providian did to support optics, but we do emphasize the necessity of anticipating changes.

We believe that with earnings estimates likely coming down further, looming questions abut the impact on profit and overall weakening credit quality, there's no compelling reason to buy Household. While the stock trades at 6x our 2003 estimate, our entire group is under pressure and we prefer to recommend stocks in whose business models we have greater conviction.

Bernstein Research **October 14, 2002**

Market Perform

Risks to Business and Funding Model Prevent Upgrade Despite AG Settlement and Low Valuation

We are cutting our 2003 CPS estimate to $4.60 from $4.96.

Our estimate of the impact of sales practice reform is based on the change to the business model particularly for first mortgage refinancing. Household will find it more difficult to up-sell customers looking to refinance credit card debt to the idea of also refinancing a first mortgage. The refinancing of the first mortgage (obviously much larger than credit card debt) is important to loan growth at Household and to asset quality (since it gives the firm a first lien).

- Household has won first mortgage business by using a "blended rate" sales approach that assumes a customer needs to refinance a first mortgage at a higher rate in order to realize the benefit of refinancing unsecured debt at a lower rate. While this bundling makes sense for Household, the customer case for taking out a more expensive first mortgage is weak (and will become more visibly so with less confusing sales practices and more rigorous customer benefits tests).

The risk to funding is that with further charges expected (e.g. on the sale of the thrift and to settle civil complaints) and a likely deterioration in asset quality, the debt rating agencies will downgrade (or signal the same by putting Household on negative outlook).

Given the risk to the business model under reformed sales practices, the risk to the debt rating, and the likelihood of further charges, we maintain Household at market neutral.

Exhibit #5

Rating and Estimate Changes

Thomas Weisel Partners LLC **October 21, 2002**

Market Perform

Downgrading Due to Credit Quality Concerns

We are downgrading our investment rating of Household International to Market Perform from Buy. We believe that the risk profiles of its receivables and earnings have increased, even though the regulatory risks, which were our previous focus (as well as the focus of many other investors), have abated substantially due to the settlement earlier this month.

We are concerned about the faster-than-expected increase in credit losses in the company's real estate secured loans that account for more than 45% of total managed portfolio. We believe that the higher revenues from securitization, though a natural consequence of funding diversification, have increased the volatility of future earnings growth.

We have reduced our 12-month price target to $35, based on 45% relative forward P/E multiple or approximately 7.7x our revised 2003 EPS estimate.

CIBC World Markets Corp. **October 21, 2002**

Market Weight

3Q Operating EPS Upside Surprise; Upgrading To Sector Performer

We are upgrading Household given the release of solid 3Q EPS and the settlement of the predatory lending investigations. Close fundamental scrutiny is still warranted, but downside risk could be limited from here.

Overall, although some uncertainty remains as to the fundamental growth trend for Household, we believe the visibility has greatly improved following the legal settlement. Further, ongoing efficiency improvements and steady reserve building has enhanced the quality of Household's operations, in our opinion. As a result, we have upgraded the stock to Sector Perform from Sector Underperform.

The company has continued to effectively manage the challenging operating environment. Although we believe long-term growth could be adversely impacted by higher costs related to the additional controls added as part of the legal settlement, we believe the company should be able to maintain a long-term growth rate in the 12%-13% range. As the company implements these additional controls, however, annual earnings growth for 2003 should be well below the potential long-term growth rate.

Morgan Stanley **October 10, 2002**

WORTH A LOOK

Reiterate overweight with revised $34 target price. While credit risk in a weak economy is a legitimate concern, the stock appears to discount the risk adequately, trading at just 1.0 times book value. Our colleagues in fixed income research rate the bonds as Buy.

Possible settlement as near-term catalyst. Our analysis of the Washington State DFI draft report on HI's lending practices suggest our $500 million settlement estimate is adequately conservative.

Credit profile does not warrant concern. The company's high LTV home equity loans are resulting in slightly higher credit losses, according to ABS data. However, our downside case requires an improbable doubling of both default frequency and loss severity. ABS data suggest subprime industry fundamentals are still healthy.

We believe investor concerns over the economy are adequately discounted in the group.

We're reiterating the Overweight rating on HI: We recommend risk-tolerant investors consider taking a look at the stock at current levels. Conversely, risk-averse investors intent on liquidating their specialty finance holdings should think about keeping a little bit of HI in light of the possibility that a settlement of predatory lending allegations might act as a catalyst for the shares.

Lehman Brothers **September 30, 2002**

Revising Estimates. We are lowering our FY03 EPS estimate to $5.00. Our lower estimates in 2002 are driven in part by our belief that its wider bond spreads could have an impact on margins.

We are also lowering our price target to reflect the decline in overall valuation in the market. Our price target is based upon a target multiple of 10.2x our FY 03 EPS estimate of $5.05.

Keefe, Bruyette & Woods, Inc. **September 27, 2002**

Market Perform

We are lowering our 2003 EPS estimate from $5.05 to $4.90. The reasons for our reduced earnings expectations are (in order of importance) potential higher debt capital costs, expected lower revenue margins and slightly higher credit costs.

We rate the stock Market Perform.

CIBC World Markets **September 26, 2002**

We lowered our price target for Household International to $36 from $57, as persistent headline risk should continue to pressure Household's valuation. Over the past several months, scrutiny of sub-prime lenders has intensified among regulators and investors alike, which has placed unrelenting pressure on Household's market valuation. In 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. 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.

While close scrutiny of HI is warranted in the current environment, recent concerns may be overblown.

Although we do not foresee any material catalyst for multiple expansion back into the historical average range of 11X-12X until the pending regulatory issues are resolved and the economy demonstrates clearer signs of improvement, we do believe the current discount is too sharp. Based on the solid fundamentals but continuing headline risk, we have maintained our Sector Performer rating on the stock.

Wachovia Securities **September 26, 2002**

Due to higher credit loss assumptions, we have lowered our Q4 2002 and 2003 EPS estimates. We are now assuming managed charge-offs will rise to 4.50% in the fourth quarter, and remain at the level throughout 2004. As a result, our Q4 2002 EPS estimate drops to $1.27 from $1.31 and our 2003 EPS estimate falls to $4.80 from $5.20.

Our price target has been lowered to $38, which assumes that HI shares trade at 8x our 2003 EPS estimate of $4.80. Including a dividend yield of 3.6%, we estimate total return potential to be 40%. HI shares are trading at the low end of their historic trading range of 5.9x – 16.4x forward EPS.

We believe that Household International is a well-run, diversified consumer finance company and we rate HI shares Buy. At its current valuation level, we believe the risk/reward proposition is favorable for long-term investors. HI shares trade at the low end of their historic P/E range.

UBS Warburg **September 18, 2002**

HI shares have come under considerable pressure recently as investors fret over the company's capital levels, blowups at competitor companies and legal actions surrounding predatory lending.

While we believe the fundamentals at Household remain strong, we expect predatory lending concerns to continue to weigh on the share in the near term.

We are reducing our 12-month price target on the HI shares to $41 from $54 to reflect the negative sentiment that has surfaced recently surrounding HI shares specifically, as well as the financial sector in general.

Merrill Lynch **September 18, 2002**

We are reducing our estimate for 2002 from $4.65 to $4.57 as we did not reduce our estimate sufficiently after the company's restatement last month. $0.06 of the reduction stems from this error. The other $0.02 are for a higher cost of funds as spreads on debt remain wider this quarter than the first half of the year. These spreads primarily impact the company's longer dated maturities, and we expect that the company will minimize issuance at these maturities so the impact should only be modest.

Our reduction in 2003 earnings relates to the company targeting a 10-15% earnings growth rate, with excess earnings power usually pushed into the provision for loan losses or as extra marketing dollars. Given the uncertainty of loss development into next year given the uncertainty with the economy, we have targeted earnings growth at the middle of the company's range.

A.G. Edwards **September 18, 2002**

We are lowering our rating on the shares of Household International (HI) from Buy to Hold. Of the six companies in the consumer finance section, HI was our only positive rating. We are lowering our rating at this time due to numerous "secondary" issues that have emerged and, in our opinion, increased the uncertainly of HI's ability to outperform in the near term.

During the past several months headline risk has caused the shares of HI to react unfavorably, yet we continued to believe that the overall risk based on each individual headline was relatively low. However, with the announcement of additional negative press regarding the performance of sub-prime mortgages at MGIC and the credit related problems with the securitization portfolio at AmeriCredit (ACF) we believe that the uncertainty in the near term environment does not favor investors making additional investments in HI at this time.

We are attempting to convey our belief that the near-term environment for HI is not likely to materially improve. At current levels, we do believe that the majority of the above issues are already priced in, but do not like the risk/reward of purchasing new shares at this time.

Merrill Lynch **September 13, 2002**

We are lowering our price objective from $64 to $42.50 to reflect the general depressed market multiples for financials, and to reflect that it appears Household's current legal concerns aren't going to go away anytime soon. Assuming that assumption is correct, it is unlikely that the company will command a premium multiple anytime soon.

If legal woes were to disappear, then our prior 12x objective would still be realistic in our opinion.

Cutting Long-Run Growth Estimates on Impact of Sales Practice Reform in Branch-Based Real Estate Lending

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.

Household will likely need to abandon its target EPS growth rate of 13-15% to a range of 10-12% as a result of sales practice reform in its branch-based real estate lending business. The now-suspended stock buy-back program will be an intra-range swing factor moving the growth rate higher if it is re-activated. Sales practice reform – a necessary response to regulatory concerns with the misrepresentation by Household representatives of loan rates and other loan terms – will reduce loan profitability and growth in the portfolio. The reduction in profitability will phase in over the average life of loans (estimated at 5 years) as old loans run-off and are replaced with new, less profitable loans originated under new sales practices.

The combined impact of sales practice reform, the suspension of the stock buyback program, and the accounting restatement announced on August 14th (and relating to the amortization period of certain marketing expenses) is an estimated 15 cents in 2002 and 40 cents in 2003. As a result, we are lowering our EPS estimate for 2002 to $4.48 from $4.63 (versus consensus of $4.57) and for 2003 to $4.96 from $5.36 (versus consensus of $5.14). Given this reduced growth rate, and the risk of a more serious breakdown in the real estate secured portfolio, we are lowering our target relative multiple to 50% from 57% (the 5-year historical average of 57%).

Our EPS estimates may turn out to be best case since they do include the potential costs of settlement with the Attorneys General and consumer advocacy groups or of putative class action complaints. In addition, there is a risk that funding spreads will remain unattractive for an extended period so that Household eventually has to issue high cost liabilities. Finally, we assume there is an orderly reduction in the growth of the branch-based real estate portfolio from the current rate of approximately 20% to our estimated 10% as the current mortgage refinancing boom ends and as sales practice reform takes hold.

The report also suggests that confusing sales practices extend beyond Washington State. The DFI comments that one tactic to misrepresent interest rates – referred to as "selling on an equivalent rate basis" and described below – is "known and likely fostered by the corporation itself or at the least by corporate officers overseeing large segments of the country." The DFI goes on to say "it is important to note that these complaints are documented from varied locations including other states." In addition, given the pressures on account executives to meet production targets, it would be the natural course for effective (even if questionable) sales practices to spread through the branch network.

Exhibit #6

Analysts Visits and Management Presentations

Wachovia Securities **October 25, 2002**

Buy

Highlights From Meetings with Management

We reiterate our Buy rating following our meetings with management. We believe HI's $900 million equity raise was a strong signal to investors that management is committed to maintaining its debt ratings, while demonstrating access to the capital markets. We estimate that the equity raise will result in $0.04 and $0.25 dilution to 2002 and 2003 EPS, respectively and are revising our 2002 estimate to $4.48 from $4.52 and our 2003 estimate to $4.55 from $4.80.

Despite volatile and generally widening debt spreads, we believe HI's liquidity position is strong.

Due to HI's diversified portfolio, approximately 60% secured in nature (46% real estate), we believe HI's credit quality will exhibit lower volatility relative to other large monoline consumer finance companies.

Our $38 target price assumes that HI shares trade at 8.4x our 2003 estimate. The primary risk to achieving our target price, in our view, is significant deterioration in consumer credit quality.

We believe that Household International is a well-run, diversified consumer finance company and we rate HI shares Buy. At its current valuation level, we believe the risk/reward proposition is favorable for long-term investors. HI shares trade at the low end of their historic P/E range.

Given the volatile nature and generally widening debt spreads over the last several months, we find it somewhat ironic that Household is probably in the best financial condition in its history and has more commercial paper outstanding now than before the S&P ratings downgrade.

Deutsche Bank **September 12, 2002**

Management Visit – Address The Challenges

Household's energy is focused on resolving allegations of unfair lending practices, and Mr. Detelich addressed the issues directly and candidly.

We came away feeling more comfortable with the likely resolution than we had anticipated. But resolution will take time. We expect additional negative publicity, and possibly other investigations from different state regulatory bodies (including Attorneys General), particularly pre-November elections.

In the long-run, we believe Household's business model will emerge stronger than before. Some profitability will be sacrificed but we expect the company to gain market share from 1) enhanced lending practices and 2) market share gains from competitors with less staying power.

With the stock only 7x our 2002 EPS estimate of $5.10, we believe the valuation discounts much of the bad news. There may be more negative headlines in near future that could put pressure on the stock, but we believe the current valuation warrants at least a partial position.

Merrill Lynch

September 6, 2002

Presentation at Merrill Lynch Conference

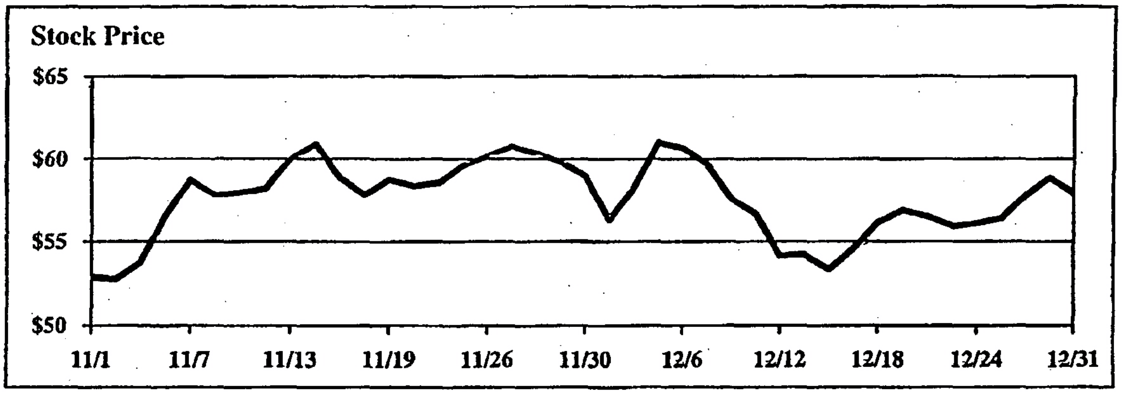
Household CEO William Aldinger provided a high-level overview of the company and confirmed the company's 2002 earnings growth targets at Merrill Lynch's Banking and Financial Services Conference in New York City today.

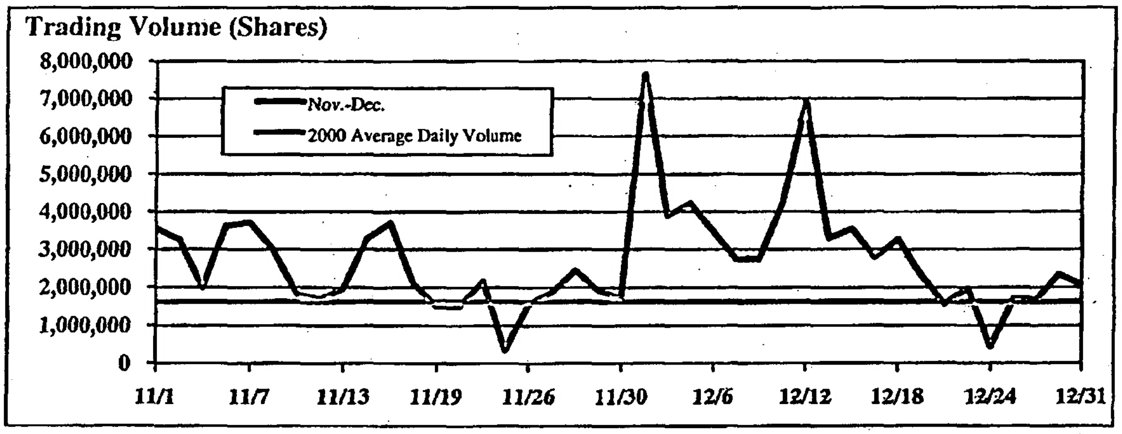
Mr. Aldinger also provided forecasts for the following earnings drivers: margins should be flat, losses should be up in 3Q '02 and trend higher for rest of the year, expenses should be up 10% year/year (with a 30% efficiency ratio by the end of the year), and capital ratios should be 8.5% by year end. We note that the company's forecast of losses trending high in 4Q '02 is a departure from forecasts provided on HI's 2Q '02 earnings call, though this should not come as a surprise to investors given the current lack of improvement in the economy.

EXHIBIT 5

HOUSEHOLD

INVESTOR RELATIONS REPORT
November-December 2001





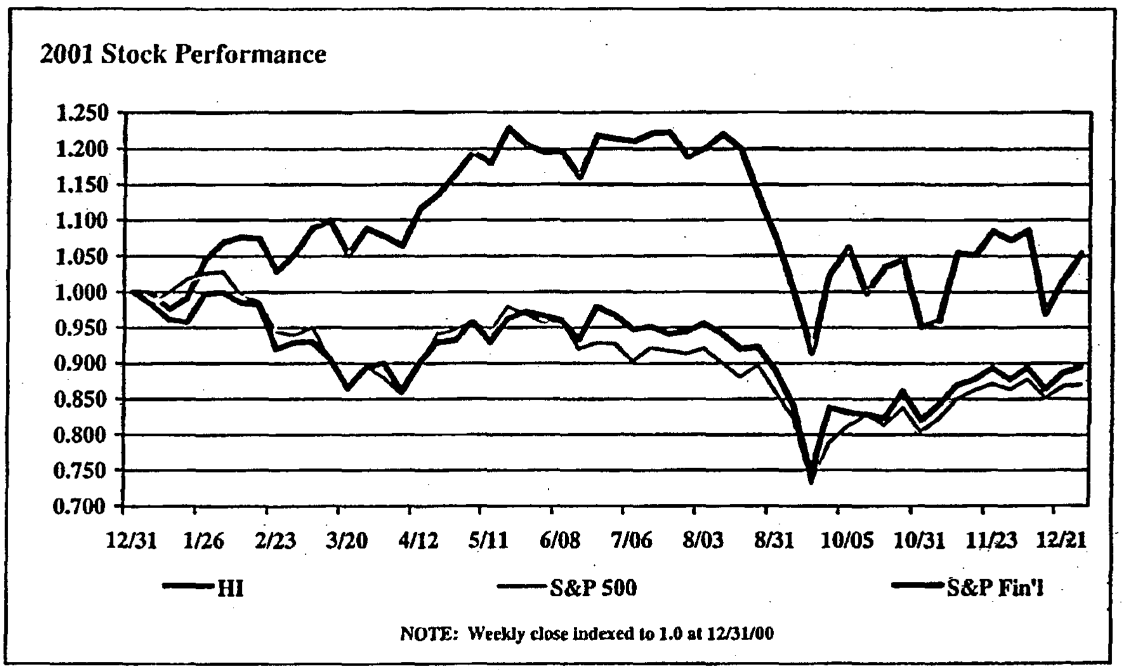
November-December Stock Trading Commentary

Household closed October at $52.30. Significant events during November and December included:

- On November 6th, the Federal Reserve cut rates by 50 basis points, its tenth cut of the year. Household's stock rose $2.78 on the 6th and another $2.19 on the 7th.
- Household's stock price increased steadily over the next week, reaching a two-month high closing price of $60.91 on November 14th. The stock succumbed to profit-taking over the ensuing weeks and drifted downward to close the month at $58.99, up 12.8 percent for November.
- On December 3rd, the stock dropped $2.69, or 4.6 percent, to $56.30 following articles in *Barron's* and *Business Week* that alleged Household's strong results were in part driven by aggressive chargeoff policies. On December 4th, Bill Aldinger and Dave Schoenholz spoke at the Goldman Sachs Bank CEO Conference and effectively addressed many of the issues raised in the articles. The stock rebounded nearly $2 on the 4th and another $2.77 on the 5th.

- On December 11th and 12th, the analyst from Legg Mason issued a series of research notes downgrading the stock from "Strong Buy" to "Market Performer" based on his view that Household's asset quality policies were lenient and aggressive. The stock lost $4.25, or 7.4 percent, over the course of the week.
- Over the following weeks, the stock generally moved higher, as investors' concerns about these asset quality practices were addressed. Household closed the year at $57.94, down almost 2 percent for the month and up 5.3 percent from a year ago. Average daily volume for 2001 was almost 2.3 million shares.

The graph below shows the performance of Household's stock, the S&P 500 and the S&P Financial indices during 2001. As shown, Household meaningfully outperformed both indices all year.



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Performance vs. Financial Indices
The following table compares Household's performance to our peer group and certain indices for November and December, as well as for the year. Household has significantly outperformed the indices and its peer group this year.

Change (%)	November	December	YTD
Household	12.8	(1.8)	5.3
Peer Group Average	6.3	8.5	(21.9)
S&P 500	7.5	0.8	(13.0)
S&P Financial	7.0	2.8	(10.5)

Analysts' Estimates
Following are analysts' EPS estimates for 2002.

Firm	FY'02	1Q'02	Opinion
A.G. Edwards	$4.65	$1.04	Buy *
ABN Amro	4.70	1.04	Buy
Bear Stearns	4.60	1.04	Buy
B of A Montgomery Securities	4.65	1.05	Market Performer
Bernstein Research	4.65	-	Outperform **
Credit Suisse First Boston	4.70	-	Strong Buy *
Deutsche Banc Alex. Brown	4.70	1.04	Strong Buy
Fox-Pitt Kelton	4.70	1.05	Attractive
Friedman, Billings, Ramsey & Co.	4.65	1.03	Market Perform
Goldman Sachs	4.65	1.04	Buy
J.P. Morgan	4.69	1.05	Buy
Legg Mason	4.60	1.04	Market Perform *
Lehman Brothers	4.69	1.05	Buy
Merrill Lynch	4.70	1.05	Buy
Morgan Stanley	4.60	1.03	Outperform
Prudential Securities	4.60	1.03	Strong Buy
Salomon Smith Barney	4.60	1.04	Outperform
Stephens, Inc.	4.65	1.06	Buy
Thomas Weisel Partners	4.65	1.04	Buy
UBS Warburg	4.65	-	Buy
U.S. Bancorp Piper Jaffray	4.65	1.04	Buy
William Blair	4.60	1.04	Long-term Buy
First Call Consensus	$4.64	$1.04	

* Rating changed since last report.
** Initiated coverage since last report.

On January 16, 2002, Household reported fourth quarter earnings per share of $1.17 and full year earnings per share of $4.08. Exhibit #2 includes highlights from analysts' notes on our earnings.

Ten Largest Institutional Shareholders
December 31, 2001

Institution	*Shares*	*YTD Change*	*Orientation*
1. Capital Research & Management	32,269,500	(12,528,000)	Value
2. Davis Selected Advisers, L.P.	29,874,300	317,000	Value
3. Fidelity Management & Research	29,255,400	2,034,400	Growth/Value
4. Alliance Capital Mgmt.	20,500,000	1,231,200	Growth
5. Smith Barney Asset Mgmt.	17,724,600	(3,806,000)	Growth/Value
6. Barclays Bank plc	15,494,400	132,900	Indexed
7. Jennison Associates LLC	11,600,100	11,600,100	Growth
8. State Street Bank	10,359,900	1,455,400	Indexed
9. Putnam Investment Mgmt.	9,200,000	3,762,100	Growth
10. Oppenheimer Capital	9,055,200	(3,523,800)	Indexed

Collectively, these shareholders own 41 percent of Household's outstanding common stock. Capital Research ended the year as Household's largest shareholder, adding 5 million shares in November and December and reversing its selling trend begun in August of last year. Davis, a heavy buyer mid-year, trimmed its position by over one million shares in November and December. Fidelity sold nearly 850 thousand shares during the two-month period.

Peer Group Stock Price Performance

Exhibit 1 – details 2001 stock price performance for Household, our peer group and three market indices.

Research Reports

Exhibit 2 – includes excerpts from analysts' notes on Household's fourth quarter earnings.

Exhibit 3 – includes excerpts from analysts' notes on senior management meetings/presentations.

Exhibit 4 – includes highlights from notes issued by analysts who changed their ratings or initiated coverage on Household.

Exhibit 5 – includes highlights from analysts' notes discussing Household's chargeoff accounting policies.

Exhibit #1

Household International Peer Group Stock Price Report
December 31, 2001

	12/31/00 Close	12/31/01 Close	% Change YTD	% Change In December	2001 EPS	2002 Est. EPS	% EPS Growth	2002 P/E	2002 Rel. P/E(1)	PE/G Ratio(2)	Market/ Book
HI	55.00	57.94	5.3	(1.8)	4.08	4.64	13.7	12.5	0.59	0.91	3.1
AIG	98.56	79.40	(19.4)	(3.6)	2.81	3.49	24.2	22.8	1.07	0.94	4.3
AXP	54.94	35.69	(35.0)	8.4	0.98	1.91	94.9	18.7	0.88	0.20	3.9
COF	65.81	53.95	(18.0)	7.8	2.91	3.51	20.6	15.4	0.73	0.75	3.8
C	51.06	50.48	(1.1)	5.4	2.81	3.34	18.9	15.1	0.71	0.80	4.4
KRB	36.94	35.20	(4.7)	9.2	1.91	2.22	16.2	15.9	0.75	0.98	4.2
ONE	36.63	39.05	6.6	4.3	2.46	2.77	12.6	14.1	0.67	1.12	2.3
PVN	57.50	3.55	(93.8)	33.0	1.79	0.15	(91.6)	23.7	1.12	NMF	0.4
USB	23.25	20.93	(10.0)	10.3	1.33	1.85	39.1	11.3	0.53	0.29	2.5
WFC	55.69	43.47	(21.9)	1.6	2.01	3.26	62.2	13.3	0.63	0.21	2.7
Peer Group Average			(21.9)	8.5			21.9	16.7	0.79	0.76	3.2
DJ Indust.	10,787.99	10,021.57	(7.1)	1.7	425.00	480.00	12.9	20.9	0.99		
S&P 500	1,320.28	1,148.00	(13.0)	0.8	40.56	54.22	33.7	21.2	1.00		
S&P Fin'l	164.72	147.40	(10.5)	2.0	8.32	10.01	20.3	14.7	0.70		

American International Group (AIG), American Express (AXP), Bank One (ONE), Capital One (COF), Citigroup (C), MBNA (KRB), Providian Financial (PVN), U.S. Bancorp (USB) and Wells Fargo (WFC). Due to the acquisition of American General by AIG on August 29th, AIG has been added to the peer group.

(1) 2002 P/E ratio relative to the S&P 500 P/E ratio.
(2) 2002 P/E ratio divided by EPS growth.

Exhibit # 2

STREET REPORTS –FOURTH QUARTER RESULTS

Goldman Sachs **January 17, 2002**

Buy

Household extended its record of delivering high quality earnings growth with in-line EPS of $1.17 in Q4, up 14% year over year. Asset growth, net interest margin, and credit quality trends were all solid and in/line to slightly better than anticipated. Earnings quality also remained high with provisioning well above charge-offs and securitization income down vs. the year ago. That said, the auto finance unit, though small at just 6% of receivables, had a much weaker than anticipated credit quality showing. Overall, we remain very comfortable with the outlook for Household and are moving our '02 forecast up $0.05 to $4.65 and are initiating a $5.20 estimate for '03. Reaffirm "Buy" rating.

Over time, we believe Household's strong operating profile and mid-teen growth trajectory should lead to P/E expansion (Household is currently trading at just 11.6 our '02 forecast).

ABN AMRO **January 17, 2002**

Buy

Household completed a very strong year with its positive trends intact, in our view. Earnings quality remains high and we believe the stock is poised to outperform the market again in 2002.

Household reported strong and high quality earnings, despite the weak economy. The key drivers to the strong results included 16% full year loan growth and about an 85 basis point expansion in the net interest margin, which combined to generate 18.3% revenue growth. As we point out below, Household took advantage of the powerful earnings trends to build reserves, invest in people and technology, and reduce securitization revenue further as opposed to beating EPS estimates, which it clearly could have done. Return on equity for the year was 24%, and return on tangible equity was 30%.

We strongly reiterate our "Buy" rating and $75 target price and expect the stock to comfortably outperform the S&P 500 again in 2002. Household has delivered one of the top financial performances that we are aware of in financial services over the past few years. We believe the visibility for earnings and return on equity remains high. The stock is valued at only 11.5x our 2002 estimate. We believe Household should trade at a premium to its growth rate. Our $75 target is equal to 16x our 2002 EPS estimate.

Merrill Lynch **January 17, 2002**

Strong Buy

Household reported an as expected quarter of $1.17 vs. $1.03 last year. We believe the quality of earnings was very high. The only negative we can find in the quarter is in the company's auto portfolio; weak resale prices on repos caused an increase in charge-offs that is likely to remain into the 1st quarter. However, auto makes up just 6% of Household's portfolio, and losses are at very manageable levels. Growth was excellent, the margin strong, and losses as expected. Losses included a tightening of charge-off policy on consumer loans, which accelerated loss recognition by $20 million.

Household has strong fundamentals entering the year, and a $0.10 cushion from the goodwill accounting change. It is our opinion that the company can achieve its 15% earnings growth without this cushion, but it does provide an insurance policy if needed. It is not clear if the company will allow this to drop to the bottom line if earnings remain as strong as they currently are.

The valuation of Household remains inexpensive at just over 10.8x our 2002 earnings estimate. We view Household as a company generally trading in roughly a 10-18x range, suggesting significant appreciation potential from here. The top end of our range probably requires some economic improvement however. For core growth buyers, this remains an excellent idea for roughly 15% annual growth.

Deutsche Banc Alex. Brown **January 16, 2002**

Strong Buy

Household reported 4Q EPS of $1.17 vs. $1.03 last year, a year-over-year increase of 14%, marking the 14th consecutive quarter of record results.

Our FY02 EPS estimate remains $4.70. Our price target is 15x our FY02 EPS estimate, or $71. The stock has been weak lately, trading at a 50% market multiple, in part due to rumors that it was interested in buying Providian and concerns today over losses in its auto portfolio. Setting the record straight on the Providian rumor, management indicated that in "no way is it interested in buying Providian, under any circumstances." While we remain concerned about the subprime auto lending industry (due to falling used car prices), Household's auto business is only 6.3% of loans. We reiterate our "Strong Buy" rating.

Household's course has not changed over the last 12-18 months, as management has been anticipating a recession (added collectors, tightened credit scores, and more secured lending). Moreover, the company has enough cushions to protect against a slumping economy. The company does expect charge-offs and delinquencies to trend higher, but to remain manageable and predictable. The company has also been adding to reserves. Overall, Household enters 2002 in better shape than most consumer finance companies, in our opinion.

Prudential Securities **January 16, 2002**

Buy

Household reported 4Q01 EPS of $1.17, in line with expectations. Results reflected strong receivables growth and margin expansion, mitigated by higher expense growth, higher excess provisioning, and modestly worsening credit quality.

While the stock has been beaten down since mid-'01 by a succession of (largely unfounded) negative press reports and speculation of potential for "dumb deals," Household continues to deliver solid earnings growth and profitability through its core activities. In fact, the quality of earnings, helped by ongoing emphasis on home equity secured growth and careful underwriting, remains relatively stable – with positive prospects for achieving management's 13%-15% '02 EPS growth target.

Exhibit #3

STREET REPORTS – SENIOR MANAGEMENT MEETINGS/PRESENTATIONS

Goldman Sachs **December 5, 2001**

Buy

We are reaffirming our "Buy" rating on Household and maintaining our estimates following company CEO, Bill Aldinger's well attended presentation at the Goldman Sachs Bank CEO Conference in New York. Aldinger, in addition to recapping Household's strong record over the past 7 years and walking through the model underpinning next year's 13%-15% EPS growth target, credibly and definitively addressed several recent investor 'flashpoint' issues. We continue to believe that there is little that is fundamentally new or substantive in the recent negative press on Household and are reiterating our $75-$80 price target.

The detail in the presentation and open and candid dialogue in the Q&A favorably elucidated Household's personal homeowners loan (PHLs) category, cleared up any outstanding concerns about income recognition, credit loss policies and account reaging and released additional details on 'other unsecured loans' including the PHL category which has been a particularly intensive area of focus in recent negative press.

While investors will understandably focus on accounting issues, particularly in light of well-publicized dislocations, such as Providian, Household has begun a process of greater transparency against this more hostile operating backdrop. Management seemed intent on providing fuller disclosure on income recognition, the effect of securitization activity on the income statement, and policies pertaining to credit loss reaging and loss recognition. While questions are likely to persist, we are impressed with management's disclosure and candor, while maintaining a strong growth and value creation emphasis against a consolidating industry backdrop.

UBS Warburg **December 5, 2001**

Buy

Household Chairman and CEO Bill Aldinger spoke to an investor conference Tuesday. Key themes included the company's consistent earnings track record strong competitive positioning, and steps it has taken to weather a difficult economic environment. He also addressed concerns raised in a recent *Barron's* article regarding the company's accounting practices. Household remains confident in its ability to deliver 15% EPS growth in 2001 and 13%-15% growth in 2002. We maintain our 2001 EPS estimate of $4.08 and our 2002 EPS estimate of $4.65. We reiterate our "Buy" rating and $70 12-month price target.

A sequence of competitor mergers, exits, and failures over the past several years have left Household with a more favorable competitive environment in a number of areas. Household's size and experience give it an upper hand in several businesses including home equity, auto lending, private label, and branch-based lending.

Exhibit #4

STREET REPORTS – CHANGES IN RATING/NEW RATINGS

A.G. Edwards **January 16, 2002**

Buy

We are upgrading the shares of Household International to "Buy" from "Hold" due to solid fundamental performance during a recession, our belief that Household can deliver 13-15% EPS growth in 2002, and favorable valuation. Under the leadership of Bill Aldinger, Household continues to prove that it can deliver superior operating results in multiple economic environments. We believe Household is well positioned to generate double-digit EPS growth in 2002 with relatively good credit quality performance. We believe Household shares, which trade at less than 12x our $4.65 estimate for 2002, are under-appreciated by investors. We have established a $65 price objective, which implies just under 20% upside in the shares over the next 12 months.

We continue to believe that Household is a well-managed company and a leader in the consumer finance space. Management wisely began to reposition Household's portfolio toward more real estate secured product in 2000. The greater emphasis on real estate secured product has served to decrease the volatility in Household's overall loss rates. We also believe this mix-shift will continue to help protect Household's asset quality during the current economic environment.

Legg Mason **December 11, 2001**

Market Performance

Last week, we suspended our investment rating of "Strong Buy" on the shares of Household International based on the serious allegations made and questions raised in the *Barron's* and *Business Week* articles. Since then our goal had been to try to determine (i) if the risks raised are indeed real, (ii) how aggressive are the company's restructuring policies and is this a concern and relevant to the investment case or simply reflective of its customer base and thus supportive of the franchise, and (iii) if we could size the one-time restructuring charge necessary to "uniform" the policies and make their application more consistent across business lines, or better yet, bring them in compliance with the FFIEC.

After further investigation, we are more concerned that Household's accounting policies, as they relate to asset quality, understate the true level of portfolio delinquency and charge-offs, and thus make it difficult to interpret the company's financial results and performance. Household points to its impressive record of growth, profitability, stable asset quality, and absence of frequent large restructuring charges (other than for the Beneficial acquisition), particularly relative to commercial banks. However, we believe the company's lenient and aggressive asset quality policies and the wide variation in how these policies are implemented among Household's five major business lines call this record into question. Essentially, the restructuring occurs behind the scenes, quietly, without disclosure, as the company reages and rewrites the portfolio on a loan-by-loan basis as part of its long-standing approach of working with its customer base as problems arise.

We have found there are significant differences by business line in how Household determines if a loan is delinquent: when, how and how often an account can be reaged (and brought current); what constitutes a full payment; when a loan goes on nonaccrual; how a loan returns to accruing status; how bankruptcy-related losses are recognized; and when a loan is charged off. We were surprised how easy it is to bring a delinquent loan current, how aggressive the reage policies are, and how easy they have become over time.

In the end, we realize that we do not have a clue as to the size of the reaged or the rewritten portfolios, either by business line or in total. We don't know what to make of the reported delinquency statistics as they do not adequately capture those loans that have been reaged or rewritten, but at present are reported as current despite having missed payments in the past.

Admittedly, we continue to wrestle with the question of "does any of this matter?" Household's policies have been in place for a few years, and most of the serious changes took place in the 1997-1999 time frame. Given its 100-year history, strong market share, healthy yields averaging 20% (on an accrual basis at least) in its non-real estate secured portfolio, and the particular requirements of its nonprime customer base, we wonder if we are missing the forest for the trees. Reaging and rewrite policies are not that unusual in the nonprime consumer finance world, but Household's practices seem overly aggressive to us.

Nevertheless, we have concluded this is material, particularly as it relates to our investment thesis and P/E multiple expansion story on Household that (i) Household was better than a bank, (ii) it possessed unique strengths in market presence and distribution, technology, and non-prime underwriting, (iii) it was well-positioned to leverage its position in this consolidating market, and (iv) this would continue to drive the superior results of strong earnings growth, high profitability and fairly stable and surprisingly good asset quality.

But the lack of information available on portfolio quality and the wide variation in how the asset quality policies are implemented, and the aggressive nature of these policies relative to our expectations of what is appropriate and relative to other consumer finance companies all serve to undercut our investment thesis, reduce the likelihood of multiple expansion, in our view, and lower our confidence in our ability to understand and interpret Household's financial performance. While any type of one-time restructuring charge to bring Household's asset quality policies more in line with other finance companies or banks is unlikely in the near term, we think the odds will rise over time. Accordingly, we have lowered our rating to "Market Performance" and increased our risk rating to "Average" from "Low."

Credit Suisse First Boston **December 4, 2001**

Strong Buy

Recently, some have suggested that aggressive accounting has played an outsized role in Household's growth. We believe that Household uses accounting standards that are at least as conservative as the industry standard, and sometimes significantly more so. A number of recent press reports have suggested that changing accounting practices has either benefited earnings, or suppressed losses. Neither of these is true, as nearly all (except a one-time merger change) occurred five years ago. These changes gave Household the flexibility to deal with borrowers in similar fashion to other lenders.

Some have suggested that the very fact that Household's loss rate is lower than peers "proves" that there is something "wrong." As we have written numerous times, it is the centralized underwriting and appraisal process, coupled with the fact that the vast majority of loans are made direct by Household personnel, make the better credit quality an enormous competitive advantage.

Overall, we believe that Household has a less volatile mix of assets than just about any other financial services company. Its loans are diversified by product and geography, no individual product has dominated the growth, and the largest piece of the pie is secured by real estate, with lending standards that have gotten more conservative over time.

We believe that investors prefer financial companies with diversified lines of business, particularly those that can maintain consistent growth. We believe that Household stacks up well compared to the typical large cap ank, as it has been more focused and better able to achieve balance growth and profitability. It is perhaps one of the few (if not the only) major financial services company that has been able to use customer data to sell products to customers across its various business lines.

Household's accelerating revenue growth coupled with better than average credit quality and strong efficiency should continue to deliver high and consistent earnings growth. Management has been astute to recognize developing industry trends, and position the company to profit from them, and minimize risk in the process. We are raising our target to $75 from $70, reflecting the company's historic average relative multiple. Selling at 12x 2002 earnings, with positive fundamentals, the equity has 30% upside to our target and we are raising our rating to "Strong Buy."

Sanford C. Bernstein & Co. **November 1, 2001**

Outperform

We recently launched coverage of the consumer finance industry recommending a market weight in the group and selective stock picking as secular and cyclical fundamentals continue to weaken. We prefer companies who have resilience to near term earnings and where valuations do not reflect that fact.

We believe Household will deliver 15% earnings growth in 2001 and 2002 providing the opportunity for the earnings multiple to expand from its current depressed level of 12 to 15 (56% to 70% relative to the S&P 500). Given EPS of $4.65/share, this generates a price target of $68. We rate Household "Outperform."

The firm has focused its activities in businesses where it can differentiate. For example, it has exited the first mortgage business and vanilla credit card business to focus on areas where it can sustain an edge – in home equity lending through branch-based customer relationships, in cards through partnerships with retailers for private label cards and with GM and Union Privilege customers for bankcards, and in auto-lending through established dealer relationships.

Household has undergone a transformation and is now poised for strong organic growth in the profitable segments of the consumer finance business, particularly home equity lending.

As a result of its broad business mix and locked-in credit card relationships, Household has been less affected than the credit card mono-lines by the deterioration in more general credit card industry fundamentals. For example, Household enjoys higher return on assets and more rapid loan growth than MBNA and yet still trades at a lower earnings multiple. Premium performance has been made possible by Household's growth in the more profitable segments of the consumer finance business. Household's home equity business is high margin because many customers are not price sensitive – often because they have a sense of comfort with the Household brand and their local branch representative. Furthermore, a number of competitors have exited the business – leading to more rational pricing – both as a result of the shakeout in 1997/1998 when mono-line home equity loan companies such as Green Tree Financial and the Money Store were either sold or closed, and more recently.

A second advantage of a broad product mix is the opportunity to cross-sell. This approach lowers account acquisition costs and improves portfolio performance since Household has the detailed and up-to-date information on the customer.

While Household's customers are higher risk as a group than many prime credit card customers, Household delivers charge-off performance that is better than even top credit card competitors such as MBNA. A first reason is that half of Household's portfolio is secured and, within the home equity portfolio, three quarters of loans have a first lien. This means that not only are borrowers less likely to default but also that in bankruptcy Household has the opportunity to recover more than the typical 10-15 cents on the dollar that applies to credit card charge-offs. A second reason for low charge-off rates is that Household is able to gather local intelligence on its customers through a network of 1,400 branch offices in the US. For example, all direct customers for home-equity loans are routed through a branch representative – whether in a face-to-face meeting or a telephone conversation – who elicits detailed financial information including income levels and property values, and benchmarks responses against knowledge of local employment and real estate markets. This process provides Household with better information about its customers than the typical card company that must rely exclusively on credit bureaus together with self-reported customer data that is often subject to only cursory validation.

Household is unique in the industry in terms of combining the "small firm" advantage of local presence with the "large firm" advantage of scale-driven investments in technology and branding. While Household's largest active rival, Associates, has a branch network of similar size, it does not appear to have harnessed technology to achieve the same level of productivity. Household has higher margins at the approximately the same cost.

Exhibit #5

STREET REPORTS – ACCOUNTING PRACTICES

Merrill Lynch **December 14, 2001**

Strong Buy

There are two fallacies that we find disturbing that have been suggested in an attempt to paint Household as an aggressive accounting company.

First, we believe sub-prime borrowers don't pay every 4 months to game the system as some are alleging. The author of this report used to be a sub-prime lender for a firm that Household now owns. When a borrower couldn't make a payment, it was because they didn't have the cash, which usually meant they had become unemployed, or had a medical issue, a divorce, or other material event. If life events improved, they would resume making payments and we often restructured those accounts. If the life event didn't change, that account was charged off.

It has been alleged that Household employees could coax a payment out of a borrower every 4 months to keep an account current on a "recency" basis. There are two problems with that theory. The first is that this type of borrower either has a job and/or cash or he doesn't. Second, Household collectors are paid on a contractual basis. Collections are centralized and monitored. It does a collector no good to get a payment every 4 months, and the borrower doesn't magically have cash as necessary.

The second key fallacy is that all the other sub-prime lenders are a lot more conservative than Household. It may be true, but we can't prove it. We have reviewed trust data and 10-Ks where appropriate. Asset backed documents usually contain disclaimers like "generally" and "usually" and "typically" before their statements of policy. Since Household ends up restructuring about 10% of its accounts each year, it would probably say the same thing if they gave less detail. They give more detail. It hurts them in this case.

On average, Household is reaging about 10% of accounts. Is that a lot? We don't really have a standard against which to measure it, though when the Associates was public, they claimed (and it says in the 2000 10-K) that they used contractual delinquency only. What is important is that most of the accounts stay current after the restructuring. In our experience, it is not unusual for subprime borrowers to have a short term problem due to one unusually large expenditure (roof, medical, etc.), but then be able to resume normal payments. What Household borrowers rarely have is big savings accounts.

Bear Stearns **December 14, 2001**

Buy

Investors' concerns about sub-prime lending, the uncertain economy, and interest rate trends have affected stock valuations of many consumer lending companies. Household's stock appears to have also been affected by the persistent controversy over the company's delinquency and chargeoff policies.

The recent controversy seems unjustified given the fact that Household's delinquency and chargeoff policies are old. They have been consistently applied for the past five years. And despite the assertions of some observers, some of Household's policies are more conservative than its competitors.

Household's business is not the same as banks, because Household does not serve the same customers as banks. Household's customers are riskier – because they miss more payments and chargeoff more frequently. In Household's business, a good customer is one that pays 11 out of 12 months.

If Household's customers had excellent credit histories and were seldom delinquent, most would probably not be borrowing from Household. Given that they are prone to more occasional delinquencies and they are paying higher rates than prime borrowers, the company tries to work with its customers in an effort to maximize loan payments and collections and on occasion will reage a loan. Interest accruals are unaffected and typically interest accruals cease months before loans are charged off. We believe the company's reserving is also unaffected by its delinquency recognition and reaging policies as reserves are established based on expected losses.

Its delinquency and chargeoff practices reflect the company's desire to collect as much money as possible from customers, even in the unsecured portfolio. By working with a customer rather than rigidly pushing a customer into delinquency or charging off an account, the company does typically accept smaller than normal payments and will in some instances reage an account. Decisions are made based on conversations with the customer and are made based on the customer's particular circumstances. These practices make GOOD BUSINESS SENSE as they enable the company to MAXIMIZE COLLECTIONS AND PROFITABILITY. Pushing an unsecured account into delinquency or charging off an unsecured account will essentially eliminate the company's ability to collect from that customer. Reaging accounts does defer chargeoffs, but in most cases, it actually appears to AVOID CHARGEOFFS. Nearly all customers in each line of business that are reaged are current one year later.

Helping a customer avoid delinquency is likely to strengthen Household's relationship with its customer. This willingness to work with customers is particularly valuable as there is a finite number of potential customers in the US and about two-thirds of Household's unsecured borrowers are repeat customers.

Recent magazine articles and several other analysts' reports have suggested that Household's delinquency and chargeoff policies are so lenient that the company could avoid charging off accounts for as much as a year and a half in its sub-prime portfolio. While unsecured loans can be kept in portfolio for up to 18 months, in reality, virtually all unsecured loans are charged off at 12 months or less delinquency. Household does reage accounts, but this practice is reserved for the company's best customers. Contrary to the belief of some other analysts, the company has no automatic reage policy. The portion of the portfolio that is reaged is actually small.

Unsecured accounts can be reaged a maximum of 3 times per year. While this appears to be very liberal, it is important to remember that Household does not accrue interest once a loan is more than 4 months delinquent. In general, borrowers make payments or they do not. It is very unusual for an unsecured borrower to make a few payments then miss some payments and then begin making payments again. It is more likely that a borrower encounters a financial problem and either is able to overcome it with the lenders' help or cannot.

While some may suggest that Household has delayed the recognition of chargeoffs as a result of its flexible chargeoff policy, the fact that interest accruals stop after four months should limit the financial impact of any delay. In fact, even if one assumes that the company has failed to recognize as that a portion of its unsecured loan portfolio is delinquent, the earnings impact appears quite modest. For example, we estimate that branched based unsecured loans have the highest loss rate of all unsecured loans. If there were 12% of those loans that were delinquent but not recognized as delinquent (doubling delinquencies from the 12% reported), there would be interest income recognized that should not be accrued. If four months accrued interest on 12% of the unsecured branch based loans were reversed, the cost to the company would be roughly $91 million (196,000 accounts at $6,000 average balance at 25% average rate) pre-tax. This equals about 13 cents per share, an insignificant impact on earnings given our 2002 estimate of $4.60 per share.

Deutsche Banc Alex. Brown Inc. **December 13, 2001**

Strong Buy

We won't rehash the *Barron's* article or our response. However, questions seem to be lingering about Household's credit policies, and Household is taking it very seriously by providing much greater detail.

Before going into the detail, we point out two "big picture" points:

1) Few companies provide even the detail that Household's provides. And, sometimes the policies of Household can be complicated and misunderstood. But, many of the large competitors, including CitiFinancial and Wells Fargo Financial, provide less information than Household on policies such as reaging and recency.

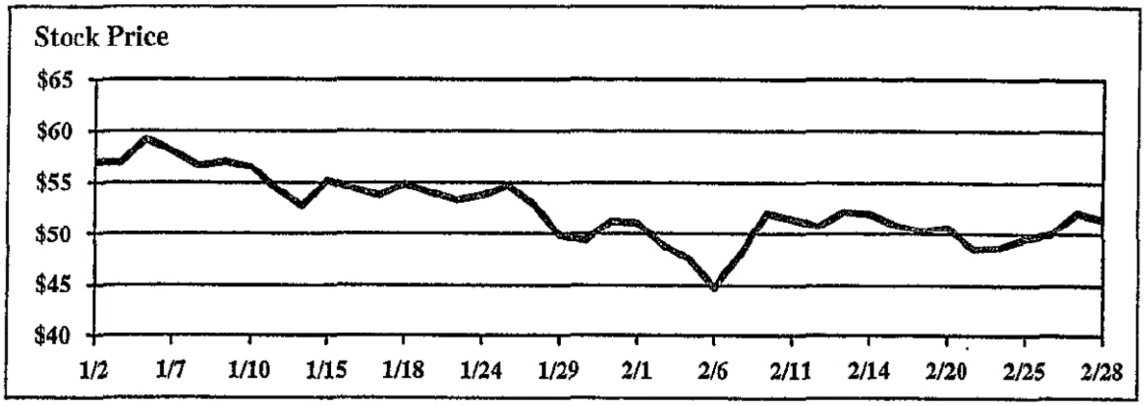
2) Household's policies are designed to generate high returns while meeting the special attributes of its customers. A higher percentage of Household's customers (compared to a bank) are simply not going to be able to make 36, 18, or possibly even 12, consecutive payments. But, eventually, they will pay and borrow again. Two-thirds are repeat customers. It would be unwise for Household, and a disaster for the customer, if Household didn't work with the borrowers from time to time. The alternative is to slap on late fees, ruin their credit records and foreclose on the homes. Household prices its loans with the knowledge that some payments will not be received on time, but by working with the borrower, the loan can still be highly profitable.

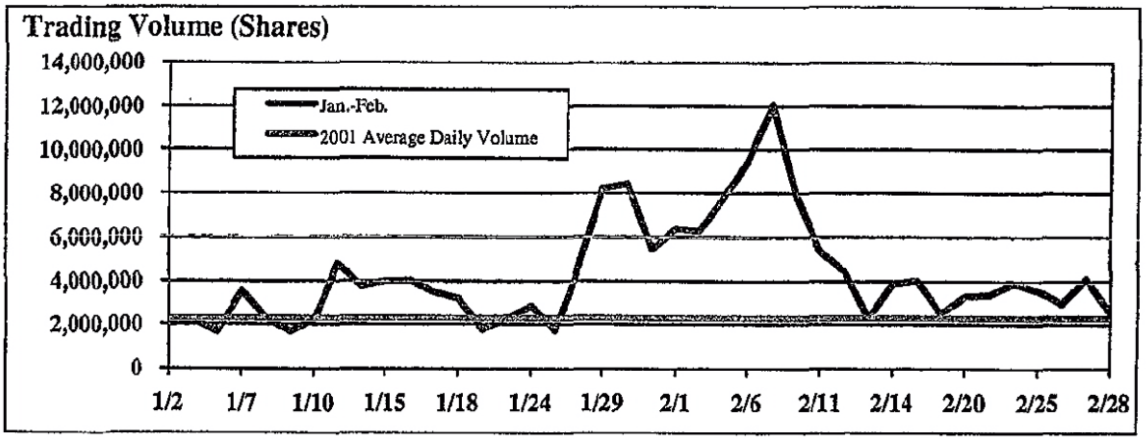
The *Barron's* article and some sell side analysts have alluded to the possibility of loans being reaged multiple times to postpone losses. First, there is not automatic reaging, and a collector would catch on. If too many payments are piggy-backed on each other, the customer will simply give up and not pay. More important, Household's customers are not aware of the reaging rules, so they can't "game" it. If they can't pay, they won't. Most borrowers who reage simply need some time.

EXHIBIT 6

HOUSEHOLD

INVESTOR RELATIONS REPORT
January-February 2002





January-February Stock Trading Commentary

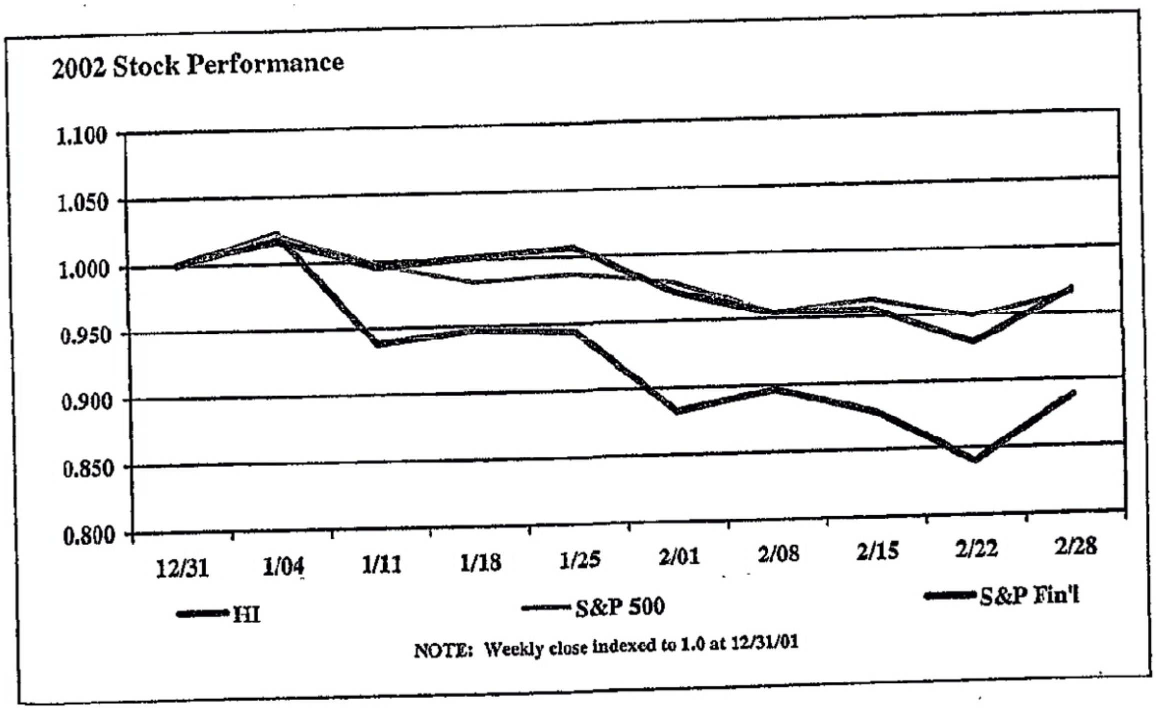
Household shares closed 2001 at $57.94. Significant events affecting the stock price in January and February included:

- On January 11th, the stock fell $2.16, to $54.38, as Fitch changed its ratings "outlook" on Household from stable to negative. The agency also lowered its rating on HFC due to a policy change requiring conformed ratings for parent companies and subsidiaries. Rumors that Household would acquire Providian also contributed to the decline and appeared to affect the stock for the ensuing week.
- On January 16th, Household reported record fourth quarter results and unequivocally denied that it would purchase Providian. Neverthelsss, short selling drove the stock down $1.10, to $54.10, as Household gave back over half of the increase it enjoyed the previous day on a sector rally.

Case # 02-C-5893
Jaffe v. Household
Plaintiffs' Exhibit
P0201

- On January 28th, the stock lost $1.86, dropping to $52.85, after an article in *Barron's* listed Household among the top 5 short selling stocks by Jim Chanos, the hedge fund manager generally credited with anticipating the Enron debacle. The stock dropped another $3.50 over the next two days on very heavy volume, to its closing low for the month of $49.35. The stock rebounded somewhat to close January at $51.24, an 11.6 percent decline for the month.
- On February 6th, market rumors that Household was unable to fund its operations with commercial paper caused the stock to drop $2.83, or 6 percent, to $44.70, its closing low for the two-month period. The stock hit a 52-week low of $43.50 during that day.
- In response to these very negative trends in the equity and fixed income markets, Household hosted an investor conference call on February 7th, in which Bill Aldinger, Dave Schoenholz and Edgar Ancona addressed concerns about liquidity, credit performance and accounting policies. The conference call attracted over 750 participants and sparked a two-day rally in which the stock jumped $7.30 to close at $52.00 on February 8th.
- Over the ensuing days, the stock generally drifted downward with the broader market amid investor concerns about an economic recovery. On February 27th, Federal Reserve Chairman Alan Greenspan reported to Congress that the economy was showing signs of a modest recovery. His comments drove a market rally and Household's stock rose $2.10, to $52.08. Household closed February at $51.50, an 11 percent decline for the two-month period. Average daily volume during January and February was 4 million shares, well above the average for 2001.

The graph below shows the performance of Household's stock, the S&P 500 and the S&P Financial indices during 2002. Household has underperformed these indices thus far in 2002.



Performance vs. Financial Indices

The following table compares Household's performance to our peer group and certain indices for January and February, as well as year to date.

Change (%)	*January*	*February*	*YTD*
Household	(11.6)	0.5	(11.1)
Peer Group Average	(1.3)	(0.6)	(1.8)
S&P 500	(1.6)	(2.1)	(3.6)
S&P Financial	(1.8)	(1.6)	(3.3)

Analysts' Estimates

Following are analysts' EPS estimates for 2002.

Firm	*FY'02*	*1Q'02*	*Opinion*
A.G. Edwards	$4.65	$1.04	Strong Buy *
ABN Amro	4.70	1.04	Buy
Bear Stearns	4.60	1.04	Buy
B of A Montgomery Securities	4.65	1.05	Market Performer
Bernstein Research	4.65	-	Outperform
Credit Suisse First Boston	4.70	-	Strong Buy
Deutsche Banc Alex. Brown	4.70	1.04	Strong Buy
Fox-Pitt Kelton	4.70	1.06	Buy *
Friedman, Billings, Ramsey & Co.	4.65	1.03	Market Perform
Goldman Sachs	4.65	1.04	Buy
J.P. Morgan	4.69	1.05	Buy
Legg Mason	4.60	1.04	Market Perform
Lehman Brothers	4.69	1.05	Buy
Merrill Lynch	4.70	1.05	Buy
Morgan Stanley	4.60	1.03	Outperform
Prudential Securities	4.60	1.03	Strong Buy
Salomon Smith Barney	4.60	1.04	Outperform
Stephens, Inc.	4.65	1.06	Buy
Thomas Weisel Partners	4.65	1.04	Buy
UBS Warburg	4.65	-	Buy
U.S. Bancorp Piper Jaffray	4.65	1.04	Buy
William Blair	4.60	1.04	Long-term Buy
First Call Consensus	$4.65	$1.04	

* Rating changed since last report.

Ten Largest Institutional Shareholders
February 15, 2002

Institution	*Shares*	*YTD Change*	*Orientation*
1. Capital Research & Management	35,369,500	3,100,000	Value
2. Davis Selected Advisers, L.P.	29,874,300	-	Value
3. Fidelity Management & Research	25,000,000	(4,2554,400)	Growth/Value
4. Alliance Capital Mgmt.	20,000,000	(500,000)	Growth
5. Smith Barney Asset Mgmt.	17,724,600	-	Growth/Value
6. Barclays Bank plc	15,494,400	-	Indexed
7. Oppenheimer Capital	12,300,000	3,244,800	Value
8. State Street Bank	10,359,900	-	Indexed
9. Government of Singapore	9,500,000	4,000,000	Not Avail.
10. The Vanguard Group	7,379,300	-	Indexed

Collectively, these shareholders own approximately 40 percent of Household's outstanding common stock. Capital Research added 3.1 million shares during the two-month period, while Fidelity sold 4.3 million shares. The Government of Singapore emerged as the 9th largest shareholder, adding 4 million shares thus far in 2002. Jennison Associates, a growth investor and 7th largest shareholder, liquidated its entire 11.6 million share position in early February.

Peer Group Stock Price Performance

Exhibit 1 – details 2002 stock price performance for Household, our peer group and three market indices.

Research Reports

Exhibit 2 – includes excerpts from analysts' notes on senior management meetings/presentations.

Exhibit 3 – includes highlights from notes issued by analysts who changed their ratings on Household.

Exhibit 4 – includes excerpts from analysts' notes on Household's February 7th conference call with the investment community.

Exhibit 5 – includes highlights from analysts notes on Household's Best Practices Initiatives.

Exhibit #1

Household International Peer Group Stock Price Report
February 28, 2002

	12/31/01 Close	2/28/02 Close	% Change YTD	% Change In February	2001 EPS	2002 Est. EPS	% EPS Growth	2002 P/E	2002 Rel. P/E(1)	PE/G Ratio(2)	Market/ Book
HI	57.94	51.50	(11.1)	0.5	4.08	4.65	14.0	11.1	0.53	0.79	2.6
AIG	79.40	73.97	(6.8)	(0.2)	2.89	3.49	20.8	21.2	1.02	1.02	4.0
AXP	35.69	36.45	2.1	1.7	0.98	1.91	94.9	19.1	0.92	0.20	4.0
COF	53.95	49.27	(8.7)	(1.8)	2.91	3.51	20.6	14.0	0.68	0.68	3.2
C	50.48	45.25	(10.4)	(4.5)	2.81	3.31	17.8	13.7	0.66	0.77	2.9
KRB	35.20	34.68	(1.5)	(0.9)	1.92	2.24	16.7	15.5	0.75	0.93	3.9
ONE	39.05	35.84	(8.2)	(4.4)	2.47	2.78	12.6	12.9	0.62	1.03	2.1
PVN	3.55	3.89	9.6	3.7	0.49	0.05	(89.8)	77.8	3.75	NMF	0.6
USB	20.93	20.85	(0.4)	0.1	1.32	1.84	39.4	11.3	0.55	0.29	2.5
WFC	43.47	46.90	7.9	1.1	1.97	3.27	66.0	14.3	0.69	0.22	2.9
Peer Group Average			(1.8)	(0.6)			22.1	22.2	1.07	1.00	2.9
DJ Indust.	10,021.57	10,106.13	0.8	1.9	408.05	455.55	11.6	22.2	1.07		
S&P 500	1,148.00	1,106.73	(3.6)	(2.1)	40.15	53.39	33.0	20.7	1.00		
S&P Fin'l	355.26	343.40	(3.3)	(1.6)	8.25	10.09	22.3	34.0	1.64		

American International Group (AIG), American Express (AXP), Bank One (ONE), Capital One (COF), Citigroup (C), MBNA (KRB), Providian Financial (PVN), U.S. Bancorp (USB) and Wells Fargo (WFC). Due to the acquisition of American General by AIG on August 29th, AIG has been added to the peer group.

(1) 2002 P/E ratio relative to the S&P 500 P/E ratio.
(2) 2002 P/E ratio divided by EPS growth.

Exhibit #2

ANALYST REPORTS – SENIOR MANAGEMENT MEETINGS/PRESENTATIONS

Credit Suisse First Boston Corporation **February 14, 2002**

Strong Buy

Presentations at the CSFB Financial Services Conference by Specialty Finance companies were positive.

The overarching theme was that despite the weak economy and the expectation that credit losses would likely continue to rise through mid-to-late 2002, both growth and profitability would be steady or improving.

Household discussed the various steps that the company has taken to lower its overall risk profile. The company is broadly diversified by product, geography and channel. Household also took steps in advance of the weakening of the economic environment including adding 2500 collectors and cutting back on open lines in the card business.

Overall, the competitive environment in many of the company's businesses has continued to remain healthy, allowing for continued good growth. Thus far, balance growth appears to be running at the high end of management's guidance of 11%-14%. The company also indicated that it would be increasing the proportion of home equity receivables that would be securitized (in financings, so as not to create incremental gain on sale). This will also increase the transparency of the portfolio. We believe that Household has the most diversified asset mix, and coupled with a strong balance sheet this should position the company to generate solid earnings growth in 2002 and beyond.

Salomon Smith Barney **January 30, 2002**

Outperform

Household International's William Aldinger, CEO, and David Schoenholz, CFO presented today in front of a standing room only crowd at Salomon Smith Barney's Financial Services conference.

Tone of presentation was upbeat and company stressed that it is a large diversified financial services company and not a mono-line credit card or pure auto financing company.

Management stressed continued shift of loan portfolio to lower risk profile, as evidenced by 1) larger percentage of real estate secured loans, 2)75% of real estate portfolio having first lien rights vs. 53% in 1996, 3) proactively lowering "open-to-buy" lines on credit cards, and 4) stepping up recoveries by doubling collections staff to mitigate rising credit losses.

Most of the questions, after the presentation, surrounded reserving and capital management, which we believe management appropriately addressed.

Household has continued to strengthen its business model over the past several years. Household has built a franchise on lending to middle America, or what are commonly referred to as non-prime customers. We believe Household can deliver its promised 13%-15% EPS growth over the next few years, although a recession might limit growth to the low end of that range near-term. In a tough environment, investors are likely to find Household's resilience and solid balance sheet attractive, in our view.

Exhibit #3

ANALYST REPORTS – CHANGES IN RATINGS

A.G. Edward & Sons, Inc. **February 6, 2002**

Strong Buy

We are upgrading the shares of Household International to "Strong Buy" from "Buy." We believe investors should take advantage of weakness in the shares of the leading consumer finance company in the U.S. Household shares are off 18% year-to-date and touched a 52-week low this week. We attribute weakness in Household shares to industry credit quality concerns and accounting-related concerns. In our opinion, both credit quality concerns and accounting-related concerns will fade away throughout 2002 as management continues to build on its outstanding track record. To be sure, investor sentiment on the consumer finance sector is poor today. We believe investors who separate the wheat from the chaff will be richly rewarded in 12-18 months, probably sooner if sentiment improves. Near-term, if investor sentiment gets worse, we would be aggressive buyers of Household shares on any continued valuation pressure. Our price objective of $65, which assumes Household shares trade at 14x our 2002 estimate of $4.65, implies approximately 37% upside from current levels.

From 1996 to 2001, Household's return on managed assets improved from 1.0% to 1.9% while its return on average equity improved from 15.1% to 22.9%. Household's improved returns under Bill Aldinger were not merely one-dimensional. From 1996-2001, Household generated prudent loan growth while shifting its mix to real estate secured products, expanded its net interest margin, improved its managed efficiency ratio, and added a whopping 167 basis points to its tangible equity ratio. Skeptics might suggest that Household's returns were achieved by taking unreasonable risks. Our analysis suggests this is not the case. Since 1996, Household's managed receivables have grown at a compound annual rate of 11% to $100.8 billion, hardly out of control. Management also improved the risk profile of Household by getting defensive much earlier than most of its peers.

We have a high degree of comfort in our 2002 estimate of $4.65, which represents 14% growth over $4.08 reported in 2001. With respect to credit losses, we believe Household is likely to experience less sensitivity in the event the economic environment remains difficult. Our reasoning is that 44% of Household's managed receivables are real estate secured. Simple math dictates that Household' managed loss rate should be less sensitive relative to monoline consumer finance companies.

In our view share buybacks are a prudent use of corporate proceeds. In our view, most other consumer finance companies cannot repurchase their shares due to either capital constraints or growth rates exceeding their capital formation rates. The other advantage Household has with its strong capital base is being able to opportunistically purchase consumer loan portfolios at distressed prices if available. In our view, small add-on acquisitions make the most sense for Household.

In our opinion, Household's valuation offers investors an excellent opportunity to buy the stock of one of the best-managed consumer finance companies at a meaningful discount to its growth rate.

Fox-Pitt Kelton **January 16, 2002**

Buy

We are upgrading Household, due to our belief that diversified finance companies have become the winning business model in the finance industry and recognition that the current valuation offers a compelling entry point.

We see Household's strengths as the diversification of its portfolio and its fortress-like balance sheet. While Household has been able to deliver predictable earnings and improving profitability in recent years, the stock never attracted the same degree of attention from growth investors as some of its pure play credit card rivals, who could boast of more spectacular near-term EPS growth records. As a result, the stock never reached the higher highs or lower lows of the monoline card companies and has for some time seemed an attractive, moderate risk way for investors to play the consumer finance sector.

We believe that some of the discount to the credit card companies derives at least partially from Household's bank-like characteristics (a large branch network, slower loan growth, focus on cost efficiency for profitability improvement) that make it look to some like an old fashioned business model. However old fashioned it may be, it was clearly a hot item during 2001, as Household outperformed all other consumer finance stocks, coasting behind the favorable winds of wider margins, loan growth that exceeded expectations, and credit costs that ticked up much less than for those lenders with a higher proportion of unsecured loans. Its lower-risk, lower-return strategy appealed to investors who shunned the greater volatility of losses expected from unsecured lenders. In 2002, we believe that Household could continue to outperform if the economy continues its current path; however, the stock could suffer from a rotation into higher-return, pure play credit card names if a sharper recovery than the one were are anticipating ensues.

Core to the story is diversification. Household can be viewed as a mutual fund for consumer lending, with sizeable market positions in home equity lending, credit cards, retail sales finance, sub-prime auto and other unsecured installment loans.

Recently, Household's accounting policies have come under investor scrutiny. The controversy has weighed on the stock price, and given investors an attractive entry point to buy the shares. We believe the controversy is overblown, in that the more liberal standards have been well known for the past few years and none of them have been changed so as to distort period-to-period financial comparisons recently. The lack of transparency is not unusual for a company of Household's size and complexity. While we would prefer better disclosure and clearer classification of past due loans, and agree that Household's accounting policies can obscure a thorough analysis of its asset quality performance, we do not believe any of its accounting policies materially misrepresent the company's bottom line profitability.

The company's earnings dynamics should resemble those of our credit-card universe – higher margins due to risk-based pricing, tighter underwriting, and pricing power in Household's core near-prime markets; higher losses and reserving as the slower economy takes its toll; and a tight rein on costs, a long-time Household competitive advantage.

The 120 year-old company is one of a few diversified financial firms with a demonstrated ability to grow consistently in all seasons.

Exhibit #4

ANALYST REPORTS – INVESTOR CONFERENCE CALL

ABN AMRO Inc. **February 7, 2002**

Buy

Household International held a conference call this morning to respond to market concerns that had been affecting Household's stock price and its bond spreads. The company stated it was having the call to provide increased transparency to its business, and that it would consider having calls like this on a frequent basis to respond to investor questions.

Concerns about the company were brought to the table and we thought management had proper, thoughtful, careful responses to all questions. We have never seen a period where there has been so much speculation on so many companies in the market.

The company also said business trends remained strong in January and that it is very comfortable with analyst estimates. This is not a surprise to us, but always good to hear.

We reiterate our "Buy" rating and $75 target price. The call seemed to satisfy investors as the stock is currently up close to 10% and bond spreads have narrowed by 70 basis points. Fact nearly always overtakes fears. We believe that the facts of strong micro trends at Household combined with improving economic trends in the U.S. will lead to a major move in this stock over the next few quarters.

J.P. Morgan **February 7, 2002**

Buy

Senior management of Household International, including chairman and CEO Bill Aldinger and CFO Dave Schoenholz hosted a very timely and upbeat conference call this morning regarding liquidity, funding and a brief business update. We reiterate our "Buy" rating and came away with the following thoughts:

- Speculation surrounding company troubles in rolling over commercial paper are unfounded.
- With respect to term funding, Household believes that if spreads remain at current wide levels, the impact to the bottom line will be modest (a few pennies per share).
- January was a strong month for operating performance and earnings are on track with guidance issued following the company's 4Q earnings call.
- With respect to disclosure, Household expects no material change to previous methods following the receipt of an SEC letter (sent to all companies within the S&P 500).

Merrill Lynch

February 7, 2002

Strong Buy

Household held a conference call this morning to counter concerns that they were having a hard time issuing debt or rolling over commercial paper.

The company stated they were having no problems issuing debt and commercial paper, which we have confirmed with our fixed income analyst. We continue to recommend.

The company noted that January business was very strong.

Recent accounting concerns have clearly impacted Household, particularly the stock and the pricing on some longer duration bonds, and it is true that Household is dependent on the debt markets. We view commercial paper and unsecured notes as more vulnerable markets than deposits and securitizations (all of which Household uses), which is odd given that only higher rated companies get access to markets like commercial paper and notes. Where the company is vulnerable is to a change in opinion by the ratings agencies, which could impair access to these markets. That risk has increased recently when the agencies have indicated they intend to watch companies that are weak in the equity and fixed income markets more closely, even when they don't believe anything is wrong. This increases the risk that a spate of negative stories, unfounded or not, could cause a rating agency action. That does not appear to be the case here.

Household stock is trading below 11x earnings, the normal bottom of its trading range, after a series of stories concerning their accounting and lending practices. They do charge off accounts after a longer period of delinquency than some of their peers, but the ratings agencies have publicly said they are fine with Household practices. Losses rise when you lend to sub-prime borrowers in a recession, but we do not agree that Household is facing a loss problem (in fact we think they are far from it). We believe Household is well reserved for this, and revenue trends are more than sufficient to cover the rising losses.

Lehman Brothers

February 8, 2002

Strong Buy

Household held an investor conference call to quell unsubstantiated speculation in the market. One report that the company denied was that they were having trouble accessing the Commercial Paper market for funding. The company denied the report and noted that the company continues to access the market at spreads of 6-10 basis points below LIBOR. Second, the company noted that it has had ongoing dialogue with S&P and has had its ratings affirmed. The company noted that the spreads on its bonds have widened, which it believes reflect speculative short interest rather than investor concern. The company does not believe the trading level of the bonds is an indication of their access to the markets or pricing. Even if spreads remain wide, the maximum impact the company estimated that could result from high funding costs was $0.02 in 2002 EPS. The company also noted that it did not believe the lawsuit brought against it yesterday was a significant issue. The company also noted January results were solid. The shares have rallied 9% on the day, reflecting investor belief that the recent sell-off has been overdone.

Exhibit #5

ANALYST REPORTS – BEST PRACTICES INITIATIVES

Deutsche Banc Alex. Brown Inc. **February 27, 2002**

Strong Buy

As the largest publicly traded consumer finance company in the U.S., and a leader in home equity lending (largely subprime), Household has attracted the attention of consumer lending activists and even some politicians. It recently reached an agreement with the California Department of corporations, paying $12 million in penalties and refunds, to settle claims that it overcharged borrowers on certain penalty fees. Subsequently, ACORN, a community lending group, also charged Household with predatory lending. All lenders must take these issues seriously, correcting any practices where necessary. This morning Household announced several new practices that bring it to the forefront of the industry, in our opinion.

Although some of the initiatives will cost Household money, the company expects to make up the difference in volume. Our 12-month target price is $71, or 15x our 2002 estimate of $4.70. We reiterate our "Strong Buy" rating.

Goldman, Sachs & Co. **February 27, 2002**

Buy

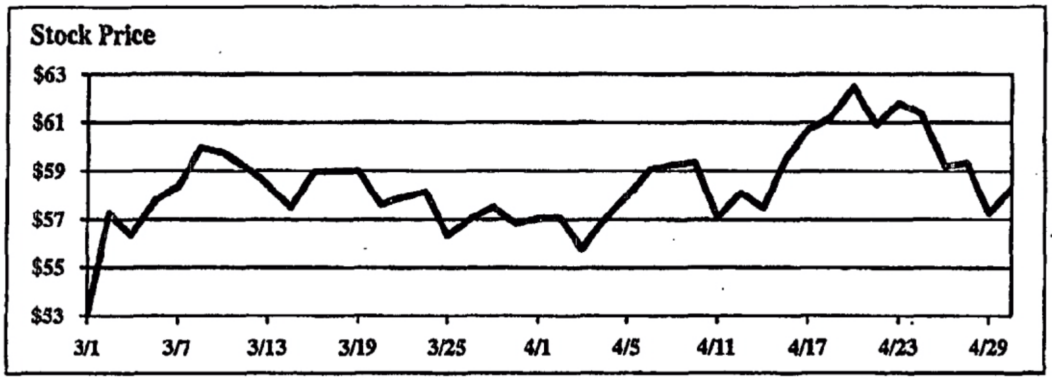
Household announced several new consumer lending practices regarding its disclosure to consumers, prepayment fees, caps on points and fees, and other pro-consumer initiatives. Trading at 11x our 2002 estimate of $.65, we continue to recommend purchase of the shares and view the company's recent actions favorably.

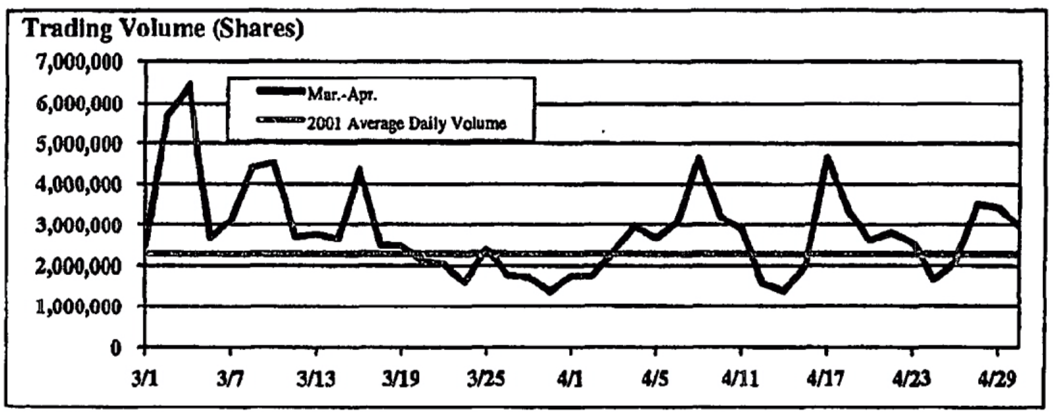
- Recent "consumer friendly" actions will likely upgrade Household's image in the eyes of consumers, regulators, and equity investors.
- Clearly strengthens relationships with regulators and its own consumers.
- Probably a long-term positive for market share.
- Expect specific reductions for certain fees to be largely offset by better customer retention, lower collection losses, and some targeted increases in certain interest and fee related revenues.

EXHIBIT 7

HOUSEHOLD

INVESTOR RELATIONS REPORT
March-April 2002





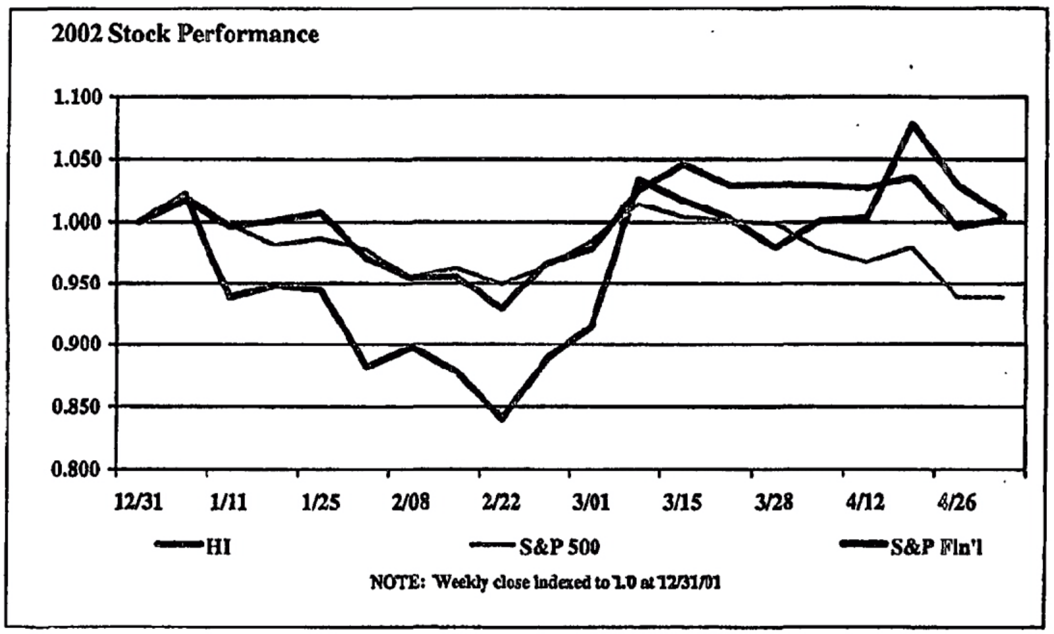
March-April Stock Trading Commentary

Household shares closed February at $51.50 and reached $58.29 by the end of April, an increase of 13%. Significant events affecting the stock price during this period included:

- Amid indicators that the economy was rebounding, Household's stock price trended upward over the first half of March, along with the broader market. On March 11th, the stock reached its trading high for March of $60.91 before drifting downward to trade in the $58-$59 range over the ensuing 10 days.
- On March 19th, the Federal Reserve announced that it would leave interest rates unchanged but changed its bias to neutral. Due to concerns over rising interest rates, the Dow dropped 134 points on March 20th, and Household fell $1.37 to $57.61. Over the remainder of the month, Household's stock drifted downward somewhat, to close March at $56.80, up 10.3 percent for the month.

- On April 9th, Household hosted its annual Financial Relations Conference. Presentations were very well received, and the stock reached a trading high of $60.91. The stock weakened somewhat over the following week, leading up to the release of our first quarter results.
- On April 17th, Household reported record first quarter earnings. In addition, Federal Reserve Chairman Alan Greenspan testified that he would not raise rates in the near term due to uncertainty about the strength of the economy. Both factors drove Household's stock higher, to close at $60.70, up $1.19. Over the next two days, the stock continued to climb, reaching $62.44, its closing high for the two-month period.
- Over the remainder of the month, the stock generally drifted downward to close April at $58.29, a 13.2 percent increase for the two-month period. Average daily volume during March and April was 2.8 million shares, above the average for 2001.

The graph below shows the performance of Household's stock, the S&P 500 and the S&P Financial indices during 2002. While Household underperformed these indices early in the year, the stock has recently outperformed.



Performance vs. Financial Indices
The following table compares Household's performance to our peer group and certain indices for March and April, as well as year to date.

Change (%)	*March*	*April*	*YTD*
Household	10.3	2.6	0.6
Peer Group Average	11.3	(3.1)	4.4
S&P 500	3.7	(6.1)	(6.2)
S&P Financial	6.5	(2.7)	(0.2)

Analysts' Estimates
Following are analysts' EPS estimates for 2002.

Firm	*FY'02*	*2Q'02*	*Opinion*
A.G. Edwards	$4.70	$1.09	Buy *
Bear Stearns	4.70	1.07	Buy
B of A Montgomery Securities	4.70	1.09	Market Performer
Bernstein Research	4.65	-	Market Perform *
Credit Suisse First Boston	4.70	1.06	Strong Buy
Deutsche Banc Alex. Brown	4.70	1.11	Strong Buy
Fox-Pitt Kelton	4.70	1.11	Buy
Friedman, Billings, Ramsey & Co.	4.71	1.06	Buy *
Goldman Sachs	4.65	1.05	Buy
J.P. Morgan	4.69	1.05	Buy
Legg Mason	4.60	1.06	Market Perform
Lehman Brothers	4.70	1.07	Strong Buy
Merrill Lynch	4.70	1.10	Strong Buy
Morgan Stanley	4.65	1.07	Market Perform
Prudential Securities	4.70	1.09	Buy
Salomon Smith Barney	4.65	1.07	Outperform
Stephens, Inc.	4.67	1.11	Buy
Thomas Weisel Partners	4.70	1.10	Buy
UBS Warburg	4.68	1.05	Buy
U.S. Bancorp Piper Jaffray	4.70	1.07	Outperform
William Blair	4.69	1.06	Long-term Buy
First Call Consensus	$4.68	$1.08	

* Rating changed since last report. See exhibit #3.

Ten Largest Institutional Shareholders
April 19, 2002

Institution	*Shares*	*YTD Change*	*Orientation*
1. Capital Research & Management	36,119,500	2,297,700	Value
2. Davis Selected Advisers, L.P.	31,991,700	-	Value
3. Fidelity Management & Research	18,650,000	(11,013,400)	Growth/Value
4. Putnam Investment Management	17,300,000	4,779,700	Growth
5. Smith Barney Asset Mgmt.	17,199,300	-	Growth/Value
6. Alliance Capital Mgmt.	16,800,000	(6,003,500)	Growth
7. Oppenheimer Capital	16,200,000	7,340,400	Value
8. Barclays Bank plc	16,029,500	-	Indexed
9. State Street Bank	10,563,400	-	Indexed
10. Government of Singapore	10,200,000	4,700,000	Value

Collectively, these shareholders own approximately 42 percent of Household's outstanding common stock. Oppenheimer Capital added 4.1 million shares during the two-month period, while Fidelity sold 6.7 million shares. Putnam emerged as the 4th largest shareholder, adding 2.9 million shares during March and April.

Peer Group Stock Price Performance

Exhibit 1 – details 2002 stock price performance for Household, our peer group and three market indices.

Research Reports

Exhibit 2 – includes excerpts from analysts' notes on Household's Financial Relations Conference.

Exhibit 3 – includes highlights from notes issued by analysts who changed their ratings on Household.

Exhibit 4 – includes excerpts from analysts' notes on Household's first quarter earnings.

Exhibit #1

Household International Peer Group Stock Price Report
April 30, 2002

	12/31/01 *Close*	*04/30/02* *Close*	*% Change* *YTD*	*% Change* *In April*	*2001* *EPS*	*2002* *Est. EPS*	*% EPS* *Growth*	*2002 P/E*	*2002* *Rel. P/E(1)*	*PE/G* *Ratio(2)*	*Market/* *Book*
HI	57.94	58.29	0.6	2.6	4.08	4.68	14.7	12.5	0.61	0.85	2.9
AIG	79.40	69.12	(12.9)	(4.2)	2.89	3.50	21.1	19.7	0.96	0.94	3.8
AXP	35.69	41.01	14.9	0.1	0.98	1.99	103.1	20.6	1.00	0.20	4.3
COF	53.95	59.89	11.0	(6.2)	2.91	3.58	23.0	16.7	0.81	0.73	3.6
C	50.48	43.30	(14.2)	(12.6)	2.81	3.26	16.0	13.3	0.65	0.83	2.7
KRB	35.20	35.45	0.7	(8.1)	1.92	2.24	16.7	15.8	0.77	0.95	4.0
ONE	39.05	40.87	4.7	(2.2)	2.47	2.77	12.1	14.8	0.72	1.21	2.3
USB	20.93	23.70	13.2	5.0	1.32	1.85	40.2	12.8	0.62	0.32	2.9
WFC	43.47	51.15	17.7	3.5	1.97	3.29	67.0	15.5	0.76	0.23	3.1
Peer Group Average			4.4	(3.1)			37.4	16.2	0.79	0.43	3.3
DJ Indust.	10,021.57	9,946.22	(0.8)	(4.0)	391.09	455.55	16.5	21.8	1.06		
S&P 500	1,148.00	1,076.92	(6.2)	(6.1)	38.71	52.41	35.4	20.5	1.00		
S&P Fin'l	355.26	355.98	0.2	(2.7)	19.59	24.44	24.8	14.6	0.71		

American International Group (AIG), American Express (AXP), Bank One (ONE), Capital One (COF), Citigroup (C), MBNA (KRB), U.S. Bancorp (USB) and Wells Fargo (WFC).

(1) 2002 P/E ratio relative to the S&P 500 P/E ratio.
(2) 2002 P/E ratio divided by EPS growth.

HHS 02075819

Exhibit #2

ANALYST REPORTS – FINANCIAL RELATIONS CONFERENCE

Goldman Sachs **April 10, 2002**

Buy

Household's investor day blueprinted a process of more proactive reputational, financial disclosure, operating, and strategic initiatives designed to strengthen confidence in steady 12%-15% growth in the years ahead. This effort is likely to be well received by investors as its valuation retraces some of its 10%-15% discount versus other high quality large capitalization spread lenders and big regional banks.

Household's 10%-15% P/E multiple gap versus a peer subset of spread lenders has arisen through a combination of accounting issues, the perception of reputational vulnerability related to fees and certain loan features, and its capital markets discount manifested through a widening in generic and company specific credit spreads. While these issues could have a residual effect on valuation, we believe company specific progress and/or a better understanding of these issues is likely to help narrow its valuation discount. Finally, while we think upside is considerable, we note that as a consumer lender Household could 'fight against the grain' a little, as we may see a heavier investor preference for financials with strong leverage to a robust economic recovery, particularly one in which businesses are seen as the principal beneficiary.

At the conference, Household made a conscientious effort and has succeeded in developing investor insight into certain areas of concerns including accounting, reputational, and liquidity-related issues. For instance, Household now seems ahead of the curve on disclosing 'reaging' details, a process which we think will provide a deeper investor perspective and dimension on credit quality, reserve adequacy, and credit trends overall. On reputational issues, management made a forceful case on its proactive posture on disclosure, limitation on fees, 'graduation' of rates based on good payment history, and community involvement. Finally, on liquidity and capital markets access, we note that spreads have tightened recently.

Prudential Securities **April 10, 2002**

Buy

At a well-attended onsite meeting yesterday, Household's senior management team discussed the prospects and strategies of major businesses. The CFO also spent about an hour reviewing 2001 results, 2002 outlook, and recent issues in the market. The tone of the meeting was generally upbeat, as Household has demonstrated an ability to sustain mid-teen earnings growth and 20%-plus ROEs during various macro-economic scenarios. In fact, recent results help support management's claim that Household's business model is largely "recession proof." The following are our three main takeaways from the conference: First, EPS growth of 15% appears doable. Fundamentals appear to remain solid with good loan growth, improving margins, and manageable credit. Household benefits from still healthy demand for debt consolidation, home equity products and relatively rational competition. Second, capital ratios appear to be headed higher. Third, disclosures appear to be getting better.

Management put to rest several recent "market issues" – e.g., transparency, securitizations, reserves, and liquidity. However, new info on account re-aging lacked historical and comparative context and could be a misleading indicator of Household's approach to managing credit losses. Overall, given financial momentum and a lower risk profile we're nudging-up our 2002 and 2003 EPS estimates a dime each to $4.70 and $5.25. We're also trimming our price target to $70 given our belief that valuation improvement may prove challenging as political/regulatory/accounting issues could stay around for a while.

Bear Stearns **April 10, 2002**

Buy

As expected, at its annual financial Relations Conference Tuesday, Household reiterated its confidence in achieving its 13% to 15% EPS growth target and provided some new disclosure intended to address some significant investor concerns that have been heightened over the past six months.

While the company expects some further increases in loss rates during the first half of the year for the portfolio overall, there have already been some improvements in delinquency rates in the US branch business. It appears that the company's assumptions regarding unemployment and bankruptcy filings reflected in its earnings forecast may be too conservative.

At the conference, the company addressed recent concerns, providing some new information about securitization gains, the re-aging and restructuring of accounts, and liquidity management. There was also some additional information provided about the company's credit policies by business line, including product specific chargeoff policies.

In general, most attendees seemed pleased with the additional disclosure, but there seemed to be some concern about the extent of the increase in loan restructurings in 2001 relative to 2000, but the increases seem consistent with the company's policies and the deteriorating environment.

As part of its new disclosure, the company presented significant detail about its re-aging policies by product. While it is still too early to gauge the full effect of 2001 re-aging, accounts reaged in 2001 appear to perform as well as those reaged in 2000. The company demonstrated that re-aging provides significant benefits in its auto business where the net benefit is positive even on accounts that subsequently chargeoff.

Lehman Brothers **April 10, 2002**

Strong Buy

Household held its Investor Conference and we believe it was a success. The company addressed the key issues we expected in our preview in a highly credible manner. Household did more than just rehash old explanations to old questions, it provided additional data for to address investor questions.

After trading up 2.5% in intraday trading, the shares ended up 0.3% on the day. We believe the reason for the pull back was a shelf registration filed by the company's HFC subsidiary to extend its internotes program being mistaken for a filing at the parent level.

In our preview, we noted that we expected CFO Dave Schoenholz to address the accounting issues that have been a negative overhang for the stock since late 2001. His presentation exceeded our expectations. The company addressed accounting issues relating to securitization and re-age policies. Certainly, skeptics could argue that finance companies should not include any non-cash gains in their earnings. We believe the fact that such gains represent a relatively small percentage of earnings and the company's assumptions have proved conservative in the past, and its clear disclosure of the impact of such gains should provide some comfort to investors that the company's performance has not been securitization driven.

In addition to providing detail surrounding its re-age policies by portfolio, the company provided data on the percentage of accounts and loans that had been reaged by loan portfolio. So what did the reage data show?

At fourth quarter 2001, 17% of accounts and $15.8 billion of the company's receivables had been reaged, which represents 15.6% of managed receivables. Skeptics may look at the numbers and be surprised by those levels, but the magnitude of the change does not seem out of line given the weakness in the economy. Further, the recidivism rates seem to be at reasonable levels.

The other key topic the company addressed is the issue of predatory lending. The company noted that it did not expect the changes to have an impact on its profitability. As the largest independent non-prime lender in the U.S., Household is likely to draw attention from regulators and consumers groups. That said, the company believes its practices are sound and that the biggest risk is merely short term headline risk rather than real economic risk.

Exhibit #3

ANALYST REPORTS – CHANGES IN RATINGS

Friedman, Billings, Ramsey **April 10, 2002**

Buy

Household held its annual investor conference yesterday in Chicago in front of a record crowd of attendees. We believe the company provided an effective outlook of each business line, while also addressing several key issues that have plagued the valuation of the stock in recent months. In addition, the company provided several new disclosures in its investor packet yesterday, which provide significant transparency beyond regular company reports to help investors assess the operating model.

We are introducing our 2003 EPS outlook of $5.30, representing 14% year over year growth from 2002 earnings expectations. This outlook is consistent with the company's 13-15% longer-term guidance.

We are raising our rating to "Buy" from "Market Perform" and establishing a $73 price target. Our "Market Perform" rating established in July 2001 stemmed from 1) an extended valuation, 2) an absence of necessary disclosures to better evaluate the operating model, and 3) an elevated loan-to-value (LTV) ratio in Household's subprime real estate lending business. While the company's LTV ratios are still competitively higher than industry average, our concerns are muted given the expected stability in the US residential real estate market and the improving economy. The valuation on Household at 11.1x our 2003 EPS outlook is compelling, in our opinion. As the economy improves, we believe Household can trade closer to its longer-term growth rate of 13%-15%.

A.G. Edwards & Sons **March 11, 2002**

Buy

We are downgrading the shares of Household International to "Buy" from "Strong Buy," based solely on valuation. Our $68 price objective and our 2002 and 2003 EPS estimates of $4.65 and $5.20, respectively, remain unchanged. Our price objective of $68 implies that Household shares trade at 14.6X our 2002 EPS estimate of $4.65 and 13X our 2003 EPS estimate $5.20, which is in line with our growth estimates.

Bernstein Research **March 5, 2002**

Market Perform

We are downgrading Household to "Market Perform" from "Outperform" based on our belief that legal risks to the business model and headline risk around predatory lending cases will impede expansion of the valuation multiple from today's 53% to 5-year historical average levels of 57% or above.

While we are not reducing our earnings estimates for the time being, further measures by Household to improve borrower protections or a clearer understanding on our part of the earnings impact of current measures could prompt a negative earnings revision in the future.

Household's announcement last Wednesday of expansions in best practice lending initiatives for branch-originated real estate loans represents on-going action by the firm to manage the threat of legal action around predatory lending lawsuits. While the measures have attracted public support from government and from consumer advocacy groups such as The National Community Reinvestment Coalition, they will likely have an adverse impact on profitability.

The impact on profitability is hard to estimate. For example, Household has imposed a 3% cap on origination fees and a reduction in the total amount of discount points to two making the maximum amount of fees on branch-originated real estate loans equal to 5%. We assume the impact on pre-tax earnings is $50 million or a tax-adjusted 7 cents/share. Other measures such as reducing the prepayment fee coverage period for customers selling their homes after two years from when their loan was made will further impact fee income.

At the same time, Household is taking measures that will tend to reduce net interest margin. For example, the "PayRight Rewards" program will allow borrowers who make 12 consecutive on-time loan payments to qualify for a rate reduction of 0.25% after one year from when their loan was made. The EPS effect of reducing the qualifying period from three years to one year is approximately 4 cents/share.

While each measure has only a slight impact on earnings and we are not reducing our earnings forecast for the time being, the sum of the nickels reduces earnings flexibility at the margin. This works against our original investment thesis of preferring companies with a high degree of near-term earnings resilience and hence leads us to change our rating to "Market Perform" from "Outperform." Earnings flexibility is important at this point in the credit cycle given the possibility of spread margin compression in the latter part of 2002 as the Federal Reserve raises rates in anticipation of recovery but credit losses – which are tied to unemployment and so lag recovery – continue to increase.

Our concern with Household is that legal threats increase structural risk to the business model and reduce near-term earnings flexibiltiy.

Exhibit #4

ANALYST REPORTS – FIRST QUARTER EARNINGS

CS First Boston **April 18, 2002**

Strong Buy

Household reported excellent first quarter results. EPS of $1.09 was $0.05 better than consensus. The increase was partially a result of $0.02 of goodwill amortization being eliminated. Since the company had a high level of securitizations this quarter ($2.4 billion vs. $0.9 billion a year ago), securitization gains were high ($0.04 vs. $0.01 a year ago), but were more than offset by stronger than expected reserve building. Strong results on the revenue side were redeployed in marketing and other spending as well as reserve building. Earnings quality continued to be high in the quarter, as the company added $0.27 per share after tax to its on-balance sheet reserve, almost double our expectation. We believe that the company will maintain the 15% earnings growth level, and will use excess earnings primarily to build reserves, and also to spend to build for the future. However, also noteworthy was the fact that despite continued uncertainty in the overall economy, management was highly confident about its ability to deliver on its financial targets.

The improving growth outlook should serve as a catalyst to materially improve the company's valuation. Household is building a track record of high and consistent internal growth, while maintaining efficiency and credit quality. We believe that the results confirm that the improvement in fundamentals is sustainable. We reiterate our "Strong Buy" rating on Household.

Merrill Lynch **April 18, 2002**

Strong Buy

Trends were generally stable, and core fundamentals remain good. Securitization gains were unusually good as was profits from the company's refund anticipation loan program, but this was all plowed (and then some) into a $0.45 per share increase in loan loss reserves.

Managed receivables growth of 0.4% sequentially was sluggish due in part to $900 million of whole loan sales and larger than expected seasonal declines in the VISA/MasterCard portfolio. Absent the loan sales, receivables would have increased 1.2%, a bit better than our beginning of quarter forecast.

The net interest margin declined to 8.79%, 2 basis points below our estimate. A declining net interest margin was expected since the company continues to shift its receivables mix toward lower-margin real estate secured loans. We expect the margin to continue to decline during the year due to the mix shift plus an expected increase in short-term interest rates later in the year.

Securitization gains were a robust $145.8 million in the quarter. Investors generally do not like to see big quarterly securitization gains – they are unpredictable, lumpy, and sometimes subjective contributors to earnings – however this quarter's level was not unusual as Household accelerated some of its normal securitization volume into the first quarter 2002. Recent volatility in the commercial paper market in the wake of Enron and Tyco prompted the company to decrease its reliance on commercial paper to a level that could be replaced quickly by other funding sources without resorting to term lines.

Credit deteriorated moderately vs. the fourth quarter of 2001. This deterioration was expected as improvement in the company's credit trends should lag improvements in the economy.

Household currently trades at 11.2x our 2003 EPS forecast of $5.40 per share, representing good value to what we believe will be stable 15% EPS growth this year and next. With charge-off trends generally stable, an excellent capital position, and an improving outlook for the economy, we expect Household's earnings power to improve with each successive quarter. We maintain our "Strong Buy" recommendation.

Bernstein Research **April 18, 2002**

Market Perform

On Wednesday morning, Household reported first quarter 2002 EPS of $1.09 (a nickel above consensus and our estimate). The firm did not raise guidance for the full-year EPS growth of 13-15% but reiterated confidence in delivering at the upper end of the range.

Household delivered a stronger-than-expected quarter and is taking advantage of a low cost of funds to strengthen its balance sheet, a prudent move given regulatory guidelines for capital requirements against sub-prime loans and expected deterioration in loss ratios through the year. The cyclical risk is that current positive consumer trends stall – possibly as higher energy prices affect household cash flow – so that there is less income available to service debt leading to worse-than-expected loan growth and loss ratios. A longer-term risk is that changes in sales practices – including, for example, restrictions on loan points, the financing of fee products, and prepayment coverage periods – impair the profitability of the business model.

Household has significant near-term earnings flexibility given the current environment of low interest rates and the shift in the portfolio mix towards low-loss ratio real estate loans. The firm will use surplus earnings to strengthen the balance sheet and migrate towards less aggressive accounting policies (including a partial reversal of the recency policy for loss recognition). However, we are cautious on longer-term returns as the impact of recently announced and possible future changes to business practices on loan volumes, fee income, and profitability becomes clear. We rate Household "Market Perform" with a target price of $57.

Stephens Inc. **April 17, 2002**

Buy

Household reported first quarter earnings per share of $1.09 or three cents above our estimate and five cents higher than the consensus outlook. The earnings gain resulted from very strong positive operating leverage, with total revenues (managed basis) increasing 25.5% compared to 11.5% higher operating outlays. The earnings per share gain was also boosted by a 2.1% decline in the average diluted share count. The company has repurchased its shares on a pretty consistent basis, with 1.6 million shares bought back in the latest three-month period.

As expected, asset quality continued to suffer. Management has been quite forthcoming regarding the prospects of higher problem assets and loan losses. At the same time, the company continues to insist that credit costs should be manageable due to the impressive earnings power of the overall franchise. The latest quarter certainly bore that out. However, Household also accrued a managed provision equal to 132% of managed losses, thereby adding significantly to the reserve ratio (increasing to 4.10% of loans or up 32 basis points from both year-end and last year).

We are fine tuning our estimates upwards, reiterating our "Buy" rating and confirming our $84 target price. Earnings momentum is clearly quite strong, despite a problematic economic environment. Management has done a superb job of managing the franchise through the short recession and can probably look forward to a period of economic growth and the resulting decline in credit problems. What's more, Household benefits from a very favorable competitive environment and an exceedingly low cost structure. As the economy recovers, we expect a lot of the issues bedeviling the company to diminish, thereby providing a boost to valuations.

EXHIBIT 8

From: HFC0136 --HFCVM01 Date and time 08/30/02 08:11:37
To: HI0031 --HFCVM01 Streem, Craig A.
cc: HFC1204 --HFCVM01 Detelich, Thomas M

From: Donna L. Taillon - DXTAILLO
847/564-6970 847/205-7452 FAX
Secretary: Tom Detelich, Gary Gilmer, Jim Kauffman, D.Garr
Subject: Tom

Craig, Tom phoned:

Would like the price history of Households's stock as he wants to measure the decrease in the stock price from various points in time in the announcements of the Washington report. He'd like to use in arguing that we've already paid a good price to the states in the loss of our stock value. Can we get daily quotes from the year or just from the date WA released their report (May 15, 2002).

THANKS

Case # 02-C-5893
Jaffe v. Household
Plaintiffs' Exhibit
P1156

Streem
DEP. EXH. #30
Date: 2/21/07

EXHIBIT 9

Page 1

UNITED STATES DISTRICT COURT
NORTHERN DISTRICT OF ILLINOIS - EASTERN DIVISION

LAWRENCE E. JAFFE PENSION PLAN, On Behalf of Itself and All Others Similarly Situated,

Plaintiffs,

vs. No. 1:02-CV-05893

HOUSEHOLD INTERNATIONAL, INC., et al.,

Defendants.

____

VIDEOTAPED DEPOSITION OF CHRISTOPHER M. JAMES
Los Angeles, California
Monday, March 14, 2016
Volume I

Reported By:
CHERYL R. KAMALSKI
CSR No. 7113
Job No.: 10022555

Page 2

UNITED STATES DISTRICT COURT
NORTHERN DISTRICT OF ILLINOIS - EASTERN DIVISION

LAWRENCE E. JAFFE PENSION PLAN, On Behalf of Itself and All Others Similarly Situated,

Plaintiffs,

vs. No. 1:02-CV-05893

HOUSEHOLD INTERNATIONAL, INC., et al.,

Defendants.

____

Videotaped deposition of CHRISTOPHER M. JAMES, Volume I, taken on behalf of Plaintiffs, at 300 South Grand Avenue, 32nd Floor, Los Angeles, California, beginning at 9:07 a.m., and ending at 6:03 p.m., on Monday, March 14, 2016, before Cheryl R. Kamalski, Certified Shorthand Reporter No. 7113.

Page 3

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MARK LoSACCO, HSBC (Via videoconference)

Videographer:

MAX MAI

Page 13

Q Okay. Did you read the trial testimony of any Household employees?
A I don't believe so.
Q Okay. When I --
A Um -- I've seen reference to some of their testimony and looked around various parts of that reference. But in terms of reading it all and -- in total, I did not.
Q Okay. When I say "Household employees," I also mean former Household employees.
A I understood that to be the case.
Q Okay. Did you review any trial exhibits?
A I did.
Q Okay. Tell me about that.
A Certainly there are some trial exhibits in the materials that are attached to the Fischel reports; I believe there were some trial exhibits associated with Fischel's trial testimony, which I reviewed. That's what comes to mind as I sit here.
Q Okay. Nothing else that you recall?
A There may be others, but that's what I recall as I sit here.
Q Okay. Did you list any trial exhibits at all in your materials relied on?
A I've -- I listed the trial testimony, and

Page 14

I -- my recollection is, associated with that trial testimony were the exhibits.
Q Okay. That's consistent with your answer -- "Professor Fischel" -- I take it?
A Yes.
Q Did you think it was important to review the trial testimony of the witnesses in the case before you rendered an opinion on loss causation?
A In terms of reviewing their testimony, as I understood my -- my assignment here was to respond to certain opinions that Mr. Fischel has -- has put forth. And in -- in formulating my response, I reviewed the materials that he cites to for purposes of formulating his opinion, and -- and I thought that, at the time, was sufficient.
Q Okay. When you say your assignment as you understood it, what did you understand your assignment to be in rendering your first report?
A In rendering my first report was to utilize my expertise in financial institutions to -- and familiarize myself with the business model of Household -- to determine the extent to which there may be significant factors either in the industry or in subsets of the industry or in the market or in the economy; regulatory and -- and legislative

Page 15

changes that would have a disproportionate impact on Household vis-à-vis other firms within, for example, the S&P Financials Index or the CF First Boston Specialty Finance Index.
Q Okay. So was your assignment, when you undertook it, to see if there was a disproportionate effect based on market and industry news on Household?
A No. The first report was to identify factors that may have a disproportionate impact. And then in the second report, I demonstrate that those factors that I've identified, in fact, did have a disproportionate impact.
Q I'd ask you to turn to your CV, which I think is Exhibit 1 to your report. Do you have that in front of you?
A I do.
Q Okay. And can you tell me -- what is a visiting scholar at the Federal Reserve Bank of San Francisco?
A It is a scholar who's charged with providing -- assisting the staff in their ongoing research, as well as providing consulting services ultimately to the president of the bank on issues pertaining to financial market developments, as well

Page 16

as regulatory and examination issues that may impact the banks in the San Francisco Federal Reserve's District.
Q Okay. Is that a paid position?
A It is.
Q Okay. How do you get selected for that?
A I was asked in 2008 to -- whether I would be interested in working at the bank, given the issues that the bank was facing.
Q Okay. And you also list that you were a consultant for the FDIC between '88 and '91. Do you see that?
A Yes.
Q What were your duties and responsibilities in that position?
A Primarily the focus was on evaluating procedures that the FDIC followed for dealing with problem banks -- either distressed or failing institutions -- as well as working with staff on developing -- using economic analysis to address issues that may be of concern to the chairman.
Q Okay. And is that a paid position as well?
A It was.
Q And then I notice that you also list senior economic advisor for controller [sic] of the

Page 17

currency; is that right?
A Yeah. That's right.
Q Okay. And can you, again, explain your duties and responsibilities in that position.
A Sure. The comptroller is the primary -- or chief bank examiner for nationally chartered banks. And the senior economic advisor's position was one in which I advised on economic matters as it pertains to developments in the economy as they might impact the financial institutions that are regulated by the comptroller, as well as providing economic analysis to evaluate certain regulatory or legislative proposals that were coming before the comptroller.
Q Okay. And, again, is that a paid position?
A It was.
Q Okay. You used the word [sic] "financial institutions" a couple times now this morning.
A Uh-huh.
Q Do you have a definition of that for me?
A Well, I think the -- the -- there's a broad definition of "financial institutions" which would be institutions that either engage in what's called "intermediation," which is taking funds from potential investors or lenders and placing those

Page 18

funds with firms or individuals that are in need of funding; so intermediating between savers and investors in the economy.
The financial institution can be either an intermediary, in which it intermediates between a depositor and an investor, or it can be an institution that we wouldn't think about as a intermediary, such as a broker/dealer or something like that -- something like that.
Q Okay. I'd ask you to go to -- it's paragraph 1 of your report.
A Okay.
Q And you say, in the very last sentence of that:
"...I have served as the Securities and Exchange Commission-approved independent distribution consultant for the Janus Mutual Fund complex."
Do you see that?
A Yes.
Q What is the SEC-approved independent distribution consultant? What does that mean?
A This was in the context of a fair fund settlement that Janus Funds entered into with the

Page 19

SEC. And the procedure in a fair funds is -- in this context was to have an independent party to determine the appropriate distribution -- the fair fund settlement -- to fundholders at Janus in proportion to the damages that they incurred as a result of certain activities at Janus, in terms of permitting what were called "rapid traders" coming in and out of their mutual funds.
Q Okay. Were there particular funds in the Janus Mutual Fund complex that you dealt with?
A Yes. So it's been a while now, but it was primarily funds that were either in the fixed-income space, by investing in bonds or structured products, or funds that were investing in foreign securities.
Q Okay. Did you ever look at the claims that were submitted in connection with the Household case -- by Janus?
A No.
Q Okay. Did you ever look at the judgment that was entered in the case in October of 2013?
A By "judgment" you mean, like, looking at the verdict forms that --
Q No, not the verdict form. I'm talking about the actual judgment the Court entered, finding in favor of about 10,000 class members.

Page 20

A I'd have to look at it. Do you have a copy?
Q I didn't bring it with me. I'm just asking did you ever see it, that you recall?
A I may have. I just don't recall.
Q Are you aware that the Janus Mutual Fund complex submitted a number of claims in connection with Household?
A I'm aware of that, yeah.
Q Okay. What do you know about that?
A Nothing with any great specificity. I know that Janus was one of -- had a relatively large position as an institutional investor in Household.
Q Okay. How'd you become aware of that?
A From reviewing various case documents.
Q Okay. Which case documents?
A I don't -- I just don't recall. I think it may have been an investor relations report that Household produced, looking at their top institutional investors.
Q Okay. When you say an investor relations report at Household, what do you mean by that?
A They had an investor relations department. And I recall seeing some memos or reports from the investor relations department, and I recall their listing -- I think it was from 13D material --

Page 41

Household currently.
Q Right. No. I understand that. I mean --
A And I interpreted your question to be in a consulting as opposed to an expert witness role. And the answer is no.
Q Okay. And in the -- paragraph 6, you talk about your compensation; is that correct?
A Yes.
Q You get about $950 per hour, correct?
A That's correct.
Q Okay. How many hours to date have you worked on this?
A I would guess somewhere -- 150 to 200 hours.
Q Okay. And have you submitted bills to date?
A I have.
Q And you've been paid?
A I think there's some outstanding invoices, but I've been paid on some of the invoices.
Q And you note that you were assisted in this matter by staff of Cornerstone; is that right?
A Yes.
Q Who at Cornerstone have you worked with?
A My primary contact was Kristin Feitzinger and Katie Galley. I also worked with -- on this case -- Nick Yavorsky and James Lee.

Page 42

Q Okay. And are you compensated in whole or in part for work performed by Cornerstone people in connection with this engagement?
A No.
Q Okay. Do you get any sort of income or bonus of any type from work that Cornerstone does?
A Not in connection with this case.
Q Okay. Can you tell me how you do get compensated by Cornerstone?
A Sure. I have a -- I'm on -- I have a retainer with Cornerstone that is negotiated every two weeks.
Q Okay. And how does it work currently?
A The current retainer was negotiated a year and a half ago, and it expires in December of this year, I think.
Q Okay. And pursuant to that retainer agreement, are you paid directly or indirectly for the amount of business that you bring to Cornerstone?
A No. It's a set sum.
Q A set sum?
A Yes.
Q Okay. How much is that?
A It's payable quarterly. It's 1.2 million a

Page 43

year.
Q Okay. And that's not just related to this engagement, but for all your engagements for Cornerstone?
A It's not linked to any particular arrangement. It's negotiated in advance, and is not contingent on any work that I do for -- in conjunction with Cornerstone.
Q Okay. Okay. I'd ask you to turn to paragraph 7 of your report, if you would. And that's a section entitled "Background and Assignment"; is that correct?
A Yes.
Q All right. And -- I guess it's the last sentence in that paragraph; you're talking about Professor Fischel's leakage model, and you say (as read):
"This model effectively attributes the entirety of Household's residual price change during the Observation Window to fraud-related information."
Do you see that?
A Yes.
Q And -- first, I think you describe it in

Page 44

your -- in one of the notes below, but when you use the phrase "Observation Window," you mean the period from November 15th, 2001 to October 11th, 2002, correct?
A Yes.
Q Okay. And so if we use that word today -- or those words, "Observation Window," we'll have that in mind.
A Okay.
Q Okay. And in that sentence you say the "model effectively attributes." Why'd you use the word "effectively"? What did you mean by that?
A I think the -- "effectively" means that the -- the residual price decline that he is attributing to what he refers to as "leakage" is related to the residual price declines calculated from his regression model, with certain modifications.
And -- so using "effectively attributes" was to highlight the fact that he's really not using his regression model, per se, but he is using a regression model that he's adjusted in certain ways.
Q Okay. Tell me your understanding of the adjustments.
A He makes, I think, two primary adjustments.

One is to ignore the effect of the constant term in the -- in the regression and to replace that with the risk-free rate -- a measure of the risk-free rate. And second, he employs a cap on the residual decline.

Q Okay. And so that's what you meant by "modifications" in your answer?

A Yes, that's what I had in mind.

Q Okay. And the very last words in that paragraph 7 are "fraud-related information." Do you see that?

A Where are you?

Q Right at the very -- last three words in paragraph 7 of your report.

A Yes.

Q It says "fraud-related information." Do you see that?

A Yes.

Q Okay. Can you give me your definition of what's "fraud-related information," as you understand it.

A As he's using it, it -- he's attributing all of the residual price decline as inflation that is coming out of the stock as a result of what he alleges to be the "leakage of fraud-related

information" related to the allegations regarding certain practices with respect to accounting restatement, alleged predatory lending, and account re-aging. And I note he doesn't tie it to the 17 actionable statements found by the jury. But that's my understanding as to what he means by "fraud-related information."

Q Okay. And can you tell me -- what is your understanding of the predatory lending conduct in Household?

A I'm not sure I understand what you mean.

Q What was the conduct that was deemed to be predatory lending in Household?

MR. FARINA: Objection; form. Deemed by who [sic]?

THE WITNESS: As I understood it, the predatory lending categories in the -- that the jury -- associated with the jury findings had to do with, as I understand it, allegations of a failure to disclose certain -- what would be characterized as -- or what were referred to in the complaint as "predatory practices."

BY MR. DOWD:

Q Okay. Can you give me some examples of that.

A Well -- what might be considered predatory

practices?

Q In -- in this case, yes.

A I mean, I think that's the -- that is somewhat ambiguous.

We've talked about some of the practices that various parties have alleged were -- may be predatory in nature, such as the effective rate issue that we talked about, the insurance packing issue, issues regarding allegations regarding loan renewals, and the disclosure of point-based rate reductions.

Q Okay. Anything else that you recall?

A That's what comes to mind as I sit here.

Q Okay. You mentioned re-aging, I believe, in one of your answers. And do you have an understanding of the conduct in this case that related to the two-plus delinquency re-aging, sort of, notation on the verdict form?

MR. FARINA: Objection; form.

THE WITNESS: I'm not sure I understand your --

BY MR. DOWD:

Q Sure. Yeah. I mean, you said that you reviewed the verdict form, and you mentioned it in your answer.

A Yeah.

Q And there's a section that says "two-plus delinquency re-aging."

A Yeah. Do you have a copy I can look at?

Q Yeah. Sure.

(Exhibit 3 was marked for identification by the court reporter and is attached hereto.)

MR. FARINA: 3.

BY MR. DOWD:

Q Sir, you have in front of you what's been marked as James Exhibit 3. And that's the Verdict Form you referenced, correct?

A Yes.

Q Okay. And do you see -- for example, just on the first page there -- there's a section -- or a category that says "2+ Delinquency/Re-Aging"? Do you see that?

A Yes.

Q Okay. And what I'm asking you is what was your -- what is your understanding of the conduct in the case that would fall within the "2+ Delinquency/Re-Aging" category?

A I mean, as a very general matter, the question is whether the disclosures were adequate with respect to their policy of re-aging 60-day-plus

Page 61

A Again, I wasn't asked to undertake that analysis. I -- as I understand it, that is what Professor Ferrell was engaged to do.
Q Okay. Have you talked to Professor Ferrell about his work in connection with this case?
A I have not.
Q Okay. Have you talked to Professor Cornell about his work in connection with this case?
A No.
Q You used the word "confounding" with respect to non-fraud-related information. Do you recall that?
A Yes.
Q What do you mean when you say "confounding"?
A Well, you have, on a particular day, what may be -- what, say, Professor Fischel attributes to -- identifies as "fraud-related," versus information that is -- is clearly not fraud-related, such as the impact of, say, CapitalOne write-down, and, you know, analysts identifying that write-down as having -- and -- identifying Household's stock price declining in sympathy of that write-down on that particular day. So that would be an example of what I would consider confounding information.
Q Okay. So in other words, in your example,

Page 62

you mean information with respect to CapOne?
A That is impacting investors' perceptions of the future profitability of Household.
Q And when you use the phrase "non-fraud-related information," what do you mean by that?
A Generally information such as -- I -- developments in credit markets that have a disproportionate impact on Household; you know, developments in the regulatory and legislative area that may have a disproportionate impact on Household and may affect its business going forward, but are not developments that Household could have disclosed at an earlier date simply because those actions hadn't been taken. Those are examples that come to mind.
Q Okay. When you say a "disproportionate impact on Household," disproportionate to what? What do you mean by that?
A Well, I think it's in the context of -- for example, the kind of comparators that Professor Fischel is employing, like the S&P 500 or the S&P Financials. So you've got a -- in the S&P Financials, a broad-based index that covers a range of financial institutions, heavily weighted towards commercial banks, and many of those

Page 63

institutions are not engaged in a certain type of lending activity that provides a unique exposure to both economic developments, as well as credit market developments, as well as regulatory developments, as well as firm-specific factors, such as investors' perception of the similarity of, say, a CapitalOne or a Metris business model to that of Household's.
Q Okay. And in your view, what is fraud-related information, then?
A Well, I think that fraud-related information would be -- in the context of this case -- what -- as I understand the findings of the jury with respect to certain alleged misstatements.
Q Can you explain that to me.
A Well, I think there were 17 findings by the jury regarding certain statements that were made that the jury found to be a misstatement as it pertains to predatory lending, two-plus delinquency/re-aging, or restatement.
Q Okay. But I guess what -- what I don't understand about your answer is -- take a statement like, you know, "We don't engage in predatory lending." What -- don't you have to understand the underlying predatory lending conduct to understand what's fraud-related?

Page 64

A I think that you do need to understand what the nature of the misstatement is in order to determine the extent to which it's fraud-related. That -- and I think -- one of my observations is that there is certainly considerable ambiguity in -- in Professor Fischel's characterization of things as being "fraud-related" versus "non-fraud-related." So any -- for example, anything pertaining to the -- Household's lending practices, he appears to attribute to a fraud-related factor.
Q Right. I'm not asking about what Fischel thinks. I just want to know what you think. I mean, what do you consider to be fraud-related?
A Well, I think I have to analyze that in the context of the -- the characterization and the -- and the identification that Professor Fischel has done. And -- because what I'm commenting on and what I'm trying to determine is to -- the extent to which certain factors that he has identified as what he calls "fraud-related," are there other factors that are non-fraud-related, such as I've talked about regulatory and legislative developments with respect to both lending practices as well as capital requirements at various institutions, in terms of credit spreads that are driven by macro as well as

industry-specific factors such as finance companies' reliance on commercial paper; and factors unrelated to the fraud such as, for example, Household's need to refinance a considerable amount of its debt in the 2002 to 2003 time period because of the maturity structure of its debt, given a time in which spreads, across the board, were increasing, and access to certain types of funding, such as the commercial paper market, were being restricted, not just for Household, but for other firms in the marketplace.
Q All right. I mean, I understand what you're -- you're saying when you talk about "non-fraud-related" --
A Okay.
Q -- but, you know, non-fraud-related is, sort of, the converse of something.
A Right.
Q And -- I assume it's the converse of "fraud-related." And that's what I'm trying to get at is -- putting aside Fischel -- don't care what he thinks -- what do you think is fraud-related?
A Well, I think that -- as I understand what fraud-related is would be whatever pertains -- disclosures pertain to the findings of the jury

regarding certain misstatements which, as I understand it, was the finding as it pertains to what we've been referring to as the "alleged fraud."
Q Okay. That's where you lose me; like, in other words, if one of the false statements is "we don't engage in predatory lending" --
A Right.
Q -- right? I mean, I assume you agree with me that that means the jury believes that Household did engage in predatory lending, if they found that false for that reason, correct?
A That's correct.
Q Okay. So what is the fraud-related aspect of predatory lending?
A Well, I would think, in terms of trying to identify a stock price response as to -- for purposes of determining whether the inflation comes out of the stock on a particular day, it would be is there new material information coming to the market regarding the issue pertaining to predatory lending. Okay? And it would have to be new information. It would have to be related to information that corrects a misstatement that is identified by the jury, if it be, for example, "We don't engage in predatory lending."

Q So in other words, say, for example, we talked about the Washington DFI report.
A Right.
Q That clearly suggests that Household engaged in predatory practices, correct?
MR. FARINA: Objection; form.
THE WITNESS: The DFI -- as I understand the report -- found -- objected to certain practices, principally disclosure-related activities of Household, as it pertains to the effective rate, insurance packing, and that type of thing.
BY MR. DOWD:
Q Okay. So if that -- if information with respect to that report got into the market --
A Right.
Q -- would you consider that to be fraud-related information?
A Well, you're using -- potentially. I haven't been asked to -- to make that division, but certainly potentially that could be fraud-related. Whether I would consider it fraud-related on a particular day or not, for purposes of ascribing, say, a price movement to that information related to the DFI report would require me to make sure that, first, it was new information regarding the DFI

report as opposed to simply an analyst reiterating or commenting on a piece of information that was in the market at a previous point in time, and to try to determine the extent to which that there was any other information being disclosed on a particular day that would be, arguably, not related to allegations regarding predatory pricing -- or predatory lending.
Q Okay. And what steps or analysis would you undertake to determine whether something was "new information," as you used the phrase?
A Well, I would -- I would look to, you know, what the nature of the disclosure was. For example, as I mentioned, if an analyst is reiterating or commenting on a piece of information that was previously disclosed, I don't think I would characterize that as new value-relevant information because it's already in the mix of information.
Q Okay. What if the information came out and the analyst provided his own independent analysis and discussed its impact, would that potentially be new information?
A I think that -- I would have to look at the nature of that. I would generally think that -- now you're getting into an area where -- you know, is it

methodology that is widely employed in academic research on the behavior of securities prices?

A I'd need to know more. The question is -- you know, I certainly think that if you're doing a -- or -- a regression analysis -- I think regression analysis is one tool that statisticians use to conduct scientific inquiry. There are other tools, such as comparing treatment groups to control groups, using a matching technique.

The hesitancy I have is you're -- the -- how you -- whether it meets the scientific criteria or not really depends on how the experiment has been set up so that, in fact, it is objective as opposed to a potentially subjective parsing of information on a particular day to ascribe price movements to one piece of information as opposed to another.

Q Okay. Do you agree that the goal of an event study analysis is to remove broad economic and industry effects from daily price movements and develop a model to quantify the normal level of company-specific price movements?

MR. FARINA: Objection; form.

THE WITNESS: I think that's the objective. The question is whether, as the event study methodology is employed, you're successful at doing

that --

BY MR. DOWD:

Q Okay.

A -- which requires an evaluation of what the inputs into the model are, as well as how the output of the model is being interpreted.

Q Okay. But you agree that that's the goal of an event study analysis?

A I -- I think that's a goal of the event study analysis, yes. Whether that goal is achieved or not really requires an inquiry into the specific facts and circumstances of its use.

Q Now, once you objectively quantify the normal level of company-specific price movements through this event study, can those normal level of company-specific price movements be used to determine whether price movements on specific days, after adjusting for market and industry effects, are abnormal or statistically significant?

MR. FARINA: Objection; form. I'm going to apologize. I'm going to ask you to read that again. There was a lot in there.

MR. DOWD: Okay.

Q Let's assume that we've objectively quantified the normal level of company-specific

price movements. All right? Okay?

A Okay.

Q And -- would you agree that this normal level of company-specific price movements can then be used to determine whether price movements on specific days, after adjusting for market and industry effects, are abnormal or statistically significant?

A It really depends upon whether other criteria are met or not.

Q Okay. What are those other --

A Let me give you an example is that -- what you're trying to do with an event study is come up with, sort of, a benchmark or a control. And the question is is that benchmark or control, if it's estimated, say, over some period of time, say, prior to the event -- is that benchmark or control -- do you have reason to believe that it would be applicable for purposes of measuring normal price movement during the period in which you're investigating the company stock price change.

So -- and obviously the -- the more distant the control period is from the time in which you're using that control period as a benchmark to evaluate normal and abnormal returns, the greater the likelihood that you're -- that you're not

appropriately accounting for normal price movements.

Q Did you perform an event study in this case?

A I did not.

Q Okay. Why not?

A For a couple of reasons. First is the issue I was addressing was an issue that -- it -- was specifically the leakage model that Professor Fischel is proposing. That's not a model that's based on an event study methodology -- number 1.

Number 2 is to account for the control group, I used an approach of matching Household to -- which is what -- I would, in scientific terms -- be -- is "subject to the treatment" -- the alleged -- the allegation that a -- fraud-related news is leaking into the market -- to a control group, which is other firms in the industry that Household -- with the same business focus, and to compare the two aggregate returns.

Number 3 is, as I understood my assignment, that Professor Ferrell would be addressing specific issues as it pertains to Dr. Professor Fischel's event study methodology and his -- what I'll call "two-factor market model" that he's adjusting for purposes of measuring abnormal returns on various

days.
BY MR. DOWD:
Q You mentioned Professor Ferrell's activities in connection with the case, correct?
A Yes.
Q Do you rely on any of Professor Ferrell's analysis in rendering your opinion?
A I certainly considered it. And I think it's -- his analysis is consistent with mine. But in terms of would my report -- could my report be used on a standalone basis? Yes. There's nothing in my report that I perceive as being dependent upon a particular conclusion or opinion that Professor Ferrell is rendering.
Q Okay. Did you consider anything that Dr. Bajaj testified to or wrote in his reports?
A No.
Q Why'd you read his testimony?
A I think that I was reading his testimony for context, you know, when I was first retained. There's a previous trial, and I was trying to understand what the -- the issues were in the case.
Q Do you know Dr. Bajaj?
A I don't know him personally, no.
Q Okay. Have you ever worked with him on a

case?
A No. When you get to a convenient stop, I -- I drink a lot of water.
Q All right. Sure. It's a little early, but go ahead. Go ahead.
A I can go --
Q No. No. It's fine. Go ahead.
THE VIDEOGRAPHER: Going off the record at 10:59 a.m.
(Recess.)
THE VIDEOGRAPHER: Going back on the record at 11:09 a.m.
BY MR. DOWD:
Q Ready to go?
A Yeah.
Q Dr. James, do you agree that to derive a relationship that explains a company's stock price movements based on broad economic and industry-specific factors, typically event studies use a regression model?
MR. FARINA: Objection to form.
THE WITNESS: Are you asking me whether regression -- that event studies typically use regression models to -- I think typically, although not always, a regression model is employed in the

context of calculating the abnormal returns associated with -- that's one input into an event study -- yeah, I think that's right --
BY MR. DOWD:
Q Okay.
A -- but not exclusively.
Q Okay. And did you undertake any regression analysis or use a regression model in this case?
A No. Because, again, as I indicated, I used an alternative scientific approach, number 1; and number 2 is I was really focusing on a part of the analysis that Professor Fischel had conducted, which is not based on a regression type of analysis.
Q Okay. How would you describe your alternative scientific approach?
A I'd say it's very much in the spirit of a propensity score matching technique where you really look at the difference between the performance of a treatment group, where here the treated group is -- is Household -- and a control group, which is firms with the same business focus -- financial firms with the same business focus as -- as Household, who would be impacted in a similar way to developments that were occurring in the economy and in the segment of the business that was associated with the

Household business model.
Q In performing an event study analysis, do economists -- to estimate the reaction of a company's stock price, do economists at times have to choose a peer group?
MR. FARINA: Objection; form.
THE WITNESS: It depends on what the -- what the nature of -- the question you're investigating.
BY MR. DOWD:
Q Okay. If you're looking at loss causation and damages and you're performing an event study, have you ever looked at peer groups?
A Oh, sure.
Q Okay.
A Um -- yeah, I have.
Q Is that fairly typical to do that?
A It depends on what the nature of the question is. I mean, what's typically done is to look at a specific date or a set of dates that have been identified, and then look at the extent to which there's abnormal returns on those particular dates.
You know, once you get into a situation in which you're aggregating returns over a long period of time and then -- there are significant problems associated with relying on, say, abnormal returns

generated from market model estimations, and as a result, you -- as -- you may employ some alternative methodology.
Q Okay. In the past when -- when you've testified about causation and damages and you've used an event study and a regression model --
A Right.
Q -- have you looked at peer groups?
A I certainly have. I don't recall ever testifying in a loss causation or damages context in response to the -- an expert claiming that over an extended period of time it's appropriate to aggregate a modified output of -- for residuals. I just haven't encountered that.
Q Okay. I'm just asking about --
A No. I understand.
Q -- what you've done in the past.
A Yeah.
Q So -- just so we're on the same page.
In performing loss causation and damages analysis during your career, in connection with expert witness testimony --
A Sure.
Q -- have you ever used the peer group in a company's proxy statement to do your analysis?

A Sure. I -- I try to -- I may do that. It would depend on, you know, the extent to which I -- I thought the peer group, based on my understanding of the industry, was likely to capture important developments that would be impacting the firm that I was -- was evaluating.
Typically in an event study, where you're focusing on one day or -- you've isolated specific disclosures on a given set of days, the results are not terribly sensitive to the -- the comparative groups that -- that you utilize.
When you're in a situation in which you are departing from that, sort of, traditional approach, and looking over an extended period of time, I think it -- then it's really important that you carefully consider whether the comparables that may be reported in a proxy statement, for purposes of compensation or general industry trend, are appropriate for purposes of capturing what might be specific to a particular firm that is -- that you're trying to isolate and separate from disclosures that pertain to an alleged misstatement.
Q Okay. But you agree with me that in your career as a consultant -- or expert on loss causation and damages, you've certainly used a peer

group in a company's proxy statement for your -- purposes of your analysis?
A Sure. And I've -- and sometimes I've not used the -- the peer group that's in the proxy statement because of the specific issue that I'm trying to address in my -- in my report.
So for example, as I recall in the Oracle case, there was an allegation regarding certain misstatements that Oracle made concerning its Suite software, while there are certain firms within the industry that focus on Suite software. And thus I looked at the extent to which those firms were reacting in a similar fashion to Oracle on days in which Oracle was making statements regarding Suite software.
So it really depends on what the nature of the -- the exercise is and whether, based on a familiarity with the industry, you're confident that you're capturing, with the firms in the proxy statement, firm-related -- or industry-related developments as opposed to -- and -- and oftentimes I've had to employ a narrow -- narrower definition of industries because of the facts and circumstances.
Q Okay. So the facts and circumstances in the

case are important to your analysis --
A I think --
Q -- in selecting a peer group?
A I -- I think so. Particularly, you know, if you're -- if you're -- I think that if you have a situation in which you -- you have as -- like in the Oracle case -- or I think in this case, where you have a firm that has a distinct business focus, and there's allegations pertaining to that distinct business focus, as well as other events going on in the marketplace that are likely to be impacting firms with that similar business focus, that -- I think it's important to make sure that you've adequately controlled for -- through selection of a peer group that is going to be similarly impacted.
Q Okay. I appreciate your Oracle example as a situation where you didn't use the peer group listed in a company's proxy statement.
Can you tell me some cases where you did use the peer group listed in a company's proxy statement.
A I -- as I sit here, I -- I -- I -- I can't recall. I know that I have and I've -- I know that I have used other indices where I felt it appropriate.

Page 85

Q Okay. How many times would you say you've used a peer group set forth in a company's proxy statement?
A I think I've used it on a number of occasions. I really think that before I would use -- and my recollection of using a peer group in a proxy statement is whether I think the peer group is -- is going to be capturing the important developments within a particular industry or a particular business focus. That -- I think that's particularly important when you have firms where they're part of a broad-based index, such as the S&P 500 or the S&P Financials, where, as I understand it, there may be regulatory requirements as to the -- you know, benchmarking their performance relative to a particular index and -- then you have to ask whether are you really capturing and are you really controlling for important firm-specific factors that are -- that are -- factors that are impacting the firm that is -- that are not being -- you want to make sure that you're capturing, with the industry peer, okay, developments that are occurring within the industry that might have an impact on a particular segment of the industry, if that's, in fact, where the firm

Page 86

that you're analyz- -- whether -- where -- if you have a firm within an industry that is focused on a particular segment of the market.
Q Okay. You said that on a number of occasions you've used the peer group set forth in the proxy statement. Can you tell me how many times you've done that.
A I can't. I mean, my typical approach would be to carefully analyze the extent to which the firms that I'm using as peers are going to be similarly impacted by the same non-fraud-related -- or non -- non-alleged-fraud-related factors that I'm trying to control for in the firm that I'm studying.
Q Okay. But you can't tell me how many times you've done that?
A I think the majority of the time I don't use a proxy-statement based -- that it's really looking at the specific segment of the firm's industry.
Q Okay. But you can't tell me how many times?
A No. I would say generally -- you know, the broader the index that's in the proxy, the more likely I would be to look at spec- -- firms with -- do the research to identify firms with a similar business focus.
Q Okay. Have you ever chosen a peer group

Page 87

based on the fact that the company discusses peers in its 10-K?
A Yes.
Q Okay. How many times have you done that?
A Again, I -- I don't know. I mean, I -- I can say that, you know, on each occasion, to the extent that I'm using a -- peers in the proxy to competitors identified in the 10-K versus identify -- competitors identified through analyst reports or competitors identified through a combination of analyst reports as well as looking carefully at the line of business that the comparable firms are in, I -- I think it -- I can't quantify the number of times, but I think my approach is similar in the sense that I have to ask whether the peers identified from another source -- be it the company or analyst reports, for purposes of, you know, evaluating general performance or compensation -- are appropriate in the circumstances in which I'm investigating a firm's performance.
Q Okay. So you'd say that on a number of occasions for selecting a peer group, you've used the companies listed in the company's proxy statement, correct?
A I think I've answered the question. And I

Page 88

basically said it really depends on whether the -- the firms -- that I have reason to believe that the firms that are stated -- that are described in the proxy statement are firms that are going -- based on -- that -- are going to be subject to the same economic factors to the same extent as the firm that I'm studying, so that I'm able to capture important industry factors that may impact the firm in question.
Q Okay. Yeah. My question's more basic than that. I just want to ask you: So on a number of occasions in selecting a peer group, you've selected the firms listed in a proxy statement, correct?
A Yes. But I just want to make sure that it -- the record is clear that it's -- it's not so much that I would use the proxy statement and say "Well, because it's in the proxy statement," okay, "I'll use it as a peer group"; rather I would investigate the extent to which, as an economist -- particularly if it's an industry that I'm very familiar with, like financial institutions -- do I have reason to believe that that set of peers that are described in the proxy statement or described in the 10-K are -- are firms that, during the period that I'm analyzing, are going to be subject to the same

non-fraud-related factors as the firm that I'm studying. Okay?

So, you know, I think that -- that's the -- the first step in the analysis as to whether I would use a peer in the proxy statement or peers in analyst reports or peers appearing on a 10-K.

Q Okay. So on other occasions you've used peers in the 10-K; is that correct?

A Again, as I just described, following that same procedure.

Q Okay. And then based on your answer, on some occasions you've used peers set forth in an analyst's report?

A Yes. Again, following the same procedure as I've identified.

Q Okay. Are there any other ways you've selected peer groups besides proxy statements, 10-Ks, or analyst reports?

A You know, to the extent that -- I've utilized, on some occasions, certain indices that, say, may be provided by Bloomberg, to the extent that, say, there's a -- a narrow -- narrower industry segment that I think it's important to control for.

Q Anything else?

A I think that's it.

Q Okay. I'd ask you to turn to paragraph 11 of your report.

A Well, I should -- you were just asking questions regarding -- in terms of expert work that I've done, right, not --

Q Yes.

A -- in terms of academic work?

Okay.

Q Yes. Okay?

A Uh-huh.

Q Are we back on the same page? I just asked you to turn to paragraph 11 of your report. It's on page 4.

A Okay.

Q Do you have that in front of you?

A Yes.

Q And that section's entitled "Summary of Opinions," right?

A Yes.

Q And then you, sort of, have a) through e) on page 5 of your report that, sort of, walks through those opinions; is that right?

A Sum- -- summarizes those opinions, yes.

Q Okay. In that first entry -- I guess it

would be paragraph 11a) -- you discuss the breakdown of Household's managed receivables; is that right?

A Yes.

Q Okay. One of the segments, I guess, that you mention there is "bank card"; is that right?

A Yes.

Q And you say that was 17 percent of Household's managed receivables at that time; is that right?

A Yes.

Q Okay. And so, in other words -- just so I understand -- so if Household had 100 billion in managed receivables, the bank card was about 17 billion, right?

A Yes.

Q Okay. Do you know what percentage of Household's bank card receivables, say, in 2001-2002 were related to subprime customers?

A I think they were principally non-prime related, and -- you know, in terms of their, you know, GM card, their union affiliation cards, and the like, I think those were primarily non-prime focused products.

Q When you say "non-prime," what do you mean by that?

A So there are various definitions of what a subprime customer is. For example, sometimes people will look at a FICO score and say, "Well, 660 or 620 is a subprime credit" relative to a 715 FICO.

The -- you know, there's other criteria, such as, you know, debt-to-income ratio, frequency of delinquencies within the last year -- typically it's two -- debt-to-income ratio for the borrower, if it's over 50 percent; whether there's been a bankruptcy in the last five years. So there's a combination of indicators that one looks to.

You know, I concluded, from both looking at the analyst reports, as well as the Household description of its -- of its customer focus, that they were principally in a -- what I would refer to as "largely subprime," which would include, you know, what I would think of as clearly a subprime, with a 620 or a 660, and those characteristics, as well as what I'd say "non-prime," which is someone with a blemished credit record but they may have, you know, a 680 FICO score with one delinquency and, say, a relatively high debt-to-income ratio.

Q Now, are you just talking about their bank card customers, or are you now talking about their customers generally?

MR. FARINA: I think you misspoke. You said 2010. It's 2001.

THE WITNESS: I apologize. 2001.

BY MR. DOWD:

Q What percentage of the private label, 14 percent of managed receivables in your paragraph 11a) was prime versus subprime?

A I'd have to go back and look. The -- you know, based on my experience, it typically is going to be more of a non-prime-related customer because, you know, the prime customers are going to be using primarily cards that are linked to their bank accounts, so you're going to be in the MasterCard, Visa, or AmEx space.

Q And -- but you can't tell me what percentage of the private label was prime versus subprime, at Household?

A No, other than the description both by analysts, Household, and -- you know, looking at their -- the performance of their overall consumer receivables, that led me to the conclusion that -- that their principal, although not exclusive, business focus was on the non-prime/subprime-related aspect -- segment of the market.

Q But you don't know what percentage of that

private label is superprime or prime?

A No.

(Exhibit 6 was marked for identification by the court reporter and is attached hereto.)

BY MR. DOWD:

Q Sir, I've placed in front of you what's been marked as James Exhibit 6.

And for the record, that's a 13-page exhibit. It's entitled "Q2 2002 Household International Earnings Conference Call - Final." Do you see that?

A Yes.

Q Okay. And it's dated July 17, 2002, correct?

A Yes.

Q Have you seen this document before?

A I believe I have, yes.

Q Okay. That's a transcript of Household's Q2 2002 earnings call, right?

A Yes.

Q Okay. And this would have been a conference call that -- both Mr. Aldinger and Mr. Schoenholz made comments during the course of that earnings conference call, correct?

A Yes.

Q Okay. And there's a section on page 2, about halfway down the page. It says, "David Schoenholz,

CFO, Household International," and it starts out "Thanks, Bill." Do you see that?

A Yes.

Q And turning to the next page, Mr. Schoenholz is still talking; is that right?

A Yes.

Q Okay. And probably the fifth full paragraph on that -- on that page, starts "Visa/MasterCard." Do you see that?

A Yeah.

Q Okay. And Mr. Schoenholz told the markets that day that "Visa/MasterCard product grew by about 10 percent annualized rate in the quarter." Do you see that?

A Yeah.

Q Then he goes on to state (as read):

"We're cautious about the whole subprime area. Our portfolio subprime Visa/MasterCard is about 1.3 billion. That compares to about 1.1 million a year ago. To put it in perspective, that's less than 1% of our total portfolio."

Do you see that?

A Yes.

Q And I assume that Mr. Schoenholz meant 1.1 billion a year ago, but be that as it may.

He says "...that's less than 1% of our total portfolio."

Do you have an understanding of -- of what Household was telling the markets that day about the percentage of subprime in their Visa/MasterCard portfolio?

MR. FARINA: Objection; form.

THE WITNESS: I'm sorry. I don't -- I'm not sure --

BY MR. DOWD:

Q Yeah. What was your understanding of what he was telling the markets?

A Other than what's here? That he's apparently looking at 1.3 billion in the Visa/MasterCard portfolio relative to his entire managed portfolio, which is about a hundred billion at this point in time, I think.

Q Okay. Was that 1.3 billion in your 17 percent bank card section?

A Yeah.

Q Okay.

A So it would be -- 17 percent of managed receivables -- so 17 -- so maybe around 1 --

10 percent is -- is subprime.
Q Okay.
A Now -- you know, he's not providing the detail as to what's the non-prime-related aspects of the portfolio.
Q As opposed to subprime?
A Yeah.
Q Okay. You've looked at the evidence in this case. You know Mr. Schoenholz was often pretty hesitant about disclosing details, right?
MR. FARINA: Objection; form.
THE WITNESS: Yeah, I don't know one way or the other.
BY MR. DOWD:
Q I mean, the jury found he made false statements. You understand that?
A That's my understanding, yes.
Q Okay. Do you have any reason to believe that he was making a false statement about the percentage of subprime in this bank card portfolio?
A I don't -- no -- I don't, no.
Q So Mr. Schoenholz was telling the markets that the subprime exposure in the bank card portfolio was about 1 percent of their managed receivables, right?

MR. FARINA: Objection; form.
THE WITNESS: Of their overall receivable portfolio, the -- Visa/MasterCard's around 17 percent of the overall portfolio, and he's saying 1.3 billion of that, which is apparently 1 percent of the total receivables portfolio.
BY MR. DOWD:
Q Okay. And did you consider that in rendering your opinion in this case?
A I did.
Q Okay.
(Exhibit 7 was marked for identification by the court reporter and is attached hereto.)
BY MR. DOWD:
Q Sir, I've placed in front of you what's been marked as James Exhibit 7.
And for the record, that's a 5-page report.
And I'd ask you just to take a look at that, if you would.
It's also marked as Exhibit 17 to the Fischel November 23rd, 2015 report.
A Okay.
Q Have you had a chance to take a look at that?
A Yeah. Yeah.
Q Okay. Sorry. And you agree with me that

James Exhibit 7 is a Deutsche Bank Securities analyst report dated July 18th, 2002, correct?
A Yes.
Q And it's entitled (as read) "Household International: Solid 2Q Performance- Strong Buy- Part 1 of 2." Do you see that?
A Yes.
Q Okay. And I take it you've seen this before, because it was marked as one of Fischel's exhibits.
A Yes.
Q Okay. I mean, I'm just sort of going on the assumption that his -- you wrote a rebuttal to his November 23rd report, so presumably you reviewed the exhibits in that report.
A I did.
Q Okay. And so this -- this document is dated July 18th, 2002. That's the day after Household's Q2 earnings call that we just reviewed, right?
A Yes.
Q Okay. And Deutsche Bank basically reports to the markets on what Mr. Schoenholz said that day, right?
A I'm -- I'm -- if you could direct me to --
Q Sure. If you take a look, there's a section "Regulatory Update." Do you see that?

A Yes.
Q And the second sentence there says (as read):
"...Household's subprime exposure in its MasterCard/Visa portfolio is miniscule, totaling 1.3 billion at 2Q (versus 1.1 billion last year)."
And that's just parroting what Mr. Schoenholz said; isn't that correct?
A Are you referring to what we just looked at a moment ago?
Q Yeah.
A Oh.
Q The transcript the day before.
A It appears to, yes.
Q Okay. And it says "This represents less then 1% of the total managed portfolio."
And again they're just repeating to the markets what Mr. Schoenholz said; is that correct?
A I -- they're -- they're saying something similar. I don't know if they're repeating what he said. I don't know what the basis for the analyst's statement here is.
Q Okay. You don't think it's based on what Mr. Schoenholz said the day before on their FRC -- or on their Q2 earnings call?

A I -- I don't know one way or the other. It's not referencing that call, so I don't know.
Q Okay. And they say that it's -- "Household's subprime exposure in the MasterCard and Visa portfolio is miniscule." That's the word they use; isn't that right?
A "They" meaning?
Q Deutsche Bank.
A Yes.
Q Okay. All right. I don't know how we're doing on time. I haven't checked. Sorry.
MR. STOLL: Lunch is here whenever you want.
MR. BROOKS: It's been about an hour since the last break.
MR. DOWD: Has it been? Do you want to take a break?
MR. FARINA: Do you want to break for lunch?
MR. DOWD: No. No. It's up to the witness. I mean, it's really -- he's the one that has the -- you know, has to do most of the thinking.
Q Would you rather take a break for 10 minutes and go for another 45 minutes or so and then break for lunch, or would you rather just break for lunch now? It doesn't matter to me.
MR. FARINA: It's up to you.

THE WITNESS: We can just break for 10 minutes and then come back.
MR. DOWD: Okay. Do like another 40 minutes or so. And if you get tired after that, or you get hungry, just yell.
THE VIDEOGRAPHER: Going off the record at 12:09 p.m.
(Recess.)
THE VIDEOGRAPHER: Going back on the record at 12:22 p.m.
BY MR. DOWD:
Q Okay. And, Dr. James, going back to your report that we've marked as James Exhibit 1, and again back to paragraph 11, your, sort of, summary of opinions. If you look at 11b)?
A 11b). I'm sorry. Okay.
Q Okay.
A Uh-huh.
Q And I think in that part you summarize your opinion that the S&P Financials Index is a broad index that is heavily weighted towards companies with businesses that differ substantially from Household's: banks, insurers, investment service companies, and asset managers. Do you see that?
A Yes.

Q Let me just ask you: Did Household own banks during 2001?
A It had a relatively small bank subsidiary and -- I think in terms of -- and it had a -- had a thrift operation as well.
Q Okay. When you say "relatively small" -- that might have been the term you used -- what do you mean by that?
A I think in terms of, for example, in its deposit financing, my recollection is it was somewhere around 4 percent or thereabouts -- I'm sorry; 9 percent, in -- in 2001, and then 1 percent by the end of 2002.
Q Okay. And did Household do insurance business between 2001 and 2002?
A It had a very small insurance-related business; mostly credit-related insurance.
Q Okay.
A But those -- that was not the primary focus, either the banking business or the -- or the credit insurance products, so -- of Household.
(Exhibit 8 was marked for identification by the court reporter and is attached hereto.)
BY MR. DOWD:
Q I've placed in front of you what's been

marked as James Exhibit 8. I'd ask you to take a look at that briefly, if you would.
And do you generally recognize that to be a copy of Household's 10-K for the fiscal year ended December 31st, 2001?
A Yes. It looks to be a printout of -- of its 10-K, as well as, I think, the -- the exhibits to the 10-K.
Q Okay. And I believe you testified earlier but -- do you have an understanding that Household subsequently restated this 10-K?
A This is the 200- -- for fiscal year ending 2001? Yes, I believe they did.
Q Okay. And, again, that related to, as you understood it, the --
A The amortization of acquisition costs associated with their bank card portfolio.
Q Okay. I'd just ask you to go to -- it's actually page 10 of the -K. I think here -- if you look in the upper right-hand corner, there's a notation that says page 9 of 20. Do you see that?
A Yes. So you're referring to -- just so I'm clear -- in the middle of the lower part of the page, there's a 10.
Q 10, right.

they generally compete with not just banks, but insurance companies and all sorts of financial institutions.
BY MR. DOWD:
Q Right. I mean, they didn't say that they competed, for example, with software companies?
A I don't think they did.
Q Okay. And -- but in 11b) of your report you say the S&P Financials is a broad index that is heavily weighted towards companies with businesses that differ from -- substantially from Household's, and you list banks, right?
A Right.
Q But they said they generally competed with banks, correct?
A Well, I think -- you know, as a general matter, all financial institutions compete. Now, the question is in what specific segment of the market are they competing? And whether, in fact, by looking at, as Professor Fischel does, the S&P Financial Index, are you going to be able to isolate the impact of developments that are occurring within a particular segment of the market.
Q Like what particular segments?
A Let me give you an example. You know, I

think that we would all agree that automobile manufacturers compete with other forms of transportation. But I certainly wouldn't say that -- that when analyzing -- from an economic perspective -- developments that might be impacting a segment of that -- of that broader industry, I would think it would be adequate to simply say "Well, you know, I've got trains and planes and cars, and therefore I've controlled for, you know, what they're saying they generally compete with."
I think that, you know, if you look at Household's business focus, I think at one point in time 9 percent of its financing comes from deposits. Typically banks rely primarily on deposit financing. It -- its businesses in terms of insurance were very small. In terms of asset management companies, I don't think it had many in the way of asset management-related exposure. And then within the markets in which it was competing, it was -- as it said, its focus was primarily on the non-prime/ subprime consumer market.
Q Okay. Just so I'm clear in your example -- like when GM writes a 10-K, do they say they compete with airplane manufacturers?
A I don't know. I'd have to look at that.

Q Okay.
A My point was really that they're talking about general competition across the financial services industry, and the question is -- Fischel is using the S&P Financial Index to control for the effect of macro and regulatory changes on -- on Household. And it's an index that is heavily weighted towards what, in my opinion, would be firms that are in a different segment of the financial services industry, such as banks, insurance, and investment services companies, and asset managers.
Q Okay. In paragraph 11c) of your report, you talk about an economic downturn affecting financial institutions with subprime customers. Do you see that?
A Yes.
Q Okay. What -- what are you referring to there when you talk about economic downturn in paragraph 11c)?
A Well, I certainly think that the -- I believe the dating of the -- the recession was November of 2001. You know, the -- the -- the recessions are dated retrospectively; so -- you know, I think that, from what I've reviewed, that the market was realizing a -- that the economy was in a downturn,

and indicators such as the employment and -- and charge-off rates on consumer credits were increasing, and that it's generally recognized that those sorts of economic -- that an economic downturn has a disproportionate affect on subprime loan customers as opposed to, say, prime-related credits.
Q Okay. Let me go back to how you started that answer. You talked about the dating of the recession was November 2001. What do you mean by that?
A So the NBER has a protocol for dating recessions.
Q Okay.
A I believe it's two quarters of negative economic growth. And my recollection is that the -- the start of the recession was dated, I believe, in the fourth quarter of 2001.
Q The start of the recession?
A Yeah. I -- that's my recollection.
Q Okay. And any -- you said November 2001. Is it November 2001 or some other time in the past?
A I don't recall specifically the NBER dating. I'd have to go back and look.
Q Okay. But you believe that the financial markets didn't realize there was a recession until

Page 129

sometime after November 15th, 2001?
A I think that the markets were coming to realize that the economy was in a recession and that -- the question was the extent to which the recession would be -- how long the recession would be and -- and what impact it would have on consumer credit, in particular, because typically economic downturns in the consumer -- have -- impact the consumer sector with a lag because -- you know, at the beginning of -- part of the recession, you may lose your job, but continue to make payments on your credit card or credit card debt, but as the length of the unemployment period increases, then you see an increase in the frequency of delinquencies and that type of thing. And certainly charge-offs are -- lag with respect to economic downturns as well.
Q Okay. And you, in paragraph 11d) -- which I think you already referred to there -- you reference a "double-dip recession." Do you see that?
A Yes.
Q Just generally, what do you mean by "double-dip recession"?
A So recessions are -- are defined as declines in economic activity. And when economic activity

Page 130

begins to increase again, basically that's when the recession ends, in terms of the dating of the recession.
Now, the -- the thing that many people don't understand is that -- but I think the recent financial crisis illustrates -- is that you can have a recession ending, because economic growth is positive, but you certainly haven't gotten back to the employment or disposable income levels you had at the -- at the start of the recession. Okay? And then a double-dip recession -- or double-dip would be you may have one quarter of growth, or maybe two quarters of growth, and then the economy begins to contract again, in terms of negative economic growth.
Q Okay. Had that happened in the U.S. prior to 2001?
MR. FARINA: Objection. Ever?
MR. DOWD: Yeah. I'm just asking.
THE WITNESS: Yeah -- that's fair.
MR. DOWD: He teaches this kind of stuff.
THE WITNESS: You know, I think I -- there had been, and I just don't recall what the dating was. There may have been one -- so 2001 was the first recession in over, I think, a decade. I think

Page 131

the prior one was in the late 1980s, early 1990s. And I believe there were -- my recollection is there were a couple of double dips in the '70s or '80s, but I'd have to go back and look.
BY MR. DOWD:
Q Okay. So is a couple more than one?
A Yeah, but I -- again, I'm -- I'm -- I'm not certain of that. I'm -- I'm just going by, as I sit here, a general recollection of economic history.
Q In paragraph 11e) you discuss changes in the regulatory landscape, and one of those changes you reference is "higher capital requirements." Do you see that?
A Yes.
Q Okay. And what do you mean by that in the context of this report?
A During this period of time, there -- there had -- the capital requirement is the percentage of equity capital that a firm needs to use to finance itself; a minimum amount of equity capital relative to debt financing.
The level of capital requirements, principally for regulated financial institutions such as banks -- insurance companies have it as well -- was increasing from, I believe, the -- the

Page 132

overall capital ratio was increased, but more important, how the capital ratio -- the required capital ratio was calculated was changing to what's -- what was called a "risk weighting," so that you needed to have more capital associated with riskier assets. More -- moreover, if you're engaged in securitizations, the amount of capital that you needed as funding for what -- the residual that you retain in the securitization was increasing as well.
Q Okay. So what segment of Household's business did these -- the higher capital requirements, that you refer to there -- which segments did that affect?
A Yeah. I mean, directly it would affect and cap -- and Household was indicating that it was going to raise its capital from -- I think it was around 7, 7- -- a little over 7 to 8-1/2 percent, to bring it in compliance, overall, with what the capital requirements were for banking institutions, even though, as we talked about, I think, maybe 9 percent or 10 percent of its operations were under a bank subsidiary or a thrift subsidiary. Part of that was because, you know, to the extent that, as a number of analysts said, Household was -- to the extent that it had reached, sort of, a size that

A Uh-huh.
Q You say:
"As Fischel points out, during the Observation Window Household suffered declines in excess of those suffered by the S&P 500 Index and the S&P Financials Index"; is that right?
A Yes.
Q And I take it when you say "as Fischel points out," that that means you agree with that observation by Professor Fischel; is that right?
A Well, I think you asked me that question before. I don't -- I mean, if -- his -- his predicate is that Household suffered declines in excess of the S&P 500 Index and S&P Financials Index. I don't disagree with the fact that Household suffered declines in its stock price that were in excess of the S&P 500 Index and S&P Financial Index [sic]. I do disagree with the inference that he draws from that, that -- that the excess is a result of what he refers to as "fraud-related factors."
Q Okay. In paragraph 21 of your report. The second sentence there --
A Paragraph 21?

Q 21. And the second sentence. You say:
"Analysis of that index" -- referring to the S&P Financials Index -- "reveals it to be quite broad, including a handful of companies similar to Household."
A Right.
Q Okay. And when you say a "handful of companies similar to Household," which companies are you referring to?
A I was -- I'm thinking of Providian and CapitalOne.
Q Okay. Now, right after that, you reference Exhibit 4 to your report.
A Uh-huh.
Q Do you have that in front of you?
And that's the number of companies in industry subsectors in the S&P Financials Index, right?
A Yes.
Q Okay. And you note that other companies in the consumer finance subsector during this period are MBNA, American Express, Providian, and CapitalOne. Do you see that?
A Yes.

Q Okay. Do you believe that MBNA was one of the handful of companies similar to Household?
A No, I don't think so, given their business focus.
Q What about American Express?
A Again, I don't believe so, given their business focus.
Q Okay. Okay. So in other words, when you say "a handful of companies" all you mean is Providian and CapOne?
A Yeah. With respect to similar business focus, yes.
Q Okay. In paragraph 22 of your report --
A Okay. Just hold on. Let me get there. Yes.
Q Okay. There's a third bullet point there where you reference an article that you wrote; is that right?
A "Heterogeneous Creditors and the Market Value of [sic] LDC Loan Portfolios"?
Q Right.
A Yeah.
Q Okay. And "LDC" stands for "lesser developed countries," you say just below that?
A Yes.
Q Did Household have any sort of lesser

developed country loan portfolio?
A No.
Q Okay.
A I was citing this for the proposition that within a particular segment of the financial services industry, or even within the banking sector, developments in a particular submarket may have an impact on some institutions, but not others.
Q Okay. I want to just ask you a couple more questions about the 2001 recession.
Is it true that by mid-March 2000, the dot-com bubble had already burst?
A It depends on what you mean by the "dot-com bubble." I think there was two parts of the -- of the -- the tech bubble. I think the first part ended in March and the second, which was more, sort of -- a different segment of the -- of what people were referring to as "dot-com," collapsed later.
Q Okay. Later in 2000?
A I'd have to go back and look.
Q Okay. Do you recall whether the NASDAQ was down approximately 50 percent from March 2000 to the end of the year 2000?
A I recall it being down during that period of time. Whether it was 50 percent or 45 percent, I

given what would -- had occurred in the stock market, and were trying to determine what impact the wealth effects associated with a decline in equity values would have on certain businesses.
Q Okay. Sir, I'd ask you to turn to paragraph 28 of your report. And in that paragraph it seems to me that what you're trying to say is that --
A Which paragraph? 28?
Q 28. Yeah, 28. Do you need time to read it?
A If you're going to characterize what I'm saying in there.
Q Sure. Go ahead.
A Okay.
Q Okay. And I took it that what you were trying to say was that the economic downturn affected Household more negatively than it affected other companies; is that right?
A The developments that were occurring in 2002, in terms of increases in unemployment, as well as the -- the consequences of what we've been talking about occurred in 2001, would -- I would expect to have a disproportionate impact on financial institutions such as Household whose customers comprise primarily subprime borrowers.

Q Okay. And in reviewing information with respect to Household during the observation window, did you analyze at all what Household was telling the markets about the economy's effect on its business at that time?
A I did review some of those, yes.
MR. FARINA: We've been going about an hour. Do you want to -- are you moving on to a new subject?
MR. DOWD: Yeah, more or less. I'm sorry. Yes. I kind of lost track of how much time we were in there. I was going to stop right before that, but I thought maybe I was wrong. Yeah, let's take a break.
THE VIDEOGRAPHER: Going off the record at 2:43 p.m.
(Recess.)
THE VIDEOGRAPHER: Going back on the record at 2:55 p.m.
BY MR. DOWD:
Q Okay. And, Dr. James, we were talking a little bit about analysis of Household around the time of the observation window. I just wanted to mark the next in order.
(Exhibit 14 was marked for identification by

the court reporter and is attached hereto.)
BY MR. DOWD:
Q Okay. For the record, that's a 3-page article from Investor's Business Daily. And, Dr. James, just so you know, it was also Exhibit 16 to Fischel's November 23rd, 2015 report.
A Okay.
Q Okay. And have you seen that article before?
A I believe so.
Q Okay. And you agree with me that it's from Investor's Business Daily, and it's dated November 2nd, 2001, right?
A Yes.
Q Okay. And it's entitled "Household International, Prospect Heights, Illinois, Foresight Pays Off in Shift to Secured Loans." Do you see that?
A Yes.
Q Okay. In the article it notes that "A couple of years ago" -- and I'm right in the first paragraph -- "when it looked like the high-flying economy would last forever, Household International was busy digging trenches to get ready for a recession."
Do you see that?

A I don't. I'm sorry.
Q Oh. First paragraph.
A I see -- yeah.
Q Okay. And it goes on, in the next paragraph, to say:
"The consumer finance company accelerated its shift from issuing unsecured credit card debt to secured home equity loans" --
A Uh-huh.
Q -- "and began the task of doubling its collection staff from 2,500 to 5,000 employees."
Do you see that?
A Yes.
Q Okay. In your analysis of Household, did you see any evidence of a shift at Household, prior to November 2001, from issuing unsecured credit card debt to secured home equity loans?
A Prior to 2001?
Q Prior to November 2001.
A I'd have to go back and look at the portfolio composition. I don't -- I recall seeing it. I just don't recall -- remember what, if any, the shift in the portfolio was.

without any conversations with the customer?
MR. FARINA: Objection; form.
THE WITNESS: Yeah, I haven't been asked to, you know, review their policies as it pertains to re-aging, so I just don't know what -- what procedures they were following in terms of when they would re-age a loan or not.
BY MR. DOWD:
Q Do you know that Household restated its 2001 10-K again in 2003, to amend what they had said about their restructuring or re-aging policies?
A I'm aware that there was a restatement in 2003 pertaining to -- I believe it was 2001. I'd have to go back and look.
Q Okay. But do you understand -- do you understand -- let me just ask you: Do you understand that Household lied about the circumstances under which they would re-age loans?
MR. FARINA: Objection; form.
THE WITNESS: You know, I think I can look at the -- the verdict form and -- the -- for -- some of the statements pertain to issues pertaining to two-plus delinquency and re-aging -- some of the findings pertain to those issues.
BY MR. DOWD:

Q But you haven't looked at the evidence, for example, about what Household said in its 2001 10-K about their re-aging practices, and compared it to what they subsequently admitted?
A In other words, what -- what the size of the restatement was in 2003 versus 2001?
Q No. I'm just talking about statements that they made about their re-aging practices in the 2001 10-K. Do you understand that they later subsequently changed that, in 2003, and admitted that their 10-K contained false information?
MR. FARINA: Objection; form.
THE WITNESS: I'd have to go back and look at the restatement for 2003.
BY MR. DOWD:
Q Okay. That's what I'm asking. Have you ever analyzed that evidence to look at it?
A I haven't been asked to do that.
Q Okay. And if Household reduced its re-aging practices, would that ultimately affect charge-offs?
A Not directly.
Q But would it affect it eventually?
A No.
Q You don't think so?
A No.

Q Why do you say that?
A Well, because re-aging has to do with -- with how you're classifying a delinquent loan whereas a charge-off has to do with writing off a loan when you determine that it's uncollectible. Okay? And the net charge-off number is the amount of charged-off loans relative to loan recoveries within a particular month or quarter.
Q Okay. But if you don't re-age loans, won't they go to charge-off faster, if the customer can't pay?
A Well, the -- not necessarily. They certainly could go to charge-off faster, but the ultimate charge-off rate's not going to be affected. I mean, the timing of the charge-off may be affected.
Q Did you understand at all -- or do you understand the relationship between re-aging and Household's two-plus numbers that they reported?
MR. FARINA: Can you repeat the question.
BY MR. DOWD:
Q Yeah. Do you understand the relationship between Household's re-aging practices and its reported two-plus numbers?
A Yes.
Q Okay. Tell me that.

A I think I have; that when -- the re-aging means that you take a loan that is being -- a portion of which is being carried at 60-day-plus past due, and the re-aging process either brings it current, okay, and that's -- thus you don't report it as 60 days past due because -- one reason to do that would be because you observe some change in the customer's willingness or ability to make payment on loan -- on the -- on the -- on the credit.
Q Okay. So you believe that the re-aging would relate to an observation with regard to a change in the customer's willingness or ability to make a payment on the loan, right?
A Well, you're asking me a general practice in terms of re-aging and 60-day post -- past due? Yeah, you'd -- you may engage in a re-aging process when you have reason to believe that the customer -- there's been a change in the customer's willingness and ability to pay, as evidenced, for example, by payments or some other indicia.
Q Okay. Did you ever re-age loans automatically at SunTrust Bank without contact with customers?
A I don't -- I don't recall.
Q You don't recall ever doing that?

damaging for Household. In December
a Barron's article cited a bear that
questioned whether aggressive
accounting practices may have
boosted earnings by, among other
things, slowing the recognition of
credit losses."
Do you see that?
A Yes.
Q Okay. And just below that, Mr. Schoenholz is quoted. Do you see that?
A Yes.
Q And he says:
"You have an exceptionally
skittish market that has been
pummeled by negative news, whether
it was Enron, Tyco, or the Barron's
article, in our case."
Do you see that?
A Yes.
Q Okay. Does that refresh your recollection at all that the accounting panic that Household was dealing with in February 2002 was based, in part, on a Barron's article that questions its accounting practices?

MR. FARINA: Objection; form, foundation.
THE WITNESS: Yeah, I don't know that I would agree with that. As I recall, the Barron's article was in December; so -- the Barron's article wouldn't be new information in February.
BY MR. DOWD:
Q Okay. So you disagree with Mr. Schoenholz on what was pummeling Household at that time was the Barron's article?
A Well, he doesn't say just the Barron's article. He's talking about exceptionally skitterish [sic] markets.
Q Right. And he says "...or the Barron's article, in our case"; is that right?
A That's right.
Q Okay. So he ties it to the Barron's article, right?
A I don't think he ties it exclusively to the Barron's article. He's saying you have exceptionally skitterish [sic] markets that have been pummeled by negative news.
Q Right. Then he goes on to say "...whether it was Enron, Tyco, or the Barron's article, in our case," right?
A Yes.

Q Okay. And then Schoenholz went on to say that the company "has no problem issuing commercial paper and it maintains an established and diversified source of funding." Do you see that?
A Yes.
Q So Mr. Schoenholz was reassuring the markets, in February 2002, that the company had no problem issuing commercial paper; is that right?
A It was responding to concerns that were being identified by analysts as having an adverse impact on the stock, which was concerns regarding the company's ability to access liquidity.
Q Right. He said they had no problem issuing commercial paper, right?
A He's indicating -- adding the company has had no problem issuing commercial paper and it maintains an established and a diversified source of funding.
Q Right. Just so we're clear, he doesn't say "has had no problem"; he says the company "has no problem issuing commercial paper," right?
A "Has no problem." If I said "had," I meant -- I misspoke.
Q He goes on to say, at the very end of that paragraph, "From a funding and liquidity point of view, it's business as usual"; is that right?

A Yes.
Q Okay. So that's what Mr. Schoenholz was telling investors in February of 2002; is that right?
A In response to investor concerns that analysts had identified as adversely impacting the company's stock price.
Q Right. He was saying that there were no liquidity issues, right?
A He was trying to reassure the market at this point in time regarding the liquidity issues, that's correct.
Q Okay.
MR. FARINA: Why don't we take a break?
MR. DOWD: Can we finish this one?
MR. FARINA: Yeah.
MR. DOWD: Is that fine?
MR. FARINA: Okay. I thought you were done with that one.
MR. DOWD: No.
MR. FARINA: Okay. Go ahead.
MR. DOWD: I'm not done with that, Steve.
MR. FARINA: All right.
BY MR. DOWD:
Q So if the accounting panic -- panic -- and

Page 229

you can assume this for purposes of the question --
if the accounting panic that Household was facing in
February in [sic] 2002 related to concerns about
whether Household's aggressive accounting practices
may have boosted earnings by, among other things,
slowing the recognition of credit losses, would you
say that was fraud-related?
A Well, I'm -- and I -- I think there's --
there's a couple of issues. Right? First is the
extent to which there's any new information
concerning the -- the issues raised in the -- in the
Barron's report. And -- you know, this is -- we're
in February. We're not in December. So I wouldn't
expect old information to be impacting a company's
liquidity access two months later, particularly
given the fact that this is a company that was
engaged in commercial paper issuance on a fairly
regular basis.
Second -- and so -- you know, whether or not
one considers the Barron's article to be in some way
fraud-related, it's not new information as of
February.
Second, there's clearly, in this article and
others, an indication that there were concerns
generally about market conditions that were

Page 230

impacting firms, not just like -- not just
Household, but other firms that were reliant, for
example, on commercial paper. You see that in a
fairly substantial drop in aggregate commercial
paper outstanding and finance-related commercial
paper and the economy during this period of time.
Q Okay. But, again, Mr. Schoenholz reassured
investors that he had no problem with commercial
paper, right?
MR. FARINA: Objection; asked and answered.
THE WITNESS: I think I've answered that
question. He's -- there are clearly concerns in the
marketplace, and he's attempting to reassure
investors as it pertains to those concerns.
MR. DOWD: Okay. All right. Let's take a
break.
THE VIDEOGRAPHER: Going off the record at
4:04 p.m.
(Recess.)
THE VIDEOGRAPHER: Going back on the record
at 4:15 p.m.
BY MR. DOWD:
Q Okay. Dr. James, we're -- I'd ask you to
turn to paragraph 44 of your report, if you would.
In the first sentence of that paragraph 44, you

Page 231

reference, again, "Household and its close peers."
Do you see that?
A Yes.
(Interruption in the proceedings.)
BY MR. DOWD:
Q And, again, when you reference "close peers"
there, are you referring still to CapitalOne and
Providian?
MR. FARINA: Objection; form.
THE WITNESS: No. I was talking about --
these are regulations that are impacting primarily
subprime and non-prime-related lenders, so I would
think about those -- other firms with significant
exposure in those particular segments of the market.
BY MR. DOWD:
Q Okay. So who would those firms be?
A We've gone through them: Providian,
CapitalOne, Metris, CompuCredit, AmeriCredit.
Q Okay.
A And as I indicated today, in a -- perhaps
through its exposure with the associate Citibank,
but it's going to be diluted by the fact that
Citibank has a lot of other business activity.
Q And then the next paragraph, paragraph 45,
you talked about -- you talk about "increased

Page 232

capital requirements for subprime lenders like
Household."
A Yes.
Q Do you see that?
And -- at the very end of that paragraph, you
say:
"Subprime lenders were likely to
be more significantly affected by
the rule which became effective on
January 1st, 2002"; is that right?
A Yes.
Q Okay. And you cite an article there in
your -- at the end of that sentence, Note 65, Linda
Punch, "Shape Up, Issuers!" Do you see that?
A Yes.
Q Okay. And that article, "Shape Up,
Issuers!," it really addresses credit card
companies, right?
A It -- it pertains to credit card companies
with substantial subprime exposure, yes.
Q Okay.
A I mean, the rules, I think, are for all types
of consumer-related subprime and non-prime lending.
Q But it's -- the article talks about credit
card companies, right?

Page 241

these increased capital levels were requirements, Household was saying that it only affected their bank subsidiaries, correct?
A We talked about that earlier today, that while the direct impact would be on its bank subsidiary or its thrift subsidiary, the indirect impact would be, to the extent that, as we talked about earlier, that's perceived to be a best standard from either the rating agency or from the perspective of an acquisition candidate -- coming in to compliance with those on a companywide basis was what they were attempting to do.
Q Okay. But in other words, the regulations themselves only directly impacted the bank subsidiaries, right?
A Right. The indirect impact was broader.
Q Okay. And that was roughly 11 percent of the hundred-billion-dollar loan portfolio; is that right?
A Yes, I think that's right.
Q Okay. Okay. In paragraph 54 you make a reference to an announcement that CapitalOne made on July 17th, 2002; is that right?
A Right.
Q Okay. And it says -- I believe you say

Page 242

"regarding a memorandum of understanding that CapOne had reached with national banking authorities," right?
A Yes.
Q What's your understanding of that memorandum of understanding -- or that announcement -- however you want to do it.
A I'd have to go back and look. My understanding is it was an agreement to increase its capital and hold higher reserves for its subprime exposure.
Q Okay. I'd ask you to pull out, if you could, what we marked earlier today as James Exhibit 15. Do you have that there? It's not too long ago.
A Pardon me?
Q Not too long ago -- we marked it. James 15.
A 46. Hold on. That's it.
Q Yep.
A Okay.
Q Again, we looked at this probably an hour ago or so. It was a Credit Suisse First Boston report, dated July 17th, 2002; is that right?
A Yes.
Q Okay. And this was at the same time as -- or same day as CapitalOne's July 17th announcement; is

Page 243

that right?
A Yes.
Q Okay. And going down in the "Summary and Investment Recommendation" section on the first page of Exhibit 15. The fifth paragraph down says:
"Management addressed regulatory risks on its conference call saying that there is nothing analogous to what has happened to CapitalOne."
Do you see that?
A Yes.
Q Do you recall Household telling the markets that on July 17th, 2002?
A Right, in response to both analysts -- response to what analysts attributed a market response to Household's stock -- or stock price reaction of Household to the CapitalOne announcement. I think the term here is "reacted in sympathy" to CapitalOne.
Q Okay. But Household reassured markets that they didn't have the same issue as CapitalOne, right?
A Right. But there was still an impact on the stock price.
I knew you'd get to it.

Page 244

MR. FARINA: Another six hours to go?
MR. DOWD: We do.
(Exhibit 20 was marked for identification by the court reporter and is attached hereto.)
BY MR. DOWD:
Q And, sir, we've placed in front of you what's been marked as Exhibit 20.
And do you recognize that to be your expert rebuttal report in this case that's dated --
A December...
Q -- December 21st, 2015?
A I do.
Q Okay.
MR. FARINA: Mike, you don't object if he uses the spiral-bound version?
MR. DOWD: No. I don't care. Yeah. You didn't write answers in there?
MR. FARINA: No. The answer's already in there.
BY MR. DOWD:
Q Okay. I'd ask you to take a look at paragraph 4 of your rebuttal report. And it seems like, in paragraph 4, you're, sort of, summarizing some of Professor Fischel's comments on your initial report; is that fair?

A Right.

Q Okay. And you note that he says that you ignored all of the positive announcements made by Household during the observation window, correct? He says that.

A Yes.

Q Okay. And did you do any analysis of the impact of positive announcements on Household's stock price?

A Well, I certainly look at -- as I talk about later in the report, he cites to certain examples of what he characterizes as "positive statements by Household." And when you look at those positive statements, there's also statements in -- in those same press releases that are talking about the kinds of developments that I've been focusing on that are adversely affecting its business, such as increase in, say, the net charge-off rates, and the like.

Q Okay. But -- I guess my question is -- I understand you're looking at the negative. But have you done any analysis of the impact of positive announcements on Household's stock price?

A Well, yeah. I mean, I -- for example, I mean, as I understand his -- his argument is that, you know, he looks at the whole of the information

and says "Well, you know, I think the positive outweigh the negative and" -- "or offset the" -- "offset some of the negative," and -- you know, "and I look at the" -- "I'm" -- "I'm justified using a leakage model because I observe two things: substantial underperformance and analysts attributing that underperformance to fraud-related factors."

And the stock price performance of Household, when measured relative to its peers, does not indicate underperformance. So the first predicate of his analysis isn't met. And second, when you look at the very articles that he's talking about in terms of analysts attributing the price decline to what he refers to as "fraud-related factors," those same analyst reports, and others, are pointing to what are clearly non-fraud-related factors also having an impact on Household's stock price.

Q Okay. But did you do some sort of analysis of how positive announcements impacted the price?

A Well, you -- you can, in some sense -- I mean, I think the issue is when you're looking at it as a whole -- I would note that in looking at, for example, the results of the Ferrell report, on many of the days in which there's purported to be

positive statements being made by Household, the stock price is down significantly, which would suggest that Professor Fischel's, sort of, interpretation of those positive statements is not consistent with the stock price movement on those days.

Q Okay. But did you do, like, any sort of independent analysis of whether positive statements affected the stock price?

MR. FARINA: Objection; form.

THE WITNESS: Well, I think that, you know, you can look at -- you know, looking at the control group being other subprime-related lenders to Household's, you know, performance to determine the, sort of, net effect of the information, and whether there's any evidence of fraud -- a fraud-related leakage during the -- the leakage period; but I didn't try to, for example -- and I note that Dr. Fisch- -- Mr. Fischel -- Professor Fischel didn't attempt to do this either -- which is parse out the positive from what might be negative news occurring on those particular days.

BY MR. DOWD:

Q In paragraph 8 of your report -- rebuttal report, you use the phrase "non-fraud information."

A Uh-huh.

Q How did you decide whether something was fraud or non-fraud?

A Where are you?

Q Oh. Just paragraph 8. You say "I discuss numerous types of non-fraud information that were released during the Observation Window."

A Oh. We talked about this earlier today, in terms of -- we've -- had this discussion earlier, which was -- so, for example, there are certain information, such as developments in the credit market, regulatory and legislative changes, that are clearly non-fraud-related in the sense that -- you know, the fact that credit spreads are increasing or that Household is faced with having to refinance a substantial amount of its short- and medium-term debt in the 2002-2003 time period, when credit spreads have increased overall in the marketplace, is not something that I -- I -- I've seen Professor Fischel consider to be fraud-related. And certainly I wouldn't consider them fraud-related.

Q Okay. Was there, like, a particular methodology you used to determine something was fraud or non-fraud, or was it just, like, you eyeball it and decide?

A Well, I mean -- I think the problem I -- I had was Professor Fischel didn't articulate a methodology that he was employing for identifying fraud versus non-fraud-related.
I've identified what I consider to be non-fraud-related factors that, you know -- are factors such as the credit market conditions, factors such as the -- refinancing the liability portfolio that -- the composition of the liability portfolio of Household, as I mentioned, legislative and regulatory changes, which are clearly not related to the fraud in any way.
Q Okay. So you just -- you, sort of, looked at these factors and just decided whether it was fraud or non-fraud?
A No. I mean, I think that there's -- as I indicate, there's numerous types of non-fraud-related information, such as a change in the regulatory environment, the fact that there's capital requirements being imposed based upon the credit risk of a particular credit as opposed to a uniform capital requirement, regardless of credit risk. I've not seen anything that indicates that that is the kinds [sic] of information that Plaintiffs are alleging is -- is fraud-related. New

legislation is not fraud-related, to the extent that it's not something the company could have or should have said at some earlier date.
Q I just want to make sure I understand. You talked just a second ago about the control group of subprime-related lenders.
A Uh-huh.
Q And who do you put in that group?
A We've talked about that today. We've got Metris in there, Providian, CapitalOne, AmeriCredit, and CompuCredit.
Q Okay. So when you use that phrase, those are the companies you're talking about?
A Yes.
Q Okay. Again, AmeriCredit was an auto loan company?
A Right.
Q And you said Providian was a credit card company?
A Yes.
Q Okay. Metris was a credit card company?
A Yes.
Q CompuCredit was a credit card company?
A Yes.
Q And you thought that CapitalOne was not

monoline, but its primary business was credit cards?
A Yes. I mean, it had other consumer -- primarily in the consumer unsecured area.
Q Okay. Did any of those five companies have real estate-secured portfolios?
A No. I don't -- I think CapitalOne may have had some activity in that segment of the market, but I think it was pretty limited.
Q Okay. So how do companies -- I mean, that's 44 percent of Household's business, as we said today, right?
A Yeah.
Q And none of these five companies did that business?
A No. But you have to understand the economics of their real estate-secured portfolio. Right? Their real estate-secured portfolio is providing equity -- real -- equity-related lending. Okay? So -- and with loan-to-value ratios of 100 percent or more -- which means that, effectively, you're engaged in -- I agree while you may have a lien -- a second lien on the property, you're really -- it's exposing yourself to the risks that are very similar to consumer unsecured lending.
Q Okay. But there's collateral in

connection -- connected with real estate secured, right?
A But the collateral -- there's two problems with that. First is if you -- if you have a home equity loan where the loan-to-value ratio is a hundred percent or more, then the coverage -- collateral coverage on your loan is quite limited, and thus it -- it really behaves more like -- in terms of both default risk and loss severity, much like an unsecured credit, because the loan-to-value ratio is so high.
Q Do you say anything about that in your reports -- either one?
A I'd have to go and look but -- I mean, that's certainly the economics of the business.
Q Okay. I'm just asking if you talked about that at all in your reports.
A I don't recall.
Q Do you cite any loan-to-value statistics for Household's portfolio?
A I don't believe so.
Q Okay.
A It's in -- there's certainly discussions of it in both Household's own reports, as well as in analyst reports.

agreements with both the State of California and the OCC to repay deceived customers about $330 million?
A I believe -- yeah. I believe that pertained to and those agreements were in the 2001 time period.
Q Do you think that Providian's poor performance in 2002 may have related to information like that coming out?
A It didn't perform poorly. Providian actually, of the peers -- I included it as a peer -- but its performance was actually the best of -- of the peer groups. So -- it was actually up in 2002.
Q Okay.
A It was down 92 percent in -- in -- prior to the observation period.
Q Down?
A It was down 92 percent prior to the observation period.
Q Okay.
A And it had, as of December, undertaken an initiative not to engage in additional subprime credit extension. It retained a subprime portfolio, but it -- its focus was going to move forward elsewhere.
Q Okay. Do you know who Andrew Kahr was?

A The name sounds familiar, but -- I need a hint.
Q He was a founder of Providian.
A Okay.
Q Okay. Are you familiar with him at all?
A The name sounded familiar. I -- now that you've refreshed my memory, yes.
Q Okay. Do you know that after he was forced out of Providian, he was retained by the defendants in this case, William Aldinger and David Schoenholz, as a consultant?
MR. FARINA: Objection; form. Just to be clear, he was not retained in connection with the litigation. You're talking about as part of the business.
MR. DOWD: Yeah.
MR. FARINA: Okay.
THE WITNESS: All right. I didn't know one way or the other.
BY MR. DOWD:
Q Okay. Were you aware that after Providian settled with California and the OCC in relation to its deceptive practices, that Mr. Schoenholz wrote a memo at Household ordering the destruction of any memoranda that Mr. Kahr wrote during his work at

Household?
MR. FARINA: Objection; form.
THE WITNESS: I'm not aware of that.
BY MR. DOWD:
Q Okay. Did the audit committee at SunTrust ever order the destruction of memoranda because they were controversial?
MR. FARINA: Objection; form.
THE WITNESS: Not that I can recall.
BY MR. DOWD:
Q Okay. Did the board of directors at SunTrust, when you were there, ever order the destruction of memoranda because they were controversial?
MR. FARINA: Objection.
THE WITNESS: Not that I recall.
BY MR. DOWD:
Q As an industry expert, have you ever seen a situation in which the CFO of a financial institution ordered the destruction of documents because they might be misinterpreted and land the company in trouble with regulators?
MR. FARINA: Objection; form.
THE WITNESS: You're asking me as an expert in the financial --

BY MR. DOWD:
Q As an industry expert.
A To do what? Is it --
Q Have you ever seen that?
MR. FARINA: Are you asking him as an expert in causation and damages, which is what we're offering him for, or are you asking him as an expert in something else?
BY MR. DOWD:
Q Well, based on your report, I assume that you were trying to say that you also had some expertise in the area of financial institutions.
A Yes. And your question is have I --
Q Is it part of your work?
A Have I ever seen --
Q Have you ever seen a situation where a CFO ordered the destruction of documents because those documents might cause the company trouble with regulators?
A Have I seen instances of that? Yes. That's not an activity that I would condone.
Q Okay. It's wrong, right?
A I -- I don't think it's appropriate to -- I don't -- I wouldn't advocate destroying documents to avoid the regulator -- my regulator, if I were on

the board of a financial institution, from obtaining those documents if those were documents that the regulator had a right to see.
Q Okay. And when were the instances that you've seen that?
A I think it's typically in terms of press reports or in a litigation context.
Q Okay. Do you recall any companies where that happened?
A Not specifically.
Q You know, earlier today you said that you applied an alternative scientific approach.
A Uh-huh.
Q Okay. And I think you said it was in the spirit of a propensity score technique?
A Right; just comparing groups that are -- a treated and a control group that are similar along non-treatment-related fact -- dimensions.
Q Okay. What does that mean? I lost you on that one.
A So what -- what I'm doing is looking at how Household's stock price performed relative to peer groups that -- if the -- Professor Fischel is arguing that the so-called "leakage method" is appropriate because he observes significant

underperformance of Household relative to the S&P Financials, as well as the S&P 500, and -- and thus -- and -- and that's a comparison very similar to what a -- is in Exhibit 2A of my report, where I'm looking not at S&P Financials or S&P 500, but I'm looking at close peers to Household. And based on that -- the criteria that he's using, you know, the control group -- which is these similar firms -- don't appear to underperform in any substantial way from -- relative to -- I'm sorry; Household doesn't appear to underperform in any substantial way relative to these peers.
Q Okay. The propensity score technique, I'm -- I don't remember seeing those words in either of your reports.
A No. I'm saying the -- it's -- it's -- it's similar in spirit to looking at a control group relative to a treated group. Here you have one treated firm, which is a firm that Professor Fischel is contending is underperforming because of what he determines to be the leakage of fraud. And -- okay? Well, is that underperformance attributed to the leakage of fraud or is it attributed to industry factors? Well, let's take a firm -- set of firms that are not affected by any alleged leakage of a

Household fraud, and determine whether their performance is similar or not to -- to Household's.
Q Okay. And so -- and I just want to make sure I understand. So this analysis that you did that was similar in spirit to a propensity score technique, you're talking there about your comparison of Household to the five credit card and automobile companies?
A Yeah.
Q Okay. And how is what you did in your reports different than a propensity score technique?
A A propensity score technique would -- it depends on how you do the matching criteria. Typically if it's done on a mult- -- multiple dimensions, and you have a large sample so -- you can estimate what's called a "logit" model, or the likelihood that a firm is going to be in a treated group versus the control group, and then try to find firms that are not subject to the treated -- or -- or observations that are not subject to the treatment but have a propensity score similar to what the treated group has overall. But the -- the idea is very straightforward, which is try to find a set of controls [sic] firms or observations or group that is similar in many respects to the -- the

treated group -- or in this case, the treated firm. And whether -- do you -- and determine whether there is a substantial difference.
Again, Professor Fischel has motivated his leakage model by an observation that there is substantial underperformance of Household relative to some very broad indices: the S&P 500 and the S&P 500 Financials.
Q Okay. Just so I understand it, this analysis that you did that was similar in spirit to a propensity score technique, did you do that analysis to identify these five credit card and automobile companies, or you selected the five credit card companies and automobile loan companies, and then you used the propensity score technique to compare them to Household?
A No. Again, just to be clear, there's -- I'm looking at firms that I determined that were part of the CF First Boston Specialty Finance with the line -- with a business focus similar to Household's, in terms of a focus on subprime/non-prime lending, because those firms are going to be impacted by the same economic, industry, regulatory -- in a way, similar to Household. Okay? And my -- and if, in fact, what is going on is

Page 265

there's a disproportionate impact of industry, economy, and regulatory, and credit market factors on Household, relative to, say, the S&P Financials, then one way to account for that is to look at firms that have similar exposure to those same risks that were evolving over the observation period.

Q And are you aware of any academic literature that indicates that you should use this analysis that's similar in spirit to a propensity score technique to analyze loss causation and damages?

A Oh, I think that -- the whole idea of either a regression analysis or identifying a peer group is to try to find a set of firms that are going to be impacted by -- in a similar way as the company in question would be, absent the alleged dis- -- this disclosure of alleged misstatements or misrepresentations. Okay?

And so you -- you can -- one potential way to do that is through, you know, estimating a regression over a control period and using that regression to -- as a control. To the extent that you have evidence that the regression is not stable, in the sense that there's shifts, and that there may be -- and you're using it over a long period to forecast, in which you observe substantial and

Page 266

significant developments within a particular segment of an industry, I think that making the comparison between the firm and an industry group with a similar kind of business focus is completely appropriate, particularly if you're looking at as -- as Professor Fischel is, you know, a 228-day observation period.

Q How does the analysis that's similar in spirit to a propensity score technique compensate for a long event window?

A Well, I mean, it -- again, it -- you're going to be comparing it over the same time period; so you're -- you're aggregating returns over the -- the long observation period.

But, again, if you look at Exhibit 2 of Professor Fischel's report, he's making the same kind of comparison, but I just don't think he has the peer group right because he's not going to be capturing the disproportionate impact of things such as legislative regulatory developments, credit market developments, and -- that had a disproportionate impact on -- on Household's business during the observation period.

Q Okay. All right. I just want to go back to the last couple of questions I asked.

Page 267

A Sure.

Q Is there -- is there some academic literature that I could look at that would say, in analyzing loss causation or damages, you should use an approach that's similar in spirit to a propensity score technique?

A I -- I think -- in terms of an -- academic literature, I -- I don't know of any academic literature that would support using the, sort of, leakage model that -- but -- and the reason I mention that and indicate that is because really what I'm doing is testing whether the predicates associated with Fischel's use of a leakage model have been met.

Q Right. I'm just trying to figure out -- you said that you took an alternative scientific approach that was similar in spirit to a propensity score technique. And all I want to know is is there any academic literature that discusses taking that approach to analyzing loss causation and damages?

A I certainly think that there -- there's an academic literature out there that, sort of, says, you know, if -- if you want to look at -- identify factors that may be impacting the performance of a set of firms, or a unique factor that's affecting a

Page 268

particular set of firms, you know, make sure that you're basing the comparison on firms that are going to be similarly impacted by what you're hypothesizing is impacting a particular firm. Let me give you an example.

Q No. It's all right. You don't have to give me an example. I mean, I understand that picking a peer group is important. We talked about that early this morning, right?

A Right.

Q What I'm trying to say is is there some academic article I could go look at that's going to say "loss causation and damages; you should analyze it using something similar in spirit to a propensity score technique"? Am I going to find the words "propensity score technique" in any academic article that relates to loss causation or damages?

A I don't know if you're going to find "propensity score technique." I think you're going to find that any article that's looking at loss causation and damages, the concept that in order to what -- isolate the impact of an alleged disclosure, you need to have some baseline control measure -- okay -- whether that's obtained through a regression or obtained through looking at a set of firms that are not impacted by the alleged misrepresentation -- or the disclosure of those misrepresentations.

Q Okay. So in other words, in academic literature that discusses loss causation and damages, I'm not going to find the words "propensity score technique," right?

A No. I think you're going to find -- and I didn't use the term "propensity score" in my report -- but you will find an attempt in that literature to identify some method of a control, be it a control through using the -- a -- a market model to identify normal performance or a control by looking at how a set of firms or a given firm's --

(Interruption in the proceedings.)

THE WITNESS: -- stock price performs relative to a set of firms that are not subject to the -- the potential impact of curative disclosures.

BY MR. DOWD:

Q Okay. So like, for example, this morning, we talked about peer groups that might come out of a proxy, out of a 10-K, or out of an analyst report, right?

A Or -- and -- or peers that would come out of a detailed study of a particular firm, and the industry in which that firm operates, to identify a

set of firms that are likely to be impacted by similar economic regulatory or credit market developments.

Q Okay. And in the last few answers you referenced that CSFB report, right?

A Yes.

Q Okay. And if I recall correctly, in that report, Household is listed as a "diversified financial company"; is that right?

A I think it's -- I'd have -- do you have the report?

Q Yeah. I'll take a look.

A I think it's a "specialized consumer finance."

Q Hang on a second. Yeah. It's 37.

(Exhibit 21 was marked for identification by the court reporter and is attached hereto.)

BY MR. DOWD:

Q And, Professor James, we've put in front of you what's been marked as James Exhibit 21. And I'd ask you to take a look at that, if you would.

A Uh-huh.

Q And just -- first, is that the Credit Suisse First Boston report that you were talking about?

A I believe so.

Q Okay. And -- for example, if you go to page 18 of that report.

A I'm there.

Q Okay. So they -- Credit Suisse First Boston categorized Household as a diversified financial company; is that right?

A It has in -- in its specialty finance universe category, credit card companies, diversified financials, auto finance.

Q Okay. And you agree that Household is categorized as a diversified financial; is that right?

A It's in the diversified financials category, that's correct.

Q With American Express and CIT Group; is that right?

A That's right.

Q Okay. And then it categorizes CapitalOne, CompuCredit, Metris, and Providian as credit card companies; is that right?

A That's right.

Q Okay. And it categorizes AmeriCredit as an auto finance company; is that correct?

A That's correct.

Q Okay.

A When you're at a convenient spot, can we take --

Q Yeah. Sure. We can take a break now. It's a good spot.

THE VIDEOGRAPHER: Going off the record at 5:20 p.m.

(Recess.)

THE VIDEOGRAPHER: Going back on the record at 5:37 p.m.

BY MR. DOWD:

Q Okay. And, Professor James, we agree that the jury found that there were 17 materially false and misleading statements that were made by Household, beginning around March 23rd, 2001 through October 2002, correct?

MR. FARINA: Objection; form. Hang on.

THE WITNESS: I -- I -- I think there was a finding by the jury on 17 of the statements, out of 40.

BY MR. DOWD:

Q Okay. And do you recall if the first one was around March 23rd, 2001?

MR. FARINA: Here. My objection had to do with the end date.

MR. DOWD: Yeah. No. I got that.

EXHIBIT 10

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

LAWRENCE E. JAFFE PENSION PLAN, on behalf of itself and all others similarly situated,	)	
Plaintiff,	)	
vs.	)	No. 02 C 5893
HOUSEHOLD INTERNATIONAL, INC., et al.,	)	Chicago, Illinois
	)	April 7, 2009
Defendants.	)	1:21 p.m.

TRANSCRIPT OF PROCEEDINGS - TRIAL
BEFORE THE HONORABLE RONALD A. GUZMAN, and a jury

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fees on the first loan.
Is any of that right?
MR. DOWD: Objection, your Honor.
THE COURT: Excuse me?
03:29:43 MR. DOWD: Objection, your Honor.
THE COURT: Basis?
MR. DOWD: Seems to call for expert testimony.
THE COURT: I am sorry?
MR. DOWD: It seems to be a rebuttal expert opinion.
03:29:50 MR. KAVALER: It's just the opposite, your Honor. It's Mr. Gilmer giving the facts that Ms. Ghiglieri should have had straight before she gave an opinion.
THE COURT: I will sustain the objection as to the form of the question.
03:29:58 MR. KAVALER: Okay.
BY MR. KAVALER:
Q. Mr. Gilmer, did Household ever make a second loan for the purpose of having the customer borrow funds to pay the fees on the first loan?
03:30:08 A. I never have, in my career, seen an example of that.
Q. Do other lenders also lend money to people in real estate transactions with two loans, two separate loans?
A. Yes, indeed.
Q. Is that common in the industry?
03:30:26 A. Very common.

Q. Is that something you started in 1999, or was that in existence back when you joined Household in the early '70s?
A. It probably predates 1972, but I can speak to it back that far. It was in existence in 1972.
03:30:39 Q. Not something you invented in the late '90s?
A. Absolutely not.
Q. Not part of your growth initiatives?
A. No.
Q. We talked a moment ago about the foreclosure rate being
03:30:53 very low at Household. Let me ask you something else about foreclosures.
Do you know what FFIEC is?
A. It's a law -- yes.
Q. Does it apply to banks?
03:31:05 A. Yes, it does.
Q. Does it apply to Household?
A. No, it does not.
Q. Does the fact that this law does not apply to Household give Household greater flexibility in some area than the
03:31:15 banks?
A. In does indeed.
Q. In what area does it give Household a greater flexibility?
A. It gives a consumer finance company broad flexibility in managing its customers' accounts. That would include real
03:31:26 estate accounts.

Q. And there has been some talk about foreclosure, and if there was a foreclosure and Household didn't collect the full amount of a loan, Household would, of course, we were told, go ahead and sue the customer for the difference.

03:31:39 Did Household ever sue customers for the amount that they owed on the loan if there should be a foreclosure and the foreclosure was not sufficient to pay off the loan?

A. Never.

Q. Why not?

03:31:49 A. It was not a good business practice.

Number one, you wanted to avoid foreclosure at all costs. That was a very last, very last resort. So we rarely did it.

On the occasion where we had to do it -- where the 03:32:04 customer walked away and left the house, sometimes that happened; or they decided they wouldn't pay for it, sometimes that happened -- and we took the house back, we had to take the house back, we considered that to be the end of the transaction. I just didn't think it would be good customer 03:32:22 relations, good public relations. It would just be a bad deal all around.

So we made a decision. (A) We wouldn't go after the customer if the seller of the house didn't clear the balance. (B) On the occasion where we sold the house and got more than 03:32:39 was required to pay off the balance, although we were not

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

LAWRENCE E. JAFFE PENSION PLAN,)
on behalf of itself and all)
others similarly situated,)
)
Plaintiff,)
)
vs.) No. 02 C 5893
)
HOUSEHOLD INTERNATIONAL, INC.,)
et al.,) Chicago, Illinois
) April 16, 2009
Defendants.) 9:18 a.m.

VOLUME 12
TRANSCRIPT OF PROCEEDINGS - TRIAL
BEFORE THE HONORABLE RONALD A. GUZMAN, and a jury

APPEARANCES:

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(415) 288-4545

A. Yes, I believe --
Q. And you understand that Household is not a bank, correct?
A. I believe at some point they had a banking subsidiary; but, yes, I understand that Household is not a bank.
11:41:10 Q. And for purposes of the consumer lending business, it's not a bank?
A. I do understand that.
Q. Do you know what FFIEC guidelines are, Mr. Devor?
A. I forget exactly what it stands for, but they're
11:41:22 regulatory guidelines for banks, as I believe.
Q. So these are the regulatory guidelines for banks that we were kind of trying to get to earlier; is that right?
A. I don't know to what you're referring to when you say earlier, but --
11:41:37 Q. Withdrawn.
Well, you know that under FFIEC, banks have much stricter requirements for when they can re-age; do you know that?
A. Again, I think you asked me that before. I don't have
11:41:49 personal knowledge of that. It's logical that they have certain requirements with respect to re-aging.
Q. So in reviewing this document about Wells Fargo's analysis of Household, you didn't know that Wells Fargo and Household are governed by two different regulatory structures concerning
11:42:06 what they can do to re-age?

11:42:20
11:42:41
11:42:51
11:43:03
11:43:22

A. I don't know that that goes to the language that I --
Q. That's not my question.
A. I mean, I understand that banks have different rules from non-banks. I understand that -- requirements. To some extent they're stricter. To some extent they're the same. But I think they both have to follow GAAP. And GAAP -- you know, GAAP requires reserves. And GAAP requires to report two-plus delinquency statistics and -- and -- and full and adequate disclosure. That goes --
MS. BUCKLEY: Move to strike, your Honor.
THE WITNESS: So, anyway.
THE COURT: I'm sorry?
MS. BUCKLEY: It was a motion to strike, your Honor, but I think the witness finally stopped talking.
THE COURT: What part of the answer are you seeking to strike?
MS. BUCKLEY: The last two sentences, your Honor.
THE COURT: They'll be stricken.
BY MS. BUCKLEY:
Q. All right. Mr. Devor, so what we're trying to explain or trying to explore is that Wells Fargo is in -- is a bank. As a bank, it has to comply with FFIEC regulations on re-aging.
You understand that?
A. Yes, I do understand that.
Q. But you don't understand what those regulations are, I --

correct?
A. When you say I don't understand, I don't know specifically what the requirements are. I mean, I would understand what they are, the substance of them. But I don't know exactly
11:43:38 what they are in terms of they require these aspects of a customer before you re-age. You know, I don't know what those require.
Q. That's fair enough. You just don't know what those requirements are, right?
11:43:51 A. That's correct.
Q. And you know as to Household, they're not governed by any such requirements, correct?
A. That's correct.
Q. All right.
11:44:02 A. I believe though this was referring though for the most part to the consumer lending business, but not the banking part. As I recall, these documents -- I thought they were for the most part referring not to the banking business of Household but to the consumer lending arm of --
11:44:25 Q. Mr. Devor, Household isn't the bank. Wells Fargo is the bank.
A. No, I understand that.
Q. I don't understand what you just said.
A. What I'm saying is Wells Fargo would have known in looking
11:44:38 at Household that the consumer lending policies that they had

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

LAWRENCE E. JAFFE PENSION PLAN, on behalf of itself and all others similarly situated,	)	
Plaintiff,	)	
vs.	)	No. 02 C 5893
HOUSEHOLD INTERNATIONAL, INC., et al.,	)	Chicago, Illinois
	)	April 21, 2009
Defendants.	)	1:22 p.m.

VOLUME 16
TRANSCRIPT OF PROCEEDINGS - TRIAL
BEFORE THE HONORABLE RONALD A. GUZMAN, and a jury

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Q. Okay. Mr. Aldinger, in issuing the financial reports that were later restated, in other words, the original reports for all of those years in reliance on the advice of Arthur Andersen, did you have any intent to defraud anybody?
03:46:32 A. No.
Q. Did you have any intent to misstate anything?
A. Never.
Q. Did you have any intent to do anything other than get the numbers right?
03:46:39 A. No.
Q. Did you think you were getting the numbers right?
A. I did think we were getting the numbers right.
Q. Did you have a reasonable level of comfort that all the people involved in this process were on board with you?
03:46:50 A. Yes, I did.
Q. Did anyone ever say to you this is wrong, we shouldn't be saying this?
A. No.
Q. Let's talk a little bit about restructuring.
03:47:07 We've heard a lot about it's either called restructuring or re-aging.
Are you okay?
A. Yes. I'm okay.
Q. Can you tell us why Household engaged in the business
03:47:19 practice of restructuring loans in the first place?

A. Re-aging was a process that was -- was going on for decades, 70 or 80 years since the beginning of the company, well before I got there, and it really had two purposes. One was to fulfill our customer proposition; that is, to work with
03:47:41 customers, keep them in their houses longer.

Second was to maximize cash flow, and we believed that re-aging did both of those things.

Q. Tell us how -- address each of those things in order. First start with the customers. Tell us how re-aging helps
03:47:56 the customers.

A. Well, re-aging in many cases allows the customers to stay in their homes. And, again, I'm not an expert on how we re-age or what the techniques are, what the best approach is; but generally speaking, it allows the customers to continue to
03:48:11 pay their loans when they wouldn't be able to do it if we applied bank rules.

Q. When you say bank rules, what are you referring to?

A. Well, bank rules, something called FFIEC, they're much more strict on what you can do in terms of re-aging and how
03:48:27 long you can let customers go without paying.

Q. Did they apply to Household's Consumer Lending Unit?

A. They did not.

Q. Did they apply to Wells Fargo?

A. They did.

03:48:36 Q. And the second thing you said is re-aging helps to

maximize cash flow. Please explain what you meant by that, sir.
A. Well, it means we believe that by re-aging, ultimately we get more money than if we didn't re-age.
03:48:50 Q. Explain how that works.
A. By -- by re-aging and allowing the customer to continue to pay his bills as opposed to walking away, we get more money than we would otherwise if he walked away.
Q. My fault for not being clear.
03:49:05 What would the alternative be to re-aging? If you didn't re-age, what would you do?
A. Well, for example, on a home if we didn't re-age, what would happen is you'd have more foreclosures. And from a company -- certainly from a customer standpoint, that's
03:49:18 terrible; but from a company's standpoint, it's terrible because you can only lose money on a foreclosure. The way our policy was if there was any gain, it went to the customer. But in 90 percent of the times you ever foreclosed or 99 percent of the times, you basically lost money because you
03:49:35 had the cost of selling it and you had the cost of maintaining it.
And so we never wanted to own a home if we could, and to the extent we could re-age, encourage the customer to stay paying, that was a good thing. Good for the customer, they
03:49:51 kept their house; good for us, we got more cash flow, and we

EXHIBIT 11

UNITED STATES DISTRICT COURT
NORTHERN DISTRICT OF ILLINOIS - EASTERN DIVISION

LAWRENCE E. JAFFE PENSION PLAN, On Behalf of Itself and All Others Similarly Situated,

Plaintiffs,

vs. No. 1:02-CV-05893

HOUSEHOLD INTERNATIONAL, INC., et al.,

Defendants.

____

VIDEOTAPED DEPOSITION OF BRADFORD CORNELL, Ph.D.
Los Angeles, California
Thursday, March 10, 2016
Volume I

Reported By:
CHERYL R. KAMALSKI
CSR No. 7113
Job No.: 10022554

UNITED STATES DISTRICT COURT
NORTHERN DISTRICT OF ILLINOIS - EASTERN DIVISION

LAWRENCE E. JAFFE PENSION PLAN, On Behalf of Itself and All Others Similarly Situated,

Plaintiffs,

vs. No. 1:02-CV-05893

HOUSEHOLD INTERNATIONAL, INC., et al.,

Defendants.

____

Videotaped deposition of BRADFORD CORNELL, Ph.D., Volume I, taken on behalf of Plaintiffs, at 300 South Grand Avenue, 34th Floor, Los Angeles, California, beginning at 9:09 a.m., and ending at 2:50 p.m., on Thursday, March 10, 2016, before Cheryl R. Kamalski, Certified Shorthand Reporter No. 7113.

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Videographer:

MAX MAI

Page 13

about deposition preparation, probably once by phone.
Q Okay. When was that?
A That would have been about a week or two ago.
Q Who was on the phone?
A Mr. Stoll, Pat Fitzgerald are the two that I remember.
Q Okay. How long did that conversation last?
A Three, four hours.
Q Did you review any documents while you were on that phone call?
A It was a WebEx, so there might have been something on the screen. I don't specifically recall what it was.
Q Was your report on the screen?
A No, it wasn't my report.
Q You don't recall which document was on the screen?
A I think it might have been -- I'm trying to remember -- maybe a few pages from my article, maybe a few pages from Cornerstone work product --
Q Okay.
A -- a few pages from Mr. Fischel's -- one of his reports.
Q What work product are you referring to --

Page 14

what Cornerstone work product?
MR. STOLL: Counsel, I'm -- I've given some leeway here. You're treading into 26(b)(4) areas, in terms of the preparation. You're allowed to ask Mr. Cornell what he's relied upon or what has refreshed his preparation [sic], but beyond that, you can't get in the substance.
MR. DROSMAN: Well, he's already testified that he relied on -- or that he reviewed --
MR. STOLL: No. He --
MR. DROSMAN: -- some work product. I'm just asking him what work product that was.
MR. STOLL: At a general level, Brad, you can respond. I don't want you to get into any specifics regarding the matters. It's inappropriate for questioning.
BY MR. DROSMAN:
Q What -- what Cornerstone work product did you review?
A As I recall, it was some regression analyses.
Q Okay. What were they about?
A They were regressions that, I think, they had prepared, in part, for Professor Ferrell.
Q Who from Cornerstone were you speaking to about them?

Page 15

A There were a number of Cornerstone people on the line. I -- the ones I recall are Kristin Leitzinger [sic] and James Lee.
Q Why'd you review regression analyses?
MR. STOLL: You know, now I'm cutting it off.
MR. DROSMAN: Are you going to instruct him not to answer?
MR. STOLL: Yes, sir.
(Instruction Not to Answer.)
BY MR. DROSMAN:
Q Are you going to follow your attorney's advice?
A Yes.
Q Okay. You mentioned that you also met in person to prepare for your deposition?
A Yes.
Q On two occasions; is that right?
A Yes.
Q Okay. When was the first time you met in person?
A Tuesday of this week.
Q Who was present for that meeting?
A Mr. Lee, Ms. Leitzinger [sic], another person from Cornerstone whose name I do not know, and Mr. Farina, Mr. Fuchs, and Mr. Stoll.

Page 16

Q Where was that meeting?
A That was at Cornerstone's offices Downtown at -- Los Angeles.
Q How long did that meeting last?
A The Thursday meeting was about four hours.
Q Did you review documents at that meeting?
A Yes.
Q How many?
A There were a variety of documents available; my reports, Fischel's reports, various exhibits -- I'm not sure exactly what the exhibits were to; they were just labeled "exhibits"; the Fischel deposition.
Q Were they exhibits to the trial?
A I couldn't tell you.
Q Okay. What type of documents were these exhibits?
A One was an output -- it looked like an output of -- it was "Exhibit 25," as I recall. I think it was an output to Professor Fischel's leakage model. I don't know if he'd prepared it or if Cornerstone had prepared it.
Q Okay. Any other exhibits that you recall?
A Yeah, there were others.
Q What type of documents were the others?

Page 17

A Graphs of regression output, specific disclosure calculations. That's all I really recall.
Q Okay. And then you said you met a second time in person to prepare for your deposition; is that correct?
A Yes.
Q When was that meeting?
A Yesterday.
Q Who attended that?
A Same people.
Q Okay. And was that at Cornerstone's offices in Downtown L.A. as well?
A Yes.
Q Okay. How long did that meeting last?
A Five hours.
Q Did you review documents at that meeting?
A As far as I recall, they were the same ones I just spoke of.
Q Okay. No -- no new documents?
A I don't think so.
Q Okay. Were you retained as an expert by Defendants?
A Yes.
Q Who retained you as an expert?

Page 18

A I don't exactly know. That -- that was handled by Mr. Bergstrom, who handles the retention letters. I think it was Skadden Arps, but I can't be positive of that.
Q Who's Mr. Bergstrom?
A He's the CFO of San Marino Business Partners.
Q When were you retained by Defendants in this case?
A I don't exactly recall, but some time ago. Not recently.
Q When you say "some time ago" -- more than a year ago?
A You know, I really don't remember. It -- I think it's at least six months ago. I remember when I work on the project. But as to the retention and so forth, I don't pay much attention to that.
Q When did you first start working on the case that we're here to discuss today?
A 2007.
Q Okay. Were you retained at that time?
A Not by these people, but I was retained, yes.
Q By whom?
A I don't remember the law firm. It was one of the New York law firms that was defending the case at the time.

Page 19

Q Okay. Who contacted you?
A Back then?
Q Yes.
A One of the attorneys for that law firm.
Q Okay. When was that?
A About 2007, or thereabouts.
Q Okay. And then you said you were retained by, you think, Skadden Arps; is that correct?
A Yes, by the defendants, but I believe the retention letter is with Skadden Arps.
Q Who contacted you for that retention?
A I think it was Mr. Stoll, but I'm not positive.
Q Okay. And you believe that that was roughly six months to a year ago?
A That would be the time frame that I would put it in.
Q Okay. In this second retention with Skadden Arps, what was your understanding of the assignment?
A To analyze the extent to which I thought Professor Fischel had used an article, that Greg Morgan and I had written, as the basis for his leakage model, and to offer my own opinion about the leakage model and how effectively that could be used in the circumstances of this case.

Page 20

Q And then when you were retained several years ago -- back in 2007 -- to work on this case, what was your understanding of the assignment then?
A Basically to do work on affid- -- two affidavits that I produced; so I don't remember it being any different than what the affidavits were.
Q In other words, the assignment was the same; is that correct?
MR. STOLL: Objection; misstates the testimony.
THE WITNESS: No. The assignment was to work on the affidavits that I produced back then, which are different than the reports that I've done now. There's some overlap, but they're by no means the same.
BY MR. DROSMAN:
Q Okay. So that's what I'm trying to get to. What was your assignment back in 2007?
A To work on those affidavits.
Q Okay. Specifically what were you supposed to do? I mean, "work on an affidavit" is a very broad description, right? You can say "work on a report." I'm asking you specifically what were you supposed to do when you were retained back in 2007?
A Exactly what I wrote in the affidavits. If

A I don't recall.
Q Okay. You read Mukesh Bajaj's expert reports, right?
A At one time.
Q Okay. It's -- they're listed in your Exhibit C -- correct -- or your Appendix C to your Exhibit 1?
A Yes.
Q You relied on those, right?
A No, I don't think so.
Q You listed them under your reliance materials, though, right?
A Yes.
Q Okay. You read Mukesh Bajaj's deposition transcript, right?
A Parts of it I went back to. I read it many years ago, and then I -- I did go back and look at parts of it.
Q And you also listed his deposition transcript under your Appendix C to your Exhibit 1, right?
A Yes. And just to be clear, I wanted to be complete in this. There can be things that I rely on, in the sense that I read it to just inform myself and then never used; things that I -- actually influenced my opinion. I used the broader

definition of "relied on" here. Some of these things, such as the order and the Bajaj work, I did look at; I wanted to understand it, but it had no direct impact on my analytical work.
Q You relied on his deposition testimony; is that correct -- Mr. Bajaj's?
MR. STOLL: Objection to form.
THE WITNESS: I think I just --
MR. STOLL: Mischaracterizes the testimony, and asked and answered.
THE WITNESS: Yeah, I think I just answered that to -- the best I can.
BY MR. DROSMAN:
Q Did you read Dr. Bajaj's trial testimony?
A It would be the same answer with respect to his deposition -- assuming it's on here.
Q You read it; is that correct?
A I read it at one time. I looked back at it. I didn't use it in developing any of my opinions in this case.
Q You listed it under your Appendix C, reliance -- "Materials Relied Upon," right?
A For the reasons I just described.
Q Did you, in fact, list his trial testimony under your "Materials Relied Upon" in your

Exhibit 1?
MR. STOLL: Objection to form. Asked and answered.
THE WITNESS: I did, for the reasons I just described.
BY MR. DROSMAN:
Q Okay. Were there any parts of Dr. Bajaj's methodology that were incorrect?
MR. STOLL: Objection to form. Beyond the scope.
THE WITNESS: I don't know. I didn't look at it that carefully, or with that in mind.
BY MR. DROSMAN:
Q Well, let me just ask you: Did you disagree, from a methodological standpoint, with any part of Dr. Bajaj's reports?
MR. STOLL: Objection to form and beyond the scope.
THE WITNESS: I didn't read them that carefully or for that purpose, and I don't know.
BY MR. DROSMAN:
Q Do you know who William Aldinger is?
A He's a Household executive.
Q Do you know his position?
A Well, there were three key executives -- and

I can't remember which had which position -- the CFO, a major marketing person, and the CEO. There was Gilman [sic], Aldinger, and Schoenfeld [sic], or something to that nature.
Q So these are defendants in the case that you're listing; is that right?
A Yes.
Q Can you tell me the names of the individual defendants?
A Those are the only three with which I'm familiar.
Q If you could tell me them, I'd appreciate it. I didn't hear.
A There was an Alding- -- again, I -- I don't remember the spelling, and so forth, specifically, so I may get the names wrong. There's a Gilman [sic], an Aldinger, and Schoenfeld [sic] or a -- something like "Schoenfeld."
Q And do you recall the positions of those three individuals -- the respective positions?
A I can't match them specifically, but one was the CEO, one was the CFO, the other had a major operating role.
Q Okay. Did you read Mr. Aldinger's trial testimony?

A Not that I recall, no.
Q Did you read Mr. Aldinger's deposition testimony?
A Not that I recall, no.
Q Okay. And the Schoenfeld that you mentioned is actually Schoenholz? Does that ring a bell?
A That may be right. Yes.
Q Okay. Did you read Mr. Schoenholz's trial testimony?
A Not that I recall, no.
Q Did you read his deposition testimony?
A No.
Q And Mr. Gilman that you mentioned, he's actually Gary Gilmer. Does that ring a bell?
A That could be right. I mean -- again, because I -- I wasn't using them in my specific work. I saw their role when I was looking at some of the jury verdict forms -- I believe it was -- but I didn't read his deposition or trial testimony either.
Q Okay. Did you read any exhibits used at the 2009 trial in this case?
A I can't recall if there were some included with the Bajaj testimony. If I -- if I did, that would have been the ones.

Q Okay. Did you read any Household internal documents produced in discovery in this case?
A Not specifically.
Q What about generally?
A I think some were quoted on the jury forms that I looked at. There were questions that the jury was answering that quoted documents, and I think some of those may have been Household internal documents.
Q What -- what jury forms are you referring to?
A I -- that's -- that's the best I can describe them, is jury forms. The jury was asked to -- to determine whether certain statements were misstatements.
Q This is the verdict form, you're referring to?
A That's what I was referring to.
Q Okay. And you believe that there may have been internal Household documents quoted in that, correct?
A I recall seeing various documents quoted and -- it could have included internal Household e-mails, for example.
Q Okay. Did you read any documents from Household about executive compensation?

A Not that I recall, no.
Q How about documents from Household about training?
A Training?
Q Correct.
A I don't recall that, no.
Q Did you review any consumer complaints about Household?
MR. STOLL: I'll just have a continuing objection that this is all beyond the scope.
Go ahead.
THE WITNESS: No.
BY MR. DROSMAN:
Q Okay. And did you review any of Household's responses to those consumer complaints?
A No. It wasn't related to the questions I was trying to answer.
Q Okay. And why do you say that?
A Because I was trying to analyze the -- the extent to which Professor Fischel had used the model suggested by Mr. Morgan and me, and to the extent that that model could produce a reliable measure of inflation in the circumstances of this case.
Q And the internal documents at Household are unrelated to that analysis, correct?

A Pretty much, yes. I can't think of how they would be related.
Q Okay. Did you review any examination reports from regulators about Household?
A No.
Q Did you review any Household responses to examination reports from regulators?
A No.
Q Did you review any correspondence between Household and the State's Attorneys General?
A No. And just to -- you know, to be a little more general here, you do have my two reports. And what I've reviewed, and influenced my opinion -- or even what just informed my background -- is listed in those documents. If it's not there, I didn't do it.
Q You're talking about your Appendix C?
A My -- to this, and there's a second report with a similar appendix.
Q So if a document is not listed in the appendix to your October report -- that's Exhibit 1 for identification -- or your December 2015 report, you didn't look at it; is that fair?
A I think that's probably fair, yes.
Q Did you review any documents authored by

Household's Investor Relations employees?
A Not that I recall.
Q What about documents about Household's internal controls?
MR. STOLL: I'll make a continuing objection on all of this; that it's outside the scope.
THE WITNESS: My answer is the same. Again, I don't recall that. It wasn't part of what I was trying to do.
BY MR. DROSMAN:
Q Do you know who Edward Ancona is?
A I don't think so.
Q Did you ever read his deposition transcript?
A No.
Q Do you know who Joe Vozar is?
A No.
Q What about Robert O'Han?
A No.
Q Walter Ryback?
A No.
Q Stephen Hicks?
A No.
Q Elaine Markell?
A No.
Q Thomas Detelich?

A No.
Q Craig Streem?
A No.
Q Kenneth Walker?
A No.
Q Dennis Hueman?
A No.
Q Lisa Sodeika?
A No.
Q Paul Makowski?
A No.
Q Megan Hayden-Hakes?
A No.
Q Dick Schaeffer?
A No.
Q Andrew Kahr?
A No.
Q Other than the trial testimony of Fischel and Bajaj, did you read any other trial testimony from the case?
A Not that I recall.
Q Other than the deposition testimony of Fischel and Bajaj, did you read any other deposition testimony from the case?
A Not that I remember.

Q Have you spoken to any current or former Household employees, other than the lawyers, about this case?
A No.
Q Did anyone on your behalf speak to any current or former Household employees about this case?
MR. STOLL: Objection to form.
THE WITNESS: I can't say for sure, but if they did, they didn't report it to me. And it wasn't relevant to what I was doing.
BY MR. DROSMAN:
Q Okay. Are you familiar with the -- let me withdraw that question.
You talked earlier about Professor Ferrell and Professor James, right?
A "Ferrell."
Q "Ferrell." Have you spoken to them about this case?
A No.
Q Have you talked to Mukesh Bajaj about the case?
A No.
Q Okay. Did you do anything to learn the details of Defendants' fraud?

MR. STOLL: Objection to form.
THE WITNESS: Not the details.
BY MR. DROSMAN:
Q Did you read the District Court's most recent opinion denying Defendants' motion to exclude Professor Fischel?
A Yes.
Q Why?
A It was a recent opinion that related to Professor Fischel, who was the focus of my work.
Q Did you read the opening statements from trial?
A No.
Q Did you read the closing arguments from trial?
A By -- you mean the previous trial? Obviously. Because we don't -- happen yet. No.
Q Okay. You understood my question, right? The only trial --
(Speaking Simultaneously.)
A Well, for a minute -- well -- well, like I said, earlier you were asking me like there was only one trial, and then I said there's two, and -- but if you were referring to the original trial, which you must be because the current one hasn't started,

Page 89

no, I did not.
Q And, I guess, same question with respect to the closing arguments. Did you read those -- from the trial?
A No, I did not.
Q Did you read the trial testimony of Cathy Ghiglieri?
A I did not.
Q Do you know who she is?
A No.
MR. STOLL: Again, a continuing objection to all of this line of questioning. It's beyond the scope.
BY MR. DROSMAN:
Q Did you read the trial testimony of Harris Devor?
A No.
Q Do you know who he is?
A No.
Q Did Household International have any business units?
A I believe so.
Q How many?
A I don't know.
Q Can you name one of them?

Page 90

A Well, they had a consumer -- I mean, I know some of the businesses they were in. They were in consumer lending, for example. But I haven't attempted to look at the company or the extent of its businesses.
Q So you can't tell me any of the business units that Household had?
A I don't know.
MR. STOLL: Objection to form, and also beyond the scope.
THE WITNESS: I don't know specifically how they broke that down or what business units they had, no.
BY MR. DROSMAN:
Q Okay. Did you ask for any documents that were used at trial?
A I wanted -- the specific one I wanted to look at was Professor Fischel's work. That's what I asked for. But I had it anyway; so -- I was given that without having to ask for it but --
Q Anything else?
A That's all I recall asking for.
Q Did you ask for any internal Household documents, for the purposes of forming your opinions in this case?

Page 91

A No.
Q Did you ask for any evidence of the fraud, for the purposes of forming your opinions in this case?
MR. STOLL: Objection to form.
THE WITNESS: I'm not -- you know, I really don't know how to answer that, because if there hadn't been a fraud, there'd be no case; so I basically assumed what the jury had found, as explained to me by counsel, in the previous case; that there had been a fraud and -- and that there -- certain liability had been assumed.
BY MR. DROSMAN:
Q Okay.
A So that -- that was a prerequisite to the work I began.
Q What's your understanding of the fraud in this case?
A I don't think I understand it well enough to really answer that under oath. That -- I can tell you generally that it's alleged that Household made misleading or inaccurate statements or had omissions regarding aspects of their business that are referred to as -- there are three categories. I don't think I can list them all. But one was

Page 92

predatory lending, the other one might have been aging or re-aging, and then there's a third but -- there were three categories of statements that were seen as the -- encompassing the fraud.
Q Okay. Can you provide me with -- any more with respect to your understanding of the fraud in this case?
MR. STOLL: Again, objection to form, and beyond the scope.
THE WITNESS: Not as I sit here now because it -- it wasn't the focus of my work or my assignment. And I only learned it through the general background of the case.
BY MR. DROSMAN:
Q What documents -- or what was the source of the information through which you learned about the fraud in this case?
A Well, it's one of the -- the documents that I've listed. It might have been Professor Fischel's work. As I sit here now, that's what I recall as the source -- either his trial testimony or his reports or his deposition.
Q Any other source of information besides that which informed your understanding of the fraud in this case?

Page 93

A I think Bajaj talked about it. I can't remember if it was in the decisions or not.
Q Any other sources?
A Not that I can think of.
Q Okay. Do you understand that the jury in this case found that the defendants made false and misleading statements and omissions?
MR. STOLL: Objection to form.
THE WITNESS: Yes.
BY MR. DROSMAN:
Q Okay. You mentioned that there were three categories, right?
A Yes.
Q Okay. And you mentioned predatory lending as one of those categories, correct?
A Yes.
Q What is predatory lending?
MR. STOLL: Objection to form, and beyond the scope.
THE WITNESS: I don't -- I don't have a -- a specific definition. I'm sure that that's part of this case, but I don't know exactly what it means.
BY MR. DROSMAN:
Q What is your understanding of the predatory lending fraud that Defendants committed?

Page 94

MR. STOLL: Objection to form, and beyond the scope.
THE WITNESS: I don't think I'm expert enough to characterize it.
BY MR. DROSMAN:
Q Do you have any understanding at all of the predatory lending fraud?
MR. STOLL: Objection to form, beyond the scope.
THE WITNESS: Nothing that I could use as the basis for a professional analysis.
BY MR. DROSMAN:
Q Okay. Could you tell me any of the predatory lending schemes in which Defendants engaged?
MR. STOLL: Objection to form, beyond the scope.
THE WITNESS: No.
BY MR. DROSMAN:
Q Have you heard the term "effective rate"?
MR. STOLL: Objection to form, beyond the scope.
THE WITNESS: I think I've seen it, yes.
BY MR. DROSMAN:
Q What does it mean?
MR. STOLL: Objection to form, beyond the

Page 95

scope.
THE WITNESS: Well, I've seen it in many contexts. I can tell you in -- in -- in a mortgage, the effective rate is the all-in rate that reflects the total cost the borrower is paying. I can't tell you exactly what it means in the context of this case. Maybe it means the same thing.
BY MR. DROSMAN:
Q Have you heard the term "closing the back door" with respect to this Household case?
MR. STOLL: Objection to form, beyond the scope.
THE WITNESS: No.
BY MR. DROSMAN:
Q Have you heard the term "load splitting" with respect to this case?
MR. STOLL: Objection to form, beyond the scope.
THE WITNESS: No.
BY MR. DROSMAN:
Q Have you heard the term "insurance backing"?
MR. STOLL: Objection to form, beyond the scope.
THE WITNESS: No.
BY MR. DROSMAN:

Page 96

Q Have you heard the term --
MR. STOLL: Counsel, should I -- obviously this whole line of inquiry, which is not dealing at all with the scope of assignment for Professor Cornell, or the opinions he's offered in the case -- I mean, I can -- every question I can do "objection to form, beyond the scope"; we can have a continuing objection -- what is your preference?
MR. DROSMAN: If you find a question objectionable, you should object to it.
Q Have you heard the term "equity stripping"?
MR. STOLL: Objection to form, beyond the scope.
THE WITNESS: No.
BY MR. DROSMAN:
Q Do you understand that Defendants committed securities fraud?
MR. STOLL: Objection to form, calls for a legal conclusion.
THE WITNESS: My understanding, you know, not being a legal expert, is that the jury did find liability against the defendants.
BY MR. DROSMAN:
Q Okay. Now, you mentioned that one of the other categories of fraud that the jury found might

Page 97

have been aging, or re-aging, right?
A That was my recollection.
Q Okay. What does that term mean?
MR. STOLL: Objection to form, beyond the scope.
THE WITNESS: I don't specifically know.
BY MR. DROSMAN:
Q What's your understanding of how Household engaged in re-aging?
MR. STOLL: Objection to form, beyond the scope.
THE WITNESS: I really don't have an understanding of that.
BY MR. DROSMAN:
Q Do you have an understanding as to how re-aging works?
MR. STOLL: Objection to form, beyond the scope.
THE WITNESS: No.
BY MR. DROSMAN:
Q Is there any relationship between loan delinquencies and re-aging?
MR. STOLL: Objection to form, beyond the scope.
THE WITNESS: I couldn't tell you.

Page 98

BY MR. DROSMAN:
Q Did re-aging impact any financial metrics at Household?
MR. STOLL: Objection to form, beyond the scope.
THE WITNESS: I couldn't tell you.
BY MR. DROSMAN:
Q Have you heard the term "two-plus delinquency statistics"?
MR. STOLL: Objection to form, beyond the scope.
Again, Counsel, I -- if your preference is that we not have a continuing objection to this line of inquiry, and I do it every time, I will do it every time. I just want to give you that offer, for the record, so that we're not in a situation in which I'm having to do this every question. You're asking a series of questions which do not pertain to the scope of the Professor's assignment in this case.
BY MR. DROSMAN:
Q Have you heard the term "two-plus" --
MR. STOLL: So -- I'm sorry -- Counsel, you want me to do it every time?
MR. DROSMAN: I think we've been down this

Page 99

road.
Q Have you heard the term "two-plus delinquency statistics"?
MR. STOLL: Objection to form, beyond the scope.
THE WITNESS: No, I have not.
BY MR. DROSMAN:
Q Okay. Have you heard the term "skip-a-pay program" as it relates to Household?
MR. STOLL: Objection to form, beyond the scope.
THE WITNESS: No.
BY MR. DROSMAN:
Q Have you heard the term "restructures" as it pertains to Household?
MR. STOLL: Objection to form, beyond the scope.
THE WITNESS: Not as it pertains to Household.
BY MR. DROSMAN:
Q Have you heard the term "rewrites" as it pertains to Household?
MR. STOLL: Objection to form, beyond the scope.
THE WITNESS: Not as it pertains to

Page 100

Household.
BY MR. DROSMAN:
Q Have you heard the term "two-plus delinquency"?
MR. STOLL: Objection to form, beyond the scope.
THE WITNESS: I thought you asked me that before. But either way, no, I haven't heard it.
BY MR. DROSMAN:
Q What about "automatic restructures"?
MR. STOLL: Objection to form, beyond the scope.
THE WITNESS: Not as it applies to Household.
BY MR. DROSMAN:
Q Did Household announce a restatement during the class period?
MR. STOLL: Objection to form, beyond the scope.
THE WITNESS: I vaguely recall that they did, but it wasn't -- whether or not they did was not part of my analysis.
BY MR. DROSMAN:
Q Okay. Was that one of the forms of fraud -- or one of the categories of fraud that the jury found?

MR. STOLL: Objection to form.
THE WITNESS: As I recall, the third category was related to financial reporting, and it could have been restatement.
BY MR. DROSMAN:
Q Okay. Do you know when Household announced its restatement?
A No.
Q Do you know why Household announced its restatement?
MR. STOLL: Objection to form, beyond the scope.
THE WITNESS: Not specifically.
BY MR. DROSMAN:
Q Do you know generally?
A They --
MR. STOLL: Objection -- objection to form, beyond the scope.
THE WITNESS: I'm concluding that they did so because they felt their -- their auditor felt their financial statements needed material correction.
BY MR. DROSMAN:
Q What's the basis for that conclusion?
MR. STOLL: Objection to form, beyond the scope.

THE WITNESS: In my experience, that's always the reason for restatement.
BY MR. DROSMAN:
Q Okay. How much in net income did Household restate?
MR. STOLL: Objection to form, beyond the scope.
THE WITNESS: I don't know.
BY MR. DROSMAN:
Q Who are Household's auditors?
MR. STOLL: Objection to form, beyond the scope.
THE WITNESS: I may have seen that, but I don't remember.
BY MR. DROSMAN:
Q Are you familiar with the Washington DFI Report?
MR. STOLL: Objection to form, beyond the scope.
THE WITNESS: No.
BY MR. DROSMAN:
Q Okay. Do you know whether the Washington DFI Report was disclosed to the market?
MR. STOLL: Objection to form, beyond the scope.

THE WITNESS: I don't.
BY MR. DROSMAN:
Q You use the term "value relevant," right?
A I use the term "value" -- yes, I do use the term "value relevant."
Q What does that term mean?
A To me, as a financial economist?
Q Well, as used in Exhibit 1, for example.
A Because I use it -- well, let's point to where I use it here. I use that phrase all the time.
Q Do you mean different things when you use it?
A Typically not, but I -- it's -- you know, a lot of people use the phrase; so if you've got a context -- where are you asking me about it?
Q Why don't you just tell me generally what you mean by "value relevant."
A Something is value relevant if it affects the underlying variables which are -- which determine value, which are typically the future cash flows produced by a company, or asset, and the -- and the rate at which those future cash flows would be discounted.
Q Do you know whether the Washington DFI Report was value relevant?

A I was waiting for Mr. Stoll.
No, I don't.
Q Okay. Now, do you know what the acronym FFIEC stands for?
MR. STOLL: Objection to form, beyond the scope.
THE WITNESS: No.
BY MR. DROSMAN:
Q Have you ever heard that acronym before?
MR. STOLL: Objection --
THE WITNESS: I don't --
MR. STOLL: Objection to form, beyond the scope.
THE WITNESS: I don't remember it, if I have.
BY MR. DROSMAN:
Q So it's fair to say that you have not done an analysis of the facts of this case?
MR. STOLL: Objection -- objection to form.
THE WITNESS: Only the facts that were relevant to my assignment.
BY MR. DROSMAN:
Q What facts were those?
A The behavior of the stock price; the -- the use of models to attempt to measure inflation; the regression analyses that Professor Fischel did; the

Page 105

way he might have modified those regression analyses. In other words, the statistical implementation of the inflation models.
Q Okay. It's fair to say that you have not done an analysis of the evidence from the trial in this case? Is that fair?
MR. STOLL: Objection to form.
THE WITNESS: Only -- I can't say I haven't done any analysis. I've done analysis related to the assignment I had that I just described, and then -- that's part of the trial, but it's -- it's only a small part.
BY MR. DROSMAN:
Q Now, in your analysis for this case, did you make judgments about whether information was fraud-related or not fraud-related?
MR. STOLL: Objection to form.
THE WITNESS: No, I don't think I did.
BY MR. DROSMAN:
Q You wouldn't be equipped to make those judgments, correct?
MR. STOLL: Objection to form.
THE WITNESS: Not at this stage, certainly.
BY MR. DROSMAN:
Q Why is that?

Page 106

A I haven't done the work. I -- maybe I couldn't do it if I had done the work. But I haven't done the work, so it renders that moot.
Q Did you perform a regression analysis in this case?
A I confirmed some. I didn't do any new regressions. I like to always just check regressions; so I did do some confirmatory regressions.
Q What confirmatory regressions did you do?
A As I recall, I reran some of the Fischel regressions.
Q Any other confirmatory regressions?
A Not that I remember.
Q Okay. Did you perform an event study in this case?
A No.
Q Did you attempt to quantify the inflation in this case?
A No.
Q Did you attempt to quantify the damages in this case?
A No.
Q Did you attempt to determine whether there was loss causation in this case?

Page 107

MR. STOLL: Objection to form, calls for a legal conclusion.
THE WITNESS: It's possible that my work that I did do will have implications for loss causation, but I didn't author a specific opinion with regard to loss causation.
BY MR. DROSMAN:
Q And you don't -- as you sit here today, you don't have a specific opinion, do you?
MR. STOLL: Objection to form.
THE WITNESS: All my opinions are as stated in my reports.
BY MR. DROSMAN:
Q Right. I'm just asking you, as you sit here today, do you have a specific opinion as to whether there was loss causation in this case?
MR. STOLL: Objection to form.
THE WITNESS: I don't recall having something like that in my reports.
BY MR. DROSMAN:
Q So by extension, you don't have one; is that right?
MR. STOLL: Objection.
THE WITNESS: That's correct. As I said at the outset, all of my basic opinions are in my

Page 108

reports.
BY MR. DROSMAN:
Q Okay. Now, let's take a look at Exhibit 1, which is your October 23 expert report. And why don't we go ahead and turn to paragraph 11 of that report. I believe it's on page 4.
Okay. Do you see that?
A Yes.
Q That's your assignment in this case, right?
A At least with respect to this report. I think the other report may do a little something else. But for this report, that's my assignment. Yes.
Q Okay. And then the second sentence reads (as read):
"In particular, I've been asked to address whether Professor Fischel's leakage model is consistent with a paper that I co-authored and upon which Professor Fischel relies entitled 'Using Finance Theory to Measure Damages in Fraud on the Market Cases,' or is supported by any other academic literature or accepted principles of financial

Page 109

economics," right?
A Correct.
Q Who defined that assignment?
A I think counsel of -- as recall, I got that assignment from Mr. Stoll.
Q Okay. Did you ever attempt to quantify the impact of leakage in this case?
A No.
Q Can leakage be estimated?
A That depends on specific facts and circumstances.
Q Well, in certain circumstances, can leakage be estimated?
A I can maybe construct pure hypotheticals where it can. But every situation's going to be different.
Q There are some -- it's fair to say that there are some circumstances in which leakage can be estimated; is that right?
MR. STOLL: Objection to form, asked and answered.
THE WITNESS: Like I say, I think if I sat down and -- you asked me to construct a conceptual thought experiment where it could be measured, I could probably do that. But whether that thought

Page 110

experiment would have any applicability to any real-world case would depend on the facts and circumstances.
BY MR. DROSMAN:
Q Okay. If you could take a look at paragraph 17 of Exhibit 1. And that paragraph, I believe, is on page 8. Do you see that?
A Yes.
Q And there in the second sentence, you write:
"Professor Fischel's implementation of the Leakage Model in this matter fails to adequately account for value-relevant, firm-specific, non-fraud information," right?
A Yes.
Q You stand by that conclusion, right?
A That conclusion was based on my reading of Professor Ferrell's work; so I'm basing that conclusion on his work.
Q Okay. What do you mean you're "basing that conclusion on his work"?
A Professor Ferrell has done a detailed analysis of all the major disclosures in the case, and concluded that there are value-relevant, firm-specific, non-fraud events, and the leakage

Page 111

model, the way Professor Fischel has implemented it, would not adequately account for those. It would put those into the measure of inflation when they shouldn't be there.
Q Okay. And was Professor Ferrell's analysis the sole basis for this assertion?
A Well, there's two parts to the assertion: one is theory, one is Professor Ferrell. The theory part is that if there are value-relevant, firm-specific, non-fraud sources of information, then the leakage model -- the type Professor Fischel uses -- won't work properly. So that's a theory point.
The empirical point is that Professor Ferrell says yes, in this case there are such. So it's got two aspects to it.
Q Yeah. I'm just focusing on the sentence that I read to you from paragraph 17 of Exhibit 1.
"Professor Fischel's implementation of the Leakage Model in this matter fails to adequately account for value-relevant, firm-specific, non-fraud information."
And I'm trying to understand the basis for

Page 112

that assertion. And you told me that was based on Professor Ferrell's work, correct?
A The -- the assertion that, in this particular case, there is value-relevant, firm-specific, non-fraud information is based on Professor Ferrell.
Q Okay. Any other basis for that assertion that I just read to you?
A I've looked at a few examples myself, but I've only looked at isolated instances. So making that as a scientific statement is based on Professor Ferrell. That's far more complete than anything I've done. His work is much more complete.
Q Okay. Now, you wrote "value-relevant" in this particular sentence of paragraph 17 that I read to you, right?
A Correct.
Q What did you mean by "value-relevant" there?
A Firm-specific information that would affect the value of the firm. You could have firm-specific information, such as the CEO was a high school basketball player. That would be firm-specific, but it wouldn't be value relevant.
Q Does "value relevant" mean "material"?
A I think lawyers might equate the two. You --
Q Okay. "Firm-specific" -- you wrote those

Page 113

words in this sentence, right?
A Yes.
Q What'd you mean by "firm-specific" in that sentence?
A Not related to the factors that Professor Fischel includes in his regression with the sensitivities that that regression implies.
Q I'm not sure I understand. Does "firm-specific" -- "firm-specific information" exclude any other types of information?
MR. STOLL: Objection to form.
THE WITNESS: It excludes information that the regression picks up.
BY MR. DROSMAN:
Q What information is that?
A That would be information related to movements in the S&P 500 or the S&P Financials, with the sensitivity coefficients given by Professor Fischel's results.
Q So I take it that firm-specific information is not market information, right?
MR. STOLL: Objection to form.
THE WITNESS: It is typically not market information.
BY MR. DROSMAN:

Page 114

Q And it's not industry information, correct?
MR. STOLL: Objection to form.
THE WITNESS: Well, it could be. If the industry is precisely defined to reflect the systematic factors that reflect the firm, then it's not industry. But if you can't -- this is why I wanted to read Professor James. If you misdefine the industry, then firm-specific could include industry-related effects.
BY MR. DROSMAN:
Q Okay. When you wrote "firm-specific" here, did -- were you referring to industry information as well as other information?
A I was aware of the -- the explanation I just gave you. So yes, I was referring to exactly what I just said.
Q So in answer to my question, when you wrote "firm-specific" in paragraph 17 of your expert report, were you referring to industry information?
A "Industry" in the sense that if -- if Professor Fischel has implemented a model that has an inappropriate industry variable, then there will be firm-specific information that is related to the proper industry.
Q Okay. Any other information that firm-

Page 115

specific information does not include?
A Well, some people interpret "firm-specific" as only information about the firm. But behavioral finance people -- and maybe I -- I would have put this into the non-fraud -- but behavioral finance people have shown that a great deal of the movement in stock prices is related, not to firm -- not to market, not to industry, or not even to firm-specific releases, but apparent changes in sentiment that move stock prices, independent of any firm news whatsoever.
Q So can you -- having all that in mind, can you provide me a definition of "firm-specific information"?
A The only one I think that is precise is -- is the one I gave you. It's in relation to a specific model that -- it is things not picked up by the variables included in a regression model that you're using to predict returns, that is related to the company.
Q Okay. Let's talk about non-fraud information. What's your definition of that term, as it's used in paragraph 17 of Exhibit 1?
A That it would be information unrelated to the -- the fraud at hand.

Page 116

Q Okay. So what is "fraud-related information," then?
A Well, that would depend on -- the two sides would probably disagree about this, but it -- it's information -- it's information that provides the market with new news about the nature of the alleged fraud.
Q Okay. And what is the alleged fraud?
A I'm just giving you a general answer. As I've said, specifically in this case, I haven't investigated that.
Q Okay. Was Household's worsening credit quality company-specific non-fraud information?
A I haven't tried to parse out the specific information releases. I've simply looked at the way Professor Fischel implemented my model.
Q Well, did Household's --
A I don't want to say it's "my model." The comparative index model.
Q Did Household's worsening credit quality impact Household's stock price during the disclosure period?
A I don't know. You'd have to do a specific event study, like Professor Ferrell did, to answer that.

Q Okay. Were accounting concerns at Household company-specific non-fraud information?
A Again, I -- I haven't looked at those. And there could be dispute about that. It could have an element -- many of these things could have an element that is fraud-related and non-fraud-related; sort of like a vector with two components. So there could be a component that is fraud-related and a component that isn't.
Q Were concerns about lawsuits --
MR. STOLL: Counsel, just at an appropriate point -- we've been going about another hour -- so -- continue with your question.
MR. DROSMAN: A few more questions.
MR. STOLL: Just wanted to give you a heads-up.
BY MR. DROSMAN:
Q Were concerns about lawsuits at Household company-specific non-fraud information?
A I could see that having both a component of fraud- and non-fraud-related. But I haven't tried to parse out the information.
Q How does it have a component of fraud -- concerns about lawsuits?
MR. STOLL: Objection to form, beyond the

scope.
THE WITNESS: Well, my only -- the explanation I can give you is a general one that if the lawsuits involve fraud then -- allegations of fraud, then concerns about lawsuits could be related to the alleged fraud.
BY MR. DROSMAN:
Q Okay. How would the concerns about lawsuits not involve fraud?
A Well, they might be different lawsuits. They could be a lawsuit for sexual harassment within the firm, or anything else.
Q Did you review any analyst reports in this case?
A I think I looked at maybe one or two, but I did no systematic review of analyst reports.
Q Okay. Did the analysts note any concern about lawsuits in this case?
A My knowledge is -- is too cursory to really talk about that.
Q Okay. Did the analysts note any accounting concerns at Household during the period that you're investigating?
A Again, just having looked at one or two and a couple quotes, I can't give you any systematic

answers about analyst reports.
MR. DROSMAN: Okay. Why don't we go ahead and take a break.
MR. STOLL: Okay.
THE VIDEOGRAPHER: Going off the record at 11:14 a.m.
(Recess.)
THE VIDEOGRAPHER: Going back on the record at 11:28 a.m.
BY MR. DROSMAN:
Q Now, when we broke, we were discussing Exhibit 1, which is your October 23 expert report, right?
A Yes.
Q Specifically I think we were talking about paragraph 17 of that expert report, right, and the assertion that you made on that -- in that paragraph?
A Yes.
Q Do you recall that?
And you'd mentioned that you relied on Professor Ferrell for that assertion; is that right?
A For the evidence that there was value-relevant, firm-specific, non-fraud information, that's what I relied on Fischel for --

I mean Ferrell for.
Q Did you rely on Professor Ferrell's expert report for that assertion?
A Yes. He has two expert reports, but those -- those -- this would have been just his -- well, I can't remember if -- the timing -- I don't know if I filed this after and I'd seen a draft of his -- but I relied on the Ferrell work. The chronology, I may have to go back and get straight.
Q Yeah. That's what I was going to ask you. I mean, you filed your report on the 23rd, right?
A Yes.
Q Of October 2015. Professor Ferrell submitted his report on the same day, right?
A I think so. Yes.
Q Okay. So how did you rely on the report?
A I was aware of his results.
Q How were you aware of his results?
A Through Cornerstone.
Q What do you mean by that?
A That -- I'd been asking about whether or not there were facts in this case -- or I shouldn't say "facts," because I'm sure you'll argue about that -- but whether there was evidence in this case of value-relevant, firm-specific, non-fraud

Page 121

information. And the Cornerstone people said they were working intensely with Allen Ferrell on that, and that he would be providing a detailed study to show that there was.

Q Okay. And then he provided that study to you?

A When his report was filed, I got a copy.

Q Well, it was filed on the 23rd, right?

A Yeah. No. I didn't -- I don't think I had a draft of the report. I just had the verbal statement. I don't recall a draft of the report.

Q So you hadn't actually read his analysis when you made this assertion, correct?

A I think that's correct.

Q Okay. And you made this assertion based on a statement by Cornerstone that Professor Ferrell would, in fact, find that there was value-relevant, firm-specific, non-fraud information that Professor Fischel had not accounted for, correct?

A That he had found evidence of that, yes.

Q That was the sole basis for this assertion, correct?

A Well, that's the sole basis for the empirical part. There's also the -- the notion that that's important, which is a theory point, where I relied

Page 122

on my own work.

Q Right. I'm just -- I'm directing your attention to that sentence in paragraph 17 that reads:

"Professor Fischel's implementation of the Leakage Model in this matter fails to adequately account for value-relevant, firm-specific, non-fraud information."

You see that sentence, right?

MR. STOLL: And, Professor, because we've been going back and forth sometimes between your overall opinions in the case and what, I believe, Counsel's now addressing with you, which is just this Exhibit 1 and your report, I would just caution you to take whatever time you need to familiarize yourself with this specific report so that you're not talking generally, but you're talking about the specific report that he's addressing your attention to at this stage.

BY MR. DROSMAN:

Q I'm actually addressing your attention to a specific sentence within Exhibit 1 that I read to you. Do you see that?

Page 123

MR. STOLL: You can take whatever time you would like, Professor, to familiarize yourself with the particular aspects of this particular report that he's questioning you with respect to.

BY MR. DROSMAN:

Q Do you need time?

A Just give me one second here.

Q Sure.

A No. My recollection is as I -- as I -- I just stated, that I offered some specific examples -- there were just two -- and I was told that Professor Ferrell had found systematic evidence of firm-specific, value-relevant, non-fraud information.

Q And you were told by Cornerstone, right?

A Yes.

Q Who at Cornerstone told you that?

A I don't remember the specific individual.

Q Okay. And the assertion that I read to you in paragraph 17 -- the sole basis for that assertion was this statement by somebody at Cornerstone, right?

A Well, it's not the sole basis, because I have examples in my own report. The systematic basis would be that but -- let's see which paragraph it is

Page 124

that I talk about -- 22.

Q Okay. So I -- I just want to understand the basis for this assertion that I read to you in paragraph 17. You said the basis is somebody at Cornerstone told you about Professor Ferrell's findings, correct?

MR. STOLL: Objection to form, asked and answered.

THE WITNESS: Let me do it in the order that I think of it. I found specific examples of what I thought was value-relevant, non-fraud information, in -- in -- in the small sample of documents that I looked at.

BY MR. DROSMAN:

Q Okay.

A And then I was told by Cornerstone that Professor Ferrell was conducting a -- and I said, "That's only two examples. That's not a scientific sample." They said, "Professor Ferrell is conducting a very comprehensive analysis, and he finds the same thing in that."

Q Okay. Any other basis for that statement in paragraph 17 besides those two things?

A That's all I recall.

Q Okay. Let me ask you to take a look at

Page 125

Exhibit 1 to your Exhibit 1 -- your -- the Exhibit 1 to your October 23 expert report.
A You mean Exhibit A or --
Q I think it's --
A I don't understand.
Q I believe it's called "Exhibit 1." It's got an "Exhibit 1" right there.
A Oh, okay. So it's Exhibit 1 to Exhibit 1.
Q Correct. You recognize that, right?
A Yes.
Q Did you prepare that?
A James Lee of Cornerstone and I prepared this.
Q Okay. Who's James Lee?
A He's a finance Ph.D. who works at Cornerstone.
Q Okay. How was this prepared?
A This was based on a 10,000-run simulation of Professor Fischel's back-casting model. And then this is the -- the 95 percent confidence interval from those 10,000 runs.
Q Okay. And did you do the analysis required for this?
A I wrote down the equations and the model, and then Cornerstone actually implemented it on their computers.

Page 126

Q Okay. And did you review the backup to determine whether it was accurate?
A Yes.
Q Okay. Now, using a standard market model, the resulting output for any given day is going to be a predicted return, plus or minus some error rate, correct?
A When you say a "standard market model," what's -- in my profession, there is no "standard." But using any model, there's going to be a predicted plus an error.
Q Okay. That error band is what you would call the "confidence interval," right?
A Well, that error band can allow you to compute confidence intervals.
Q That's what you've done here -- right? -- computed a confidence interval?
A Yes.
Q And that's a 95 percent confidence interval, right?
A Yes.
Q What does that mean?
A That means there's a 95 percent chance, according to the model, that the true value lies between the upper and lower bounds.

Page 127

Q Okay. Now, is it true that the standard textbook approach in financial economics is to put the error band, or confidence interval, around the prediction from the regression model?
A I don't think there is necessarily a standard like that, no. It's done, but I -- without more specifics, I couldn't tell you if what you're doing is standard or not.
Q Okay. How -- where do you put the error band, I guess is my question?
A Well, it's typical -- it's typical, when you're looking at a confidence interval, to use a 95 percent confidence interval.
Q Okay. And you put it around what? What do you surround that? Use the prediction?
A I didn't surround anything. We ran the 10,000 simulations, and then we took the cutoff points at the top 2-1/2 percent and the bottom 2-1/2 percent, and that defined the 95 percent confidence interval.
Q Okay. So 2-1/2 percent is above the red line and 2-1/2 percent is below the red line?
A Well, not the red line. 2-1/2 percent is below the bottom of the maroon shading and 2-1/2 percent is above -- of all the 10,000 runs.

Page 128

If you took the 10,000 runs, ran them all the way back -- and let me just do it at the beginning of the period -- 95 percent of them were between about 23 and 53.
Q Now, you've got a red line here that says "Leakage Model True Value," right?
A That's --
Q In quotes.
A That's Professor Fischel's line.
Q Okay. Did you -- this error band -- do you surround Professor Fischel's true value line with it?
A With this particular implementation, I do.
Q Okay. Why is that?
A It just happens to be that way. That's the way it worked out. It's influenced by the fact that we have enforced Professor Fischel's constant term, and not used the constant term that a regression would have provided. But given that precondition, that's what the output finds.
Q Okay. Now, you're aware that Professor Fischel obtained a prediction from his regression model, right?
A Each day he had a prediction of a predicted return, correct.

BY MR. DROSMAN:
Q Okay. And you understand that the particular true value line that you have here is the adjusted true value line, correct?
A Yes.
Q Okay. And you understand that you use that when applying your confidence intervals, correct?
A I didn't use the value line at all in applying the confidence intervals. I used his regression equation. And I didn't put any cap on it. There's no cap on this line, I don't think, either.
Q Okay. So did the true value line that's shown in this Exhibit 1 to your report have any bearing at all on the 95 percent confidence interval that's also shown?
MR. STOLL: Objection to form.
THE WITNESS: They are related because they both derive from the same predictive equation.
BY MR. DROSMAN:
Q Why don't we take a look at paragraphs 21 and 22, at page 10 of your report.
Okay. In paragraph 21, the last sentence of that paragraph reads:
"However, I note that even a

cursory review of the information that Professor Fischel himself cites in his September 2015 Report demonstrates that firm-specific, non-fraud information affected Household's stock price on days that he identifies as having a statistically significant decline during the Observation Window," right?
A Correct.
Q Okay. And you'd agree with me that you have to understand what the fraud is to determine whether information is non-fraud, right?
MR. STOLL: Objection to form.
THE WITNESS: Not entirely, no.
BY MR. DROSMAN:
Q You can determine whether information is non-fraud without an understanding of the fraud; is that correct?
A To an extent, yes.
Q Okay. And you mention an "Observation Window" there, right?
A That "Observation Window" is capitalized. That's what Professor -- that's Professor Fischel's term for what he calls -- it's a weird name, but

that's why I capitalized it; it's his definition.
Q What is it?
A It's the period of time during which there were alleged fraud-related disclosures. It's from the 15th of November 2001 until the end of the class period. I think it's the 15th of November.
Q Okay. Was information related to the fraud disclosed during the observation window?
A Both Professor Fischel and Professor Ferrell agree that there were at least some firm-specific fraud-related disclosures. And I haven't done another -- I don't have an independent opinion from those two on that regard.
Q Okay. So you wouldn't be able to tell me what information, for example, related to the fraud was disclosed during the observation window, right?
A Correct.
Q Okay. Or when that information was disclosed, right?
A Well, I -- I could go back and look at what both Professors Ferrell and Fischel said were the disclosure dates. There were 14, I think, in Professor Fischel's report and 8, I believe -- or 6 in Professor Ferrell's. And the dates are given. I didn't memorize the dates.

Q Okay. You mentioned that you did a cursory review of the information that Professor Fischel himself cites, right?
A Yes. I didn't attempt to do a systematic study.
Q Okay. Tell me what review you performed.
A I was looking for mentions on the days that he cited -- and in his report -- that appeared to be issues unrelated to discussions of this fraud, such as issues with liquidity.
Q Okay. And you were looking for that information without an understanding as to what the fraud was, right?
MR. STOLL: Objection to form.
THE WITNESS: I did not have a full understanding of the fraud, and that's why I was just attempting to offer examples. It was not the basis of any formal analysis.
BY MR. DROSMAN:
Q If you didn't have a complete understanding of what the fraud was, how were you able to determine whether information was non-fraud?
A I don't think I could make a scientific determination of that. In some sense, this -- this -- this example paragraph could be omitted from

Page 137

my report, and my conclusions would not change.
Q Okay. Have you -- you've told me you've read the Court's February 1st, 2016 opinion, denying Defendants' motion to exclude Professor Fischel's testimony, right?
A Yes.
Q Okay. Did the Court, in that opinion, say anything about whether liquidity was fraud-related or non-fraud-related?
MR. STOLL: Objection to form, calls for legal conclusions.
THE WITNESS: I think they mentioned it. I don't specifically recall.
BY MR. DROSMAN:
Q What did the Court say about liquidity?
A I couldn't --
MR. STOLL: Objection -- objection to form, calls for legal conclusions.
THE WITNESS: I couldn't cite it for you.
BY MR. DROSMAN:
Q Okay. You mentioned you -- the reason I ask about liquidity is the first example that you provide is from a "Deutsche Banc Alex Brown analyst report," right?
A Yes.

Page 138

Q And that's dated February 7th, 2002, right?
A That's what Professor Fischel was citing, yes.
Q Did you actually look at that analyst report?
A I -- I did look at it, but I didn't read it in -- in its entirety.
Q What did you read?
A I verified that what Professor Fischel was quoting was, in fact, in there.
Q Okay. And there's a quote that reads -- that you have in your report that says:
"...'shares of Household International continued to plummet on unsubstantiated claims, in our opinion, of issues with liquidity, accounting, and lawsuits,'" right?
A That's actually from Professor Fischel's report that I'm quoting.
Q Okay.
A But, yes, it's in Professor Fischel's report.
Q Okay. Did Professor Fischel italicize "liquidity"?
A No, I don't believe he did.
Q You italicized "liquidity," correct?
A Yes.

Page 139

Q Why?
A Because I was pointing to that as the one I thought -- that seemed to be an issue related to the -- a problem that the firm was having that was potentially -- or at least partially -- unrelated to the fraud.
Q Okay. What about the accounting? Was that fraud-related?
A I wasn't trying to decide.
Q Well, did you form an opinion one way or the other?
A No.
Q Do you know, one way or the other, whether the accounting is fraud-related?
A I know that the fraud involved accounting issues. Whether that's the ones that Fischel and Alex Brown were talking about, I don't know.
Q What about "lawsuits" there? Was that fraud-related?
A It could be.
Q Why do you say that?
A Because discussions of these lawsuits were considered to be fraud-related.
Q Okay. I'll show you what we'll mark as Exhibit 3 -- Cornell Exhibit 3 for identification.

Page 140

(Exhibit 3 was marked for identification by the court reporter and is attached hereto.)
BY MR. DROSMAN:
Q For the record, Professor Cornell, Exhibit 3 consists of a Memorandum and Order dated February 1st, 2016, in the Jaffe Pension versus Household International case. Do you see that?
A Yes.
Q And this is the order that you told me you read, correct?
A I did.
Q Okay. Did you agree with the order?
MR. STOLL: Objection to form, also calls for a legal conclusion, and beyond the scope.
THE WITNESS: I -- I -- I didn't attempt to draw conclusions about the order.
BY MR. DROSMAN:
Q Okay. I'm directing your attention now to page 6 of Exhibit 3. The second sentence in the last paragraph there reads -- or begins "The issues...." Do you see that?
A Yes.
Q And it reads:
"The issues addressed in the first and second categories identified by

Defendants, disclosures regarding 'Household's liquidity, access to capital markets, and widening bond spreads' and its 'credit quality,' were attributed both by defendants and market analysts to the alleged fraud (Household's re-aging and predatory lending practices and the restatement of its earnings) and/or the state of the economy or industry."
Do you see that?
A Yes.
MR. STOLL: Objection to form, and objection to use of the order in this manner.
BY MR. DROSMAN:
Q Do you agree with that conclusion?
MR. STOLL: Objection to form, beyond the scope, calls for a legal conclusion, and objection to the use of the order in this manner.
THE WITNESS: I don't think I can agree or disagree. I don't think I've done enough work in that regard.
BY MR. DROSMAN:
Q What do you mean you haven't done enough work

in that regard?
A I haven't looked at all the announcements and analyzed the information flow sufficiently.
Q Okay. Let's take a look at your Exhibit 1, which is your report. And you see there that the other example that you provide for Professor Fischel failing to account for non-fraud company-specific information was from a September 16th, 2002 Reuters article, right?
A Yes. I'm quoting, again, Professor Fischel. But I think he was, in turn, referring to that article.
Q Did you read this Reuters article?
A Only to confirm that the -- what Professor Fischel said was, in fact, correct.
Q Okay. Did you read it to determine whether this was, in fact, company-specific information?
A I was simply pointing, to me, to the example that the article said two things: It talked about depressed multiples and the current legal concerns. And it struck me that the depressed multiples was independent of the current legal concerns. That's as far as I took it.
Q Okay. It doesn't just say "depressed multiples," right?

A It says "to reflect depressed market multiples for financials."
Q Okay. Do you understand what "for financials" means in that sentence?
A It's talking about financial firms. I -- I don't recall exactly what the sample was, but what it means is financial firms, not just Household.
Q Okay. And you concluded that that was company-specific information about Household, right?
A That was my impression. But, like I say, it was a -- an example. That was my impression.
Q What was your impression based on?
A Just reading the -- Professor Fischel's report.
Q Based on your answers, do you want to withdraw the last paragraph -- the last sentence of paragraph 21 of your report?
A I wouldn't withdraw it. But I wouldn't use it as the basis for a scientific opinion either. It's an observation, and I would leave it as an observation.
Q You don't believe that there's any scientific veracity to it, correct?
A Well, you'd have to do a much more complete analysis than I did for it to have scientific

veracity.
Q It wouldn't be suitable to be published in a peer-reviewed journal, correct?
A Specific examples are not the type of thing that are typically published in peer-reviewed journals.
Q Okay. I'll show you what we'll mark as Plaintiffs' Exhibit 4 for identification.
THE DEPOSITION OFFICER: And it's "Cornell," correct? "Cornell Exhibit" --
MR. DROSMAN: Yes, "Cornell Exhibit."
(Exhibit 4 was marked for identification by the court reporter and is attached hereto.)
BY MR. DROSMAN:
Q Okay. Cornell Exhibit 4 consists of an e-mail from Donna Taillon to Craig Streem, dated 8-30-02.
Do you see this -- this document?
A I do.
Q Have you ever seen this document before?
A No.
MR. STOLL: Objection -- objection; beyond the scope.
BY MR. DROSMAN:
Q Okay.

Page 145

A Excuse me. No, I have not seen this document before.
BY MR. DROSMAN:
Q Do you know whether it was used as evidence at the trial in the Household case?
MR. STOLL: Objection; beyond the scope.
THE WITNESS: No, I don't.
BY MR. DROSMAN:
Q Okay. Do you see that there's a man -- the recipient of the e-mail -- Craig Streem, right?
A Yes.
Q Okay. Do you know who Craig Streem is?
A No.
Q So you don't know that he's the head of investor relations at Household, right?
A Correct, I do not.
Q Okay. And then do you see that there's a mention of Tom Detelich -- or "Detelich" -- right?
A Yes.
Q Okay. You don't know that -- who Tom Detelich is, right?
A I think you asked --
MR. STOLL: Objection; beyond the scope and asked and answered.
THE WITNESS: I think you asked me that

Page 146

earlier. And I didn't know.
BY MR. DROSMAN:
Q Okay. So you don't know that at this point he's the head of consumer lending, right?
MR. STOLL: Objection; beyond the scope.
THE WITNESS: Correct, I didn't know that.
BY MR. DROSMAN:
Q Okay. And then the e-mail itself reads:
"Craig, Tom phoned: Would like the price history of Household's stock as he wants to measure the decrease in the stock price from various points in time in the announcements of the Washington report."
Do you see that?
A Yes.
Q It continues:
"He'd like to use in arguing that we've already paid a good price to the states in the loss of our stock value."
Do you see that?
A Yes.
Q Did you understand that Household's senior

Page 147

executives themselves tied a decline in the stock price to information about predatory lending?
MR. STOLL: Objection; beyond the scope and mischaracterizes the document.
THE WITNESS: No, I wasn't aware of that, one way or the other.
BY MR. DROSMAN:
Q And does that change your opinion here?
A No. I don't understand the details of this well enough to have it -- I didn't have an opinion to begin with, so it can't change; but I don't really have one now either.
Q Okay.
MR. STOLL: That's why all of this is beyond the scope. It doesn't go to the opinions he's offered in this matter.
BY MR. DROSMAN:
Q You don't have an opinion, one way or the other, whether there was leakage of fraud, correct?
MR. STOLL: Objection; misstates the testimony.
THE WITNESS: The Fischel results that I have looked at -- the results of his model -- are not consistent with a slow leakage of fraud. But that's as far as I've taken it. I've examined the Fischel

Page 148

model and their outputs. I haven't looked at news releases and documents such as this.
BY MR. DROSMAN:
Q Okay. All right. I'll show you what we'll mark as Plaintiffs' Exhibit -- are we on 5? Cornell Exhibit 5 for identification.
(Exhibit 5 was marked for identification by the court reporter and is attached hereto.)
MR. STOLL: That's why, Counsel, I have this continuing objection to beyond the scope. Professor Cornell is testifying regarding --
THE WITNESS: It's noon.
MR. STOLL: -- Professor Fischel's purported application of Cornell and Morgan and the output of Professional Fischel's model.
THE WITNESS: Ryan, it's -- before we start a new exhibit. It's noon; so --
BY MR. DROSMAN:
Q Why don't we complete this exhibit, and we can take a break.
A Okay.
MR. STOLL: Does that work for you, Professor?
THE WITNESS: Sure. Sure. I just wanted to point it out.

Q How did the Seventh Circuit's opinion help you to understand the context?
A Because it discusses the Court's view of the models and, you know, what they're looking for, the reason they remanded the case, the -- back for another trial.
Q Did you dispute any conclusion by -- by the Seventh Circuit in the decision?
MR. STOLL: Objection to form. It's an improper use of this document, beyond the scope.
THE WITNESS: Not that I recall.
BY MR. DROSMAN:
Q Do you dispute any analysis by the Seventh Circuit in this decision?
MR. STOLL: Continued objection to form and that's an improper use of this document, calls for legal conclusions.
THE WITNESS: I really haven't attempted to analyze it in that -- in that regard.
BY MR. DROSMAN:
Q If you could turn to page 3 of Exhibit 6. And do you see the final paragraph begins "Between the summers of 1999 and 2001..."?
A Yes.
Q Okay. And it says:

"Between the summers of 1999 and 2001, Household's stock rose from around $40 per share to the mid $60s, and by July of 2001 was trading as high as $69."
Do you see that?
A Yes.
Q Do you agree with that?
A Well, I'd have to check the stock prices, but I -- I very much doubt the Court would be wrong on the stock data.
Q Okay. You have no reason to dispute that, correct?
MR. STOLL: And, again, I'm just going to object to the use of this document in this way. If you want to address with Professor Cornell --
MR. DROSMAN: I want to ask my questions. Please don't make a -- speaking objections, so we don't have to call the Court. It's improper, Ryan, and you know it.
Q You can -- you can answer the question. You don't have any reason to dispute that, do you?
MR. STOLL: Wait. I --
MR. DROSMAN: You can't make speaking objections. If you're going to do that, we're going

to call the Court, Ryan. I'm not going to tolerate it.
MR. STOLL: Counsel, you will see that it will not be a speaking objection. It is a point so that -- because I anticipate you're going to go through this document in a way which is also improper. What I was going to say was if you have a substantive question regarding the stock price, you should ask it. It's improper to use this document as a basis for those types of questions.
I'll have a continuing objection. And because you've requested that I state it each time, I will. This is an improper use of this document with this witness. It would be perfectly appropriate for you to ask him a question regarding stock price on a particular date, but not to use it through the Seventh Circuit opinion.
MR. DROSMAN: Are you done?
MR. STOLL: Yes.
BY MR. DROSMAN:
Q Okay. Sir, can you tell me whether you have any reason to dispute the Seventh Circuit's assertion that I just read to you?
MR. STOLL: Objection to form. Objection to the use of the document in this manner with the

witness.
THE WITNESS: I have no reason to dispute it.
BY MR. DROSMAN:
Q Okay. And then if you would -- do you see the paragraph up from that; it begins "Household's business..."?
A Yes.
Q Look at the second sentence; it begins "In 1999...." Do you see that?
A Yes.
Q It reads:
"In 1999 company executives implemented an aggressive growth strategy in pursuit of a higher stock price."
Do you see that?
A I see it.
Q Do you agree with that?
MR. STOLL: Again, objection to form. That's a misuse of this document with this witness. It's improper to be using the Seventh Circuit decision in this way, with an expert. It's also beyond the scope.
THE WITNESS: I don't have any basis to agree or disagree with that one.

MR. STOLL: Objection to form.
THE WITNESS: I don't know what that means.
BY MR. DROSMAN:
Q Well, did you disagree with his testimony?
A Yes.
Q Did you discount it?
MR. STOLL: Objection to form.
THE WITNESS: I believe that the -- the leakage model that Professor Fischel put forward measures potential inflation with such imprecision that it cannot be relied on to get a reasonable estimate of inflation.
BY MR. DROSMAN:
Q Did you believe his testimony was false?
MR. STOLL: Objection to form.
THE WITNESS: I believe exactly what I said.
BY MR. DROSMAN:
Q My question is did you believe his testimony was false?
MR. STOLL: Objection to form, and asked and answered.
THE WITNESS: I didn't ask myself that question, so I really can't answer it. I can tell you what my opinion is, which is what I just did.
BY MR. DROSMAN:

Q Well, I'm asking you that question. So can you answer my question. Did you believe his testimony was false?
MR. STOLL: Objection to form --
THE WITNESS: I believed --
MR. STOLL: -- and -- I'm sorry -- and asked and answered.
But go ahead.
THE WITNESS: I believe exactly what I said, which is that the leakage model that he developed, first of all, does not do exactly what Mr. Morgan and I outlined; and, secondly, it -- that it measures any inflation with such imprecision that I would not rely on it.
BY MR. DROSMAN:
Q Was Professor Fischel's testimony inaccurate?
MR. STOLL: Objection to form.
THE WITNESS: My opinion is my opinion. I'm not answering questions like "was Professor Fischel's opinion inaccurate." I'm saying that it's not what I recommended, and what he did measures inflation with such imprecision that I wouldn't rely on it.
BY MR. DROSMAN:
Q You can't tell me whether you believed that

his testimony was accurate or inaccurate?
MR. STOLL: Objection to form, asked and answered. And you're badgering the witness. He's given you a very straightforward answer to what's an improper question, in any event.
THE WITNESS: I don't think I can add to what I just said.
BY MR. DROSMAN:
Q Okay. Go ahead and turn to page 18. Do you see the paragraph at the bottom of page 18; it begins "The plaintiffs..."?
A Whoops. I skipped a page. They were stuck together. Yes.
Q And it reads:
"The plaintiffs also introduced e-mails and reports from Household executives attributing the entirety of the stock's decline to the fraud-related disclosures, and the record contains various reports from market analysts primarily focused on this information."
Do you see that?
A Yes.
Q Do you agree or disagree with that?

MR. STOLL: Same set of objections regarding the improper use of this document with the witness.
THE WITNESS: I have no opinion on that. I haven't looked at the information flow.
BY MR. DROSMAN:
Q Okay. "In addition" -- it reads -- "other evidence loosely corroborates the inflation figure produced by the leakage model ($23.94). For example, when Household embarked on its aggressive growth strategy, one executive (Gary Gilmer, a defendant here) suggested that the stock price could increase by 'over $22 a share.'"
Do you see that?
A Yes.
Q Do you agree or disagree with that?
MR. STOLL: Same objection; improper use of this document with the witness. Also, this whole series of questions is beyond the scope of his expert opinion, which is plainly identified in Exhibit 1, which you did at the outset of the deposition. Are we going to get back to the issue of his opinions regarding what Professor Fischel did

with regard to the comparative index model?
THE WITNESS: I have no opinion about the -- the sentences you've just read because I haven't studied them.
BY MR. DROSMAN:
Q Have you ever seen what Gary Gilmer said?
MR. STOLL: Objection; beyond the scope.
THE WITNESS: I don't recall seeing what Gary Gilmer had said.
BY MR. DROSMAN:
Q So you don't know, one way or the other, whether he said -- or suggested that the stock price could increase by, quote, "over $22 a share," end quote, correct?
MR. STOLL: Objection, and beyond the scope.
THE WITNESS: No, I don't know one way or the other.
BY MR. DROSMAN:
Q Okay. Turn to page 20. Okay. If you look at the second paragraph, last full paragraph on the page; it begins "Fischel's models...." Do you see that?
A Yes.
Q It reads:
"Fischel's models controlled for

market and industry factors and general trends in the economy -- the regression analysis took care of that."
Do you see that?
A Yes.
Q And you understand what that sentence means, correct?
MR. STOLL: Objection to form, in terms of using the document for this set of questions. I think these would be entirely appropriate questions if you weren't basing them off of this document -- at least this question.
BY MR. DROSMAN:
Q Do you understand that sentence, sir?
A I think so.
Q Okay. You understand that "Fischel's models" referred to both his specific-disclosure and his leakage models, correct?
A They both use the same regression analysis.
Q You agree that Fischel's models controlled for market and industry factors and general trends in the economy, right?
MR. STOLL: Objection with regard to the use of this document for that purpose. You can ask the

question standing alone.
THE WITNESS: Though I have not studied this the way Professor James did, it would be my suspicion that his regression models failed to adequately take account of industry factors.
BY MR. DROSMAN:
Q So you disagree with the Seventh Circuit's assertion that "Fischel's models controlled for market and industry factors and general trends in the economy -- the regression analysis took care of that," right?
MR. STOLL: Objection to the form of the question and the use -- misuse of this document. You can ask him a straight-up question regarding the issue.
THE WITNESS: Yeah, I don't like to -- to place it in the context of agreeing or disagreeing with the Court.
But if you're asking me do I think Professor Fischel's models fully accounted for the systematic market and industry factors that affected Household, my answer would be no.
BY MR. DROSMAN:
Q What's the basis for that?
A The basis of that is the -- the regression

work done by Professor Ferrell and the expert opinions of Professor James.
Q Any other basis?
A Also my -- my own experience, which would be that a broad measure, like the S&P Financials, is pretty unlikely to account for the full industry effects of a more specialized firm like Household.
Q Do you know what index Household itself compared itself to?
A In --
MR. STOLL: Objection to form, and ambiguity.
THE WITNESS: In what documents?
BY MR. DROSMAN:
Q Well, let's take public filings.
A I think, in their public filings, they compared themselves to the S&P Financials.
Q Okay. You'd disagree that that's an appropriate index for comparison, correct?
MR. STOLL: Objection to form, and ambiguity.
THE WITNESS: I would disagree that its exclusive use is probably inappropriate. Including it as a -- as an explanatory variable is something I would probably do as well. But exclusively, probably not.
BY MR. DROSMAN:

testified -- I asked you -- and you wrote:

"Conversely, in a case such as WPPSS, in which there is a continuous leakage of information, it may be necessary to use the comparable index approach."

Do you see that?

MR. STOLL: I'm sorry, Counsel. What page are we on in the article?

MR. DROSMAN: I'm talking about prior testimony that I elicited from him.

Q And I asked you that question. And you said, "Yes." And I asked you, "You stand by that statement, don't you?" And you said, "It depends on the costs and benefits of the particular situation."

Do you recall that testimony that you gave before the break?

A Yes.

Q Okay. What do you mean "the costs and benefits of the particular situation"?

A Well, the benefit of extending an event window is that it brings everything in, but that's also the cost. It brings in sentiment effects, it brings in non-fraud-related, firm-specific information, it brings in -- and compounds the

measurement error. So extending the event window has, as I said, costs and benefits. And whether you want to use it depends upon your assessment of those costs and benefits, and whether you think it works reliably enough to serve as a basis for awarding damages.

Q Okay. So tell me the benefits.

A The benefit is that it -- by extending the -- like, let's say, you take the limit and extend it to -- to the full period, the benefit is it's going to include everything that the regression doesn't pick up. And so, by definition, that's going to include -- if there was leakage, that's going to throw the leakage in there.

Q Okay. Any other benefits?

A That's -- that's the significant one that I can think of.

Q What are the costs?

A It's going to throw everything else in there; like I say, sentiment effects, non-fraud-related, firm-specific information, measurement error in the regressions. And the other cost is it's going to compound all those over time. Because every -- as you back-cast, every residual depends on the previous one, and that compounds the impact of all

the problems.

Q Any other costs?

A Those are the main ones.

Q And how do you determine whether the benefits outweigh the costs?

A What I do is I look at the output of the model and say does this make enough sense that I can feel comfortable using it.

Q That's how you make that determination?

A That's the way I would do it.

Q Okay. Any other way in which you'd make that determination?

A There may be, but as I sit here, that's the one I'd -- I've thought of.

Q Okay. Now, you also testified that one of the reasons you didn't use the leakage for your damage analysis in WPPSS is because it was -- concerned bonds, correct?

A That was one of the reasons, yes.

Q Okay. What are the other reasons?

A The other reason was that the period became so long and included so much information, I didn't think the technique could be reliably used. It's just going to throw too much in there that can't be sorted out. It's like a giant Polish sausage.

Q Any other reasons?

A Those were the primary ones -- ones I recall.

Q Okay. I don't think I have any further questions for this witness at this time. Thank you, Dr. Cornell.

A Thank you.

EXAMINATION

BY MR. STOLL:

Q So I have just a couple of questions, to clean up a couple of issues from the prior questioning.

First, Professor Cornell, what do you understand to be your scope of assignment regarding the opinions that you're to offer in this trial?

A As I've stated earlier in response to some of the questioning, it was two basic things: Did Professor Fischel follow a procedure laid out by Mr. Morgan and me in an -- in an article we published; and second, does the leakage approach, as operationalized by Professor Fischel, measure inflation with enough reliability that it can be confidently -- or reasonably relied on.

Q And you reviewed Professor Fischel's deposition in this upcoming trial, correct?

Page 225

A Yes.
Q And do you recall that he testified repeatedly that he had used the model developed by Cornell and Morgan to measure the effect of leakage in this case?
MR. DROSMAN: Objection; leading.
BY MR. STOLL:
Q Do you recall that?
MR. DROSMAN: Objection; leading.
THE WITNESS: Yes. Yes, I do.
BY MR. STOLL:
Q Is that correct?
A No.
Q Now, you recall a series of questions regarding the information that you've reviewed for purposes of your opinion in this trial that you've described. What did you believe was necessary for you to review in order to analyze appropriately whether Professor Fischel had correctly used the model developed by Cornell -- in Cornell and Morgan -- or discussed in Cornell and Morgan, and whether or not the output of his model was appropriately reliable?
MR. DROSMAN: Objection; compound.
BY MR. STOLL:

Page 226

Q Okay. Let's take those -- that was a good objection, Counsel. Let's take those one at a time.
First, what did you believe was necessary for you to review in order to determine appropriately whether or not Professor Fischel had properly applied the model addressed in Cornell and Morgan?
A That was pretty simple. I had to go back and look at exactly what we said and look at what he did, and compare the two.
Q Then what did you believe was necessary to review in order to determine whether or not the model which he had applied was providing an output which was appropriately reliable and consistent with the theory of leakage?
A Look at the output, both of his particular application of the comparative index model, and some general problems with the comparative index model itself, and assess whether I thought the -- they could measure the inflation with enough precision.
Q Do you believe that you appropriately reviewed all the information that was necessary in order for you to render an opinion regarding those two issues?
A Yes.
Q Now, you'll recall there was a question which

Page 227

was asked regarding a prior affidavit in this case.
A Yes.
Q Let me mark -- we're at 8; is that correct? Ask if the reporter can mark that as Cornell 8.
(Exhibit 8 was marked for identification by the court reporter and is attached hereto.)
BY MR. STOLL:
Q Let me direct your attention, if I could, with regard to what has been marked as Cornell 8, to page 3 and onto page 4 of this affidavit. And ask if you would take a moment to read what is enumerated as paragraph 3.
A Okay.
Q If I could just, for a moment, direct your attention to the -- to page 6.
A Okay.
Q This is an affidavit which you signed on October 30th, 2008; is that correct?
A Correct.
Q You'll see, at the beginning of -- of paragraph 3, it states (as read):
"Although Professor Fischel refers to his leakage model as an event study approach, citing my paper with Morgan as support, I do not agree."

Page 228

Let me ask you: What was the issue that you understood you were addressing in reference to this paragraph?
A Whether it was actually an event study approach or what Professor -- what Mr. Morgan and I called a "comparative index approach." Which was it?
Q And in your view, which of those two alternatives was the leakage model which Professor Fischel was advancing? Which of those two types did it relate to?
A As I say in the paragraph, it was clearly a comparative index approach.
Q Now, you use -- in the last sentence, you state:
"As a result, Professor Fischel's approach as applies to the leakage period is identical to the comparable index approach described on page 898 of Cornell and Morgan."
Do you see that?
A Yes.
Q Is that correct, as you understand it, having analyzed the situation rigorously now?
A Well, it is definitely a comparable index

approach, which was the point I was making. But it's not identical. And I don't think I realized at the time that it was not identical. I had assumed that Professor Fischel had simply estimated a regression equation, as we describe on 898, and then applied that regression equation.

I don't recall being aware, until this later matter, that he, in fact, had manipulated the constant term, which is something we do not recommend, and would not recommend.

Q Now, with regard to -- do you recall a series of questions before the break regarding whether or not the model was misspecified?

A Yes.

Q And you referenced Professor -- the reports of Professor Ferrell and Professor James with regard to the issue of misspecification. Do you recall that?

A Yes.

Q Let me first ask you, in your opinion, is the model misspecified?

A Yes.

Q Did you analyze any aspects of the misspecification that you would view as separate from the analysis of Professor Ferrell and

Professor James?

A Yes.

Q What was that?

A The manipulation of the constant term, which is one aspect of the specification of the regression equation that he ultimately applied.

Q In fact, the set of questions was oriented around footnote 47 of your prior article in which you note that misspecification errors cumulate and become more important over longer periods of time; is that correct?

MR. DROSMAN: Objection; leading.

THE WITNESS: Yes.

BY MR. STOLL:

Q Now, you also referenced misspecification problems or errors that you identified because -- or that you reference Professor Ferrell's work with respect to. Do you recall that?

A Yes.

MR. DROSMAN: Objection; vague and ambiguous.

BY MR. STOLL:

Q What were you referencing with respect to the misspecification error to which you were referring in Professor Ferrell's opinion?

A Professor Ferrell had found evidence of a

structural -- very significant structural break in the data. If you don't account for such a structural break, I think that's a serious specification problem.

Q You also referenced Professor James with regard to misspecification errors. What were you referencing with regard to the work of Professor James referencing misspecification?

A A proper specification should have all the necessary right-hand variables; otherwise, the regression results will be biased. Professor James had suggested that the -- including just the market and the industry was not enough. And Professor Ferrell's regressions show that James was, in fact, correct, because when you put in an added industry variable, it's very significant.

Q Based upon your analysis of the materials that you viewed as necessary in order to appropriately analyze whether Professor Fischel had correctly applied the comparative index model discussed in Cornell and Morgan, do you have an opinion as to whether or not that has been correctly applied?

A I don't believe it has.

Q Do you have an opinion, based upon your

review of the material, including the output of the model, as to whether or not the model is reliable and consistent with the theory of leakage that's being advanced?

MR. DROSMAN: Objection; compound.

THE WITNESS: I don't believe it is.

MR. STOLL: I have no further questions.

FURTHER EXAMINATION

BY MR. DROSMAN:

Q Just briefly.

Professor Cornell, you said -- you discussed about manipulation of the constant term. Do you recall that?

A Yes.

Q And you said that Professor Fischel "manipulated" the constant term, as you called it, right?

A Correct.

Q You understand, don't you, that this "manipulation," as you refer to it, has actually reduced inflation?

A You asked me that earlier. And I understand that.

Q It didn't increase inflation, right?

Page 233

A That is correct.
Q So you accuse Professor Fischel of manipulating his analysis to actually reduce inflation, right?
MR. STOLL: Objection to form, and mischaracterizes the testimony.
THE WITNESS: I stated that he manipulated it in a way that Mr. Morgan and I did not recommend, so he was not following our recommendations.
BY MR. DROSMAN:
Q And that "manipulation," as you refer to it, had the effect of reducing inflation, right?
A It did.
MR. DROSMAN: No further questions.

FURTHER EXAMINATION

BY MR. STOLL:
Q I'll have one follow-up on that.
This "manipulation" of the constant term, would you view that as an ad hoc adjustment?
MR. DROSMAN: Objection; leading.
THE WITNESS: Yes.
BY MR. STOLL:
Q And, in fact, had that ad hoc adjustment not been done, what would the -- would the result of the application of the model made economic sense?

Page 234

MR. DROSMAN: Objection; vague and ambiguous.
THE WITNESS: Well, this is one thing I pointed out. I didn't think so, because if you don't adjust the constant term, the inflation exceeds the drop in the stock price, which seems unreasonable and, thereby, calls the entire effort into question.
MR. STOLL: No further questions.
MR. DROSMAN: We can go off the record.
THE VIDEOGRAPHER: Going off the record at 2:50 p.m.
(Discussion off the Record.)
THE VIDEOGRAPHER: Going back on the record at 2:51 p.m. We're officially going off the record today. This concludes today's deposition of Bradford Cornell. Going off record at 2:51 p.m.
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Page 235

I, the undersigned, a Certified Shorthand Reporter of the State of California, do hereby certify:

That the foregoing proceedings were taken before me at the time and place herein set forth; that any witnesses in the foregoing proceedings, prior to testifying, were duly sworn; that a record of the proceedings was made by me using machine shorthand, which was thereafter transcribed under my direction; that the foregoing transcript is an true record of the testimony given.

Further, that if the foregoing pertains to the original transcript of a deposition in a federal case, before completion of the proceedings, review of the transcript [ ] was [x] was not requested.

I further certify I am neither financially interested in the action nor a relative or employee of any attorney or any party to this action.

IN WITNESS WHEREOF, I have this date subscribed my name.

Dated: March 11, 2016

____
CHERYL R. KAMALSKI
CSR No. 7113

EXHIBIT 12

UNITED STATES DISTRICT COURT

NORTHERN DISTRICT OF ILLINOIS

EASTERN DIVISION

LAWRENCE E. JAFFE PENSION PLAN, On Behalf of Itself and All Others Similarly Situated, Plaintiff, vs. HOUSEHOLD INTERNATIONAL, INC., et al., Defendants.	)	Lead Case No. 02-C-5893 (Consolidated) <u>CLASS ACTION</u> Honorable Jorge L. Alonso

<u>SUR-REBUTTAL REPORT OF DANIEL R. FISCHEL</u>

SUR-REBUTTAL REPORT OF DANIEL R. FISCHEL

I. INTRODUCTION

1. On November 23, 2015, I submitted the Second Rebuttal Report of Daniel R. Fischel ("Fischel 2nd Rebuttal") in which I responded to the Ferrell Report, the James Report, and the Cornell Report and concluded that Defendants' experts failed to "identify any firm-specific, nonfraud information that 'significantly distorted' my Quantification Including Leakage, the test identified by the Appellate Court."[1] Fischel 2nd Rebuttal ¶ 6. In response, on December 21, 2015, Professors Ferrell, James, and Cornell each submitted rebuttal reports (the "Ferrell Rebuttal," the "James Rebuttal," and the "Cornell Rebuttal," respectively). On February 1, 2016, the Court issued an order denying Defendants' most recent *Daubert* motion to exclude my testimony. Memorandum Opinion and Order, February 1, 2016 ("2016 *Daubert* Opinion"). In its order, the Court concluded that in accordance with the Appellate Court's instructions, I "sufficiently opined that no firm-specific, nonfraud-related information contributed to the decline in [Household's] stock price during the relevant time period." *Id.* at 3 & 5. The Court further found that the burden thus shifted to Defendants and, consistent with my opinions in the Fischel 2nd Rebuttal, concluded that "defendants have not identified 'significant, firm-specific, nonfraud related information that could have affected the stock price.'"[2] *Id.* at 5 & 22. In addition, the Court explained that Plaintiffs would have an opportunity to file a sur-rebuttal to the rebuttal reports of Defendants' experts. *Id.* at 2.

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1. Prior to the Fischel 2nd Rebuttal, I filed four other reports in this matter (the Fischel Report, the Fischel Rebuttal, the Fischel Supplemental, and the Fischel 2nd Supplemental) and testified at trial. My prior reports define the capitalized terms used throughout this report.
2. I note that the Court did not consider the Defendants' experts' rebuttal reports in deciding the *Daubert* motion. 2016 *Daubert* Opinion at 2. However, for the reasons explained below, these rebuttal reports also fail to identify firm-specific, nonfraud related information that significantly distorted my analysis.

2. I have been asked by counsel for Plaintiffs to respond to the Ferrell, James, and Cornell Rebuttals. Based on my review and analysis of these reports, I have concluded that Defendants' experts' rebuttal reports do not correct the deficiencies in their prior reports and still fail to identify firm-specific, nonfraud related information that significantly distorted my analysis. Consequently, the Ferrell, James, and Cornell Rebuttals have no effect on my opinion and therefore no adjustment is needed to my Quantification Including Leakage or to my Quantification Using Specific Disclosures.

II. THE FERRELL, JAMES, AND CORNELL REBUTTALS FAIL TO CORRECT THE DEFICIENCIES IN THEIR PRIOR REPORTS

3. In their initial reports, Defendants' experts identified several categories of purportedly firm-specific nonfraud disclosures that they claim were not accounted for by my Quantification Including Leakage, including disclosures regarding: (1) Household's liquidity, access to capital markets, and widening bond spreads; (2) credit quality; (3) increased capital requirements for subprime lenders; (4) future regulatory and legislative changes; (5) Household's auto lending and credit services businesses; and (6) the impact of the recession on subprime lenders. *See,* e.g., Ferrell Report § VIII, James Report §§ VI-VII, & Cornell Report ¶¶ 21-22. Defendants' experts' rebuttal reports merely repeat this same argument that my Quantification Including Leakage purportedly did not account for these six categories of disclosures.[3] *See,* e.g.,

3. Ferrell Rebuttal Exhibits 2a-2f & 2h-2j and James Rebuttal Exhibits 5a-5d even repeat the same inapposite examples of purported firm-specific nonfraud information that were contained in the Ferrell Report (*compare with* Ferrell Report ¶¶ 62-109). The few additional examples of disclosures falling within these six categories presented in Defendants' experts' rebuttal reports are similarly misguided. For example, while not discussed in his first report, Professor Ferrell asserts in his rebuttal report that a September 3, 2002 article in *The Washington Post* stating "[t]he stock market's major averages all plunged about 4 percent today as investors returned from summer vacations [to find a] still-troubled global economy, the possibility of war with Iraq and serious problems facing Citigroup …" is a disclosure of firm-specific nonfraud information. Ferrell Rebuttal ¶ 89 & Exhibit 2g. However, this disclosure concerning the

Ferrell Rebuttal ¶¶ 39-42 & 53-55, James Rebuttal ¶¶ 16-19, & Cornell Rebuttal ¶ 13. As explained in the Fischel 2nd Rebuttal, and determined by the Court in its 2016 *Daubert* Opinion, these categories of disclosures are not firm-specific, nonfraud disclosures; they are either market-related, industry-related, or fraud-related. *See* Fischel 2nd Rebuttal and 2016 *Daubert* Opinion at 6-22. Because Defendants' experts' second attempt to identify significant firm-specific nonfraud information that significantly distorted my analysis also fails, no adjustment is needed to my Quantification Including Leakage or to my Quantification Using Specific Disclosures.[4, 5, 6]

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impact of the recession is clearly market- and industry-related information, not firm-specific nonfraud information as Professor Ferrell asserts. As another example, Professors Ferrell and James both point to a November 14, 2002 *CBS MarketWatch* article discussing market concerns regarding "HI's ability to raise funds in the commercial paper market as credit delinquency trends rise in the U.S." *See* Ferrell Rebuttal ¶ 40 & James Rebuttal ¶ 18. But, as explained in the Fischel 2nd Rebuttal and determined by the Court in its 2016 *Daubert* Opinion, concerns about Household's access to commercial paper markets and credit quality were not significant firm-specific nonfraud information.

4. Professor Ferrell also claims that I "offered no analysis in support of the opinion that 'no firm-specific, nonfraud related information contributed to the decline in stock price'" on 186 days during the Leakage Period (i.e., 171 non-significant days and 15 days on which statistically significant price increases occurred). Ferrell Rebuttal ¶¶ 5, 9, & 29. However, this opinion ignores the massive evidence of leakage in this case and how the leakage model works. In any event, the cumulative residual price change on these 186 days is a *positive* $21.95; hence, if these 186 days are excluded from my Quantification Including Leakage, damages would increase substantially.
5. In addition, Professors Cornell and Ferrell claim that the length of the 11-month Leakage Period is not supported by the academic literature. *See* Cornell Rebuttal ¶¶ 7-10 & Ferrell Rebuttal ¶¶ 12-23. This is incorrect. As explained in my prior reports, Professor Cornell's own article discusses how to extend the event window to capture leakage and provides an example using a multi-year class period that is substantially longer than my 11-month Leakage Period. *See* Fischel Report ¶¶ 38-41 & Fischel Supplemental ¶ 5 n.4. Moreover, the concern Professors Cornell and Ferrell point to in the literature is that over a long event window it becomes more challenging to control for confounding information. *See* Cornell Rebuttal ¶¶ 7-10 & Ferrell Rebuttal ¶¶ 12-23. But, as I demonstrated in the Fischel 2nd Supplemental and Fischel 2nd Rebuttal, that concern is not present in this case. Indeed, as both the Court and I have concluded, Defendants' experts' have failed to identify any firm-specific, nonfraud related information that significantly distorted my Quantification Including Leakage or my Quantification Using Specific Disclosures.
6. Professor James' first attempt to identify a set of purported subprime peer firms to supposedly demonstrate that my model does not fully capture relevant industry effects yielded four companies and his second attempt identifies five companies, only two of which overlap.

4. Despite Defendants' experts' failure to show that *any* significant firm-specific, nonfraud information affected Household's stock price during the Leakage Period (which includes the specific disclosure days), Professor Ferrell provides an alternative inflation calculation premised on the assumption that firm-specific nonfraud information fully explains *all* of Household's stock price underperformance during the Leakage Period other than on six specific disclosure days.[7] Ferrell Rebuttal § V. He then opines that maximum inflation based on these six

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Compare James Report Exhibit 4 n.3 *with* James Rebuttal ¶ 13 n.22. Regarding this new set, Professor James has not established that these firms, which are a subset of the "specialty finance" firms listed in a single analyst report, are a relevant set of Household's peers. In fact, his own exhibit shows that Household was substantially larger than all five of the purported peers (*see* James Rebuttal Exhibit 8a) and the report issued by Credit Suisse First Boston ("CSFB") from which he took this new set of firms itself distinguishes these companies from Household; specifically, CSFB identifies Household as a "diversified financial" company but identifies all of Professor James's new peers as either "credit card" or "auto finance" companies. *See* Exhibit 1 at 18. Not surprisingly, Household did not compare itself to this set of firms. As explained in the Fischel Report, in its annual Proxy Statements filed with the SEC, Household compared its stock price performance to the S&P Financials Index, which declined by 21 percent during the Leakage Period as compared to Household's 53 percent decline. *See* Fischel Report ¶ 29. Moreover, as I explained at trial, Household also compared itself to a set of primarily large, well-capitalized finance companies in its internal investor relations reports (*see* Trial Transcript 4277:19-4278:15), and an index of these companies only declined 11 percent during the Leakage Period as compared to Household's 53 percent decline. *See* Exhibit 2. Finally, as explained in Fischel 2nd Rebuttal ¶¶ 11-12, I analyzed an index comprised of the full set of firms listed in the CSFB report and found that Household's stock substantially underperformed this index and that damages *increase* if I had included this index in the event study underlying my leakage model.

7. Professor Ferrell begins with the 14 days included in my Quantification Using Specific Disclosures and ignores any possibility of fraud-related leakage on all other days during the Leakage Period. Ferrell Rebuttal ¶ 72. He then modifies my event study by adding an additional industry index (the full set of CSFB peers, not the subset chosen by Professor James) and changing the estimation period, which results in only six of the 14 specific disclosures being statistically significant according to his revised model. *Id.* ¶¶ 72-83. These regression model adjustments are not new, but rather follow the same flawed arguments advanced by Defendants' original expert, Dr. Mukesh Bajaj, that were previously rejected by the jury. I therefore incorporate by reference all of my prior criticisms of Dr. Bajaj's analysis contained in my prior reports and testimony. For instance, just as the addition of Dr. Bajaj's consumer finance index to my event study does not change the statistical significance of any of the 14 days in my Quantification Using Specific Disclosures (*see* Fischel Rebuttal ¶ 20), the addition of Professor Ferrell's index of nine firms identified by CSFB also does not change the statistical significance of any of these days. *See* Exhibit 3. In addition, as I explained in

days equals $4.19 per share and that actual inflation may be as low as $0 per share[8] if he removes the effects of purported confounding nonfraud information (which again, as I and the Court found, he has not established existed). *Id.* Not only is this calculation premised on an assumption that I and the Court found to be incorrect, but the resulting inflation figures are implausible on their face given the massive evidence of leakage in this case as acknowledged by market participants, admitted by Defendants, found by the jury, and affirmed by both the 7th Circuit Court of Appeals and now this Court.[9]

Fischel 2nd Rebuttal ¶ 12, adding Professor Ferrell's index to my leakage model *increases* damages. Further, as I explained in the Fischel Rebuttal ¶¶ 30 & 33, it is common practice to use a one-year estimation period immediately prior to the event window. Conversely, both Dr. Bajaj's and Professor Ferrell's inclusion of the event window (i.e., the Leakage Period) within the estimation period is problematic because this approach in effect utilizes the increased volatility in Household's stock price caused by leakage of the fraud to reduce the estimated effect of fraud-related disclosures on Household's stock returns. This fundamental flaw is explained in academic literature: "Generally the event period itself is not included in the estimation period to prevent the event from influencing the normal performance model parameter estimates." *See* Fischel Rebuttal ¶ 33 n.27 citing MacKinlay (March 1997). Professor Ferrell purports to justify his change in estimation period by showing a structural break in the relationship between Household and the market and industry on November 15, 2001. Ferrell Rebuttal ¶¶ 76-82. But his finding of a structural break on November 15, 2001 simply provides further evidence for my opinion that Household's stock price was affected by leakage of fraud-related information beginning on this date.

8. As explained by Professor Ferrell, removing the four days in his specific disclosure model that he claims are "confounded" results in *negative* inflation throughout the Class Period. Ferrell Rebuttal ¶ 97. Presumably because it is nonsensical to suggest that Household's stock price would have increased if the fraud had been disclosed earlier, Professor Ferrell incorporates a lower bound on his specific disclosure model of $0. *Id.* ¶¶ 99-100.
9. I discuss the evidence of leakage in this case throughout my prior reports and testimony, including in Fischel 2nd Rebuttal § II.

Daniel R. Fischel

February 16, 2016

Exhibit 1

CREDIT SUISSE FIRST BOSTON

CREDIT SUISSE FIRST BOSTON CORPORATION

Equity Research

Americas | **U.S./Financial Services/Specialty Finance** | **March 2, 2001**

OVERWEIGHT

Specialty Finance Monthly

Poised for a Strong Rebound; Robust Fundamentals

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- Monoline card issuers have underperformed the market sharply over the past month owing to concern over external variables. Fundamentals remain strong, and the stocks are poised for a strong rebound as macro concerns fade and investors again recognize strong industry and company fundamentals.
- Credit quality concerns are overdone. While credit losses are worsening moderately, the overall profit dynamic remains healthy. We continue to expect a moderate rise in loss rates in the coming quarters as a result of a softening economy, but higher net interest margins as a result of the Fed's 100 basis point easing (and a larger decline in Libor) should more than offset the negative impact of higher losses. Liquidity remains healthy at these companies, as well. Bankruptcy reform, should dampen the increases in filings in second half 2001.
- Card stocks are currently selling at about 66% of the market multiple on 2001 earnings, with some well below these levels. We view the current valuation level as a compelling buying opportunity and reiterate our overweight rating for the credit card industry.
- We rate Capital One (COF, $55.25) and AmeriCredit (ACF, $34.18) Strong Buy). We reiterate our Buy ratings on MBNA (KRB, $32.88), Providian (PVN, $50.01), Metris (MXT, $21.96), and CompuCredit (CCRT, $8.88) among card issuers and Household (HI, $57.92) among consumer finance companies, and CIT Group (CIT, $23.10) and WFS Financial (WFSI, $19.31).

Table of Contents

Executive Summary

Monoline card issuers have underperformed the market sharply over the past month owing to concern over external variables. Fundamentals remain strong, and the stocks are poised for a strong rebound as macro concerns fade and investors again recognize strong industry and company fundamentals.

Credit quality concerns are overdone. While credit losses are worsening moderately, the overall profit dynamic remains healthy. We continue to expect a moderate rise in loss rates in the coming quarters as a result of a softening economy, but higher net interest margins as a result of the Fed's 100 basis points easing (and a larger decline in Libor) should more than offset the negative impact of higher losses. Liquidity remains healthy at these companies as well.

In the month of February, card stocks were down an average of 13%, underperforming the broad market by four percentage points.

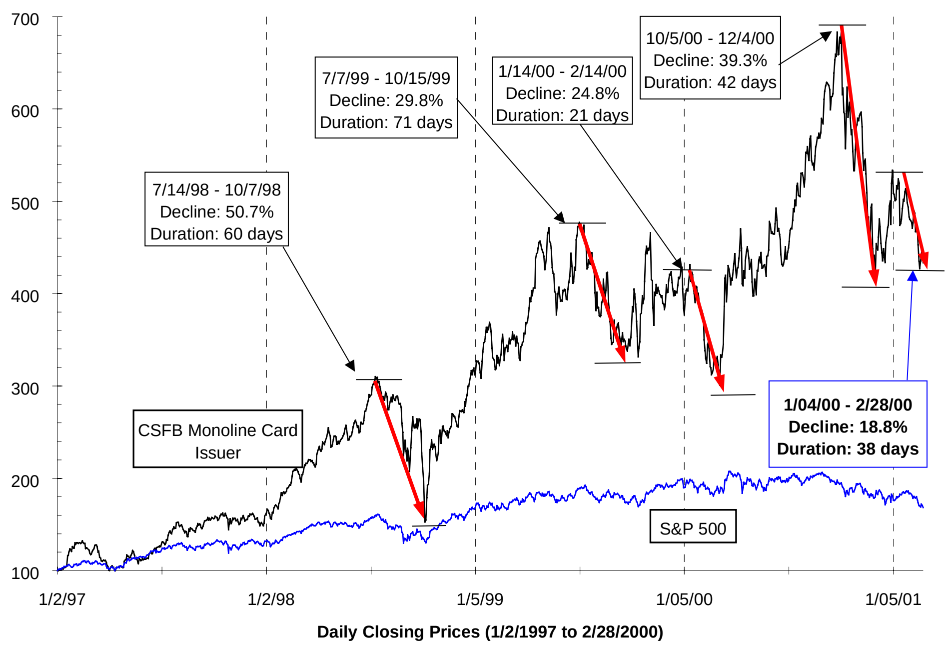
Monoline card issuer stocks are currently selling at about 66% of the market multiple based on 2001 earnings with some well below these levels. We view the current valuation level as a compelling buying opportunity and reiterate our outperform rating for the credit card industry.

We rate Capital One and AmeriCredit as Strong Buy. We reiterate our Buy ratings on MBNA, Providian, Metris, and CompuCredit among credit card issuers and Household International among consumer finance companies, as well as The CIT Group and WFS Financial.

Credit Card Stocks Poised for a Strong Rebound

The stocks of the major bankcard issuers have significantly underperformed since January 4, declining cumulatively 19% as a group, versus an 8% decline for the S&P 500 Index. (See Exhibit 1.) The analysis of long-term historical stock performance suggests that the most recent price weakness among monoline bankcard issuers is close to running its course. A composite price index of bankcard issuers has fallen more than 20% nine times since 1991. These episodes, from the peak to the trough, have lasted about 56 trading days and pushed down these stocks about 29% on average. (See Exhibit 2.) While the current downturn has not yet surpassed the depth of the average cycle, consider that the previous down cycle (only one month prior to the current cycle) from October 4, 2000, to December 4, 2000, saw a decline of 39.3% and lasted 42 days. Looked at another way, with a brief interruption, the card stocks have fallen about 37% on economic concerns since the beginning of October. We believe that the increasing recognition of the robust industry and company fundamentals will serve as a catalyst for revaluation.

Exhibit 1
Card Stock Composite Stock Price Performance Since 1997



Source: FactSet and CSFB.

Exhibit 2
Summary Statistics on Prior Periods of Price Decline

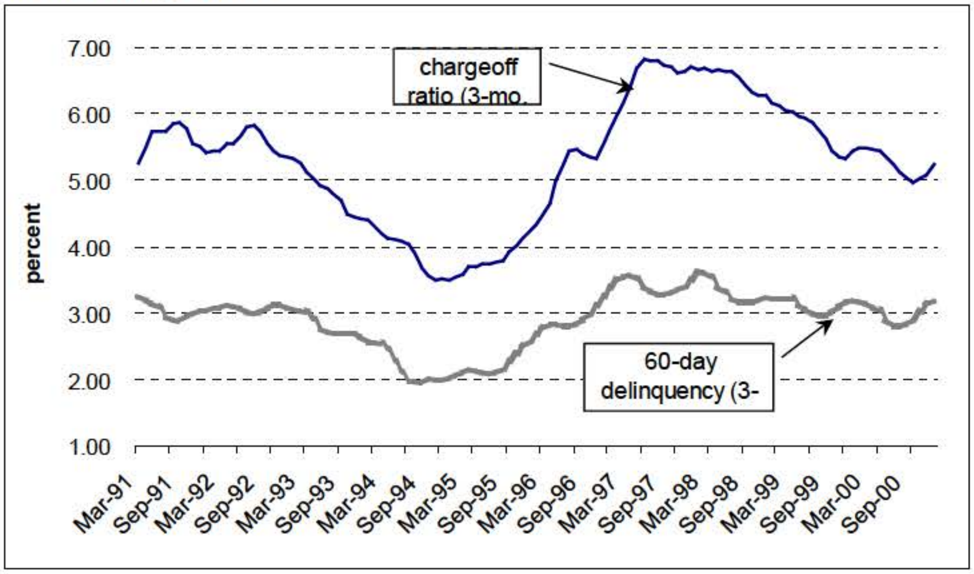
	20+% decline from the peak			10-20% decline			
	incidents	avg decline	avg trading days to trough	incidents	avg decline	avg trading days to trough	
1991	1	28.3%	27	2	10.4%	14	1991
1992				2	15.9%	68	1992
1993	1	20.7%	105	1	12.6%	10	1993
1994	1	20.7%	83				1994
1995	1	21.8%	63				1995
1996				2	14.0%	23	1996
1997	1	24.6%	32	2	10.7%	10	1997
1998	1	50.7%	60				1998
1999	1	29.8%	71	2	15.6%	23	1999
2000	2	32.1%	32	5	11.5%	6	2000
2001	0	0.0%		1	18.8%	38	YTD-2001
Sum/Avg	**9**	**29.0%**	**56**	**17**	**13.1%**	**21**	**Sum/Avg**
Median		**26.5%**	**62**		**12.6%**	**19**	**Median**

Source: FactSet and CSFB estimates.
* Through 2/28/2001.

Credit Quality Tracking with Expectations

Fourth quarter loss rates rose at some issuers and were stable at others. Generally speaking, the more mature portfolios (such as MBNA and Metris) showed relative stability, and those that had grown rapidly over the past 18 months (Capital One and Providian) showed some degree of increases. We expect that the results in early 2001 will show the continued effects of portfolio seasoning, as well as some worsening of credit quality owing to a weaker economy. The stability that we expect in the second half of the year is more a function of the seasoning process than an expectation of a significant recovery in the economy.

Exhibit 3
Credit Quality Trends



Source: Fitch Credit Card Index and CSFB estimates.

There has been continued concern about rising bankruptcy filings and their potential impact on credit quality. (See Exhibit 4.) We would note that the spike we currently see in the data appears to be at least partially the effect of an anomaly in the 2000 bankruptcy data, which resulted in understating January 2000 filings. Specifically, several observations we made on the January 2000 versus 2001 personal bankruptcy data were as follows:

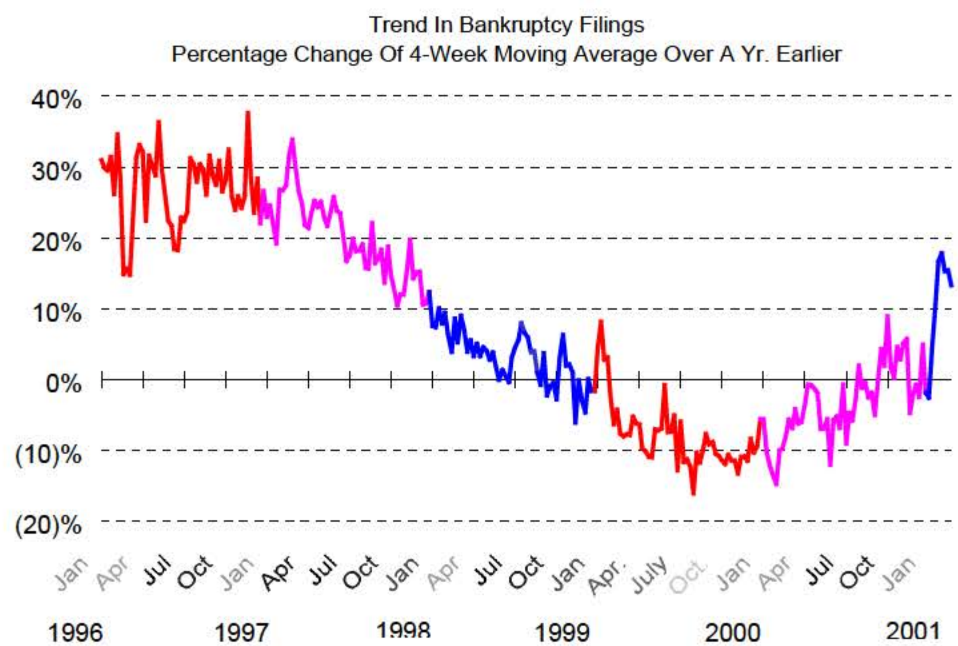
- Week 2 filing data in 2000 was understated by 2,000-3,000 filings as a result of only having three days of filing data (rather than the four days of filing in Week 2 in 2001).
- January 2000 was a more severe weather month than January 2001, which may also have had the effect of understating the January 2000 data.
- January 2001 had two extra filing days than January 2000.

So while year-to-date 2001 bankruptcies are undoubtedly higher than 2000 levels, we believe that the current growth rate is probably more in the 12% range versus the 18% area suggested in the chart below. In addition, we believe the points above support our belief that bankruptcy increases will slow to the 10-12% range in the coming months.

We also believe that given the increased likelihood of a passage of bankruptcy reform under the more bankruptcy reform-friendly Bush administration, that a portion of the increase could have been caused by zealous attorneys urging clients to file ahead of potential legislative changes. We maintain our 2001 forecast for an increase of 11% over 2000 filings. This could be lowered if bankruptcy reform passes, but that would probably front-end more of the filings into the earlier parts of the year.

Yesterday, the House approved the bankruptcy reform bill. The current bill is comparable to the last year's bill, which gained strong support in both Houses of Congress but was pocket-vetoed by President Clinton. The Senate is taking up the bill on Monday, and passage seems more likely this time than before.

Exhibit 4
Bankruptcy Filings

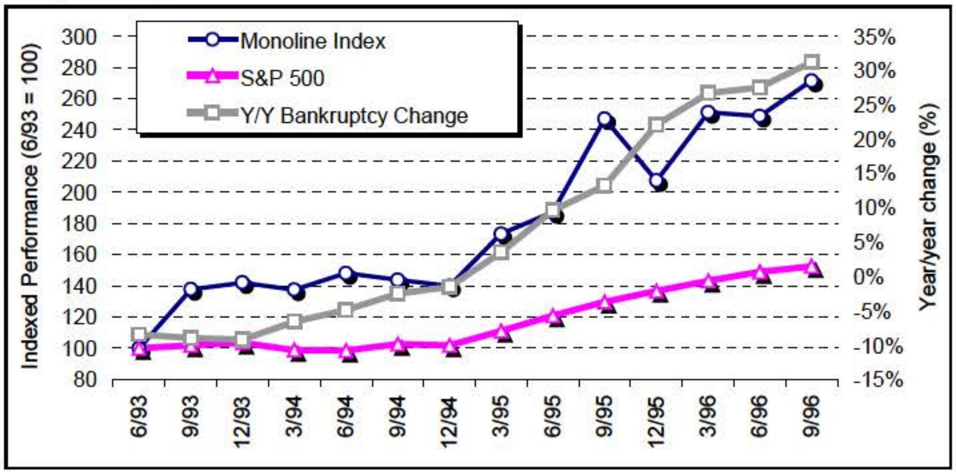


Source: Administrative Office of the U.S. Courts.

Card Stocks Outperformed in the Last Cycle of Accelerating Bankruptcy Filing Growth

While the level of bankruptcy filings can be a useful potential leading indicator of credit quality, we thought it would be instructive to examine the performance of the monoline card stocks the last time the economy experienced a period of accelerating growth in bankruptcy filings. The last such period was from March 1993, when quarterly bankruptcy filings were declining 12% from the prior year through September 1996, when the year-over-year growth rate for bankruptcy filings reached its peak of 31%. During this period, card stocks (MBNA, First USA, and Capital One) returned 237%, versus 52% for the S&P 500. (See Exhibit 5.) Remarkably, during the same period, short-term interest rates *rose 200 basis points.* So despite some accelerating bankruptcies, the monoline issuers stocks actually turned in solid returns and outperformed the market by a wide margin.

Exhibit 5
Monoline Stock Performance during Period of Accelerating Bankruptcy Filing Growth



Source: Administrative Office of the U.S. Courts, FactSet, and CSFB.

During the seven quarters after the Fed finished tightening, the card stocks outperformed significantly in five, and only significantly underperformed in one, quarter, namely the fourth quarter of 1995. All of this time, bankruptcy growth was accelerating, and credit losses nearly doubled for the industry. The question is, what distinguished the period at the end of 1995? The answer should shed some light on our current situation. Then, as now, investors were concerned about a recession. Bond yields were rising, the economy was slowing, and a number of consumer finance companies (particularly those that were part of larger financial organizations) were having significant earnings difficulties.

The basic premise of the argument is that when investors are concerned about a recession, the credit quality statistics take on an outsized degree of importance. That is, the concern shifts to "what is the loss rate?" rather than "how much money will the company earn?" In the prior cycle (which was far more adverse than a recession, given the near-doubling of loss rates, without the relief of lower market interest rates) the stocks outperformed except for the period in which a recession appeared to be on the horizon. We believe that in the current environment the fear of a recession will be far greater than the reality of a weak economy.

We would expect the card stocks to outperform in one of two scenarios.

1. If the economy remains weak, but there is some definition around the magnitude, and the Federal Reserve's ability to respond, we would expect the stocks to outperform, as investors will once again return to analyzing the profitability of companies rather than just credit loss rates.
2. On the other hand, if we have a persistently inscrutable economic environment, with investor concerns wavering between a weakening economy and the Fed's inability to stimulate it with lower rates, then it will take until mid-year for the companies to demonstrate loss stability.

We view the former scenario as more likely, and envision resolution in the coming weeks. Again, in order for the stock market to return to discounting the overall earnings environment rather than just credit losses, we would not need to see improvement in the economy, rather just enough stability such that confidence returns in the Federal Reserve's ability to manage the process.

Securitized Portfolios Continue to Perform Well

Loss rates were mixed for the three large monoline issuers: Capital One's loss rates were down while MBNA (excluding the FFIEC "hangover") and Providian saw a modest increase in losses. Metris' loss rate was up more sharply, as expected. Delinquencies were up seasonally across the board. Yields were up at Providian and Metris, down modestly at Capital One, and flat at MBNA, but much better than in previous Januarys. This supports our thesis of improving profitability.

Capital One (COF)'s loss rate fell 28 basis points from December, and was 33 basis points below the fourth quarter average. Delinquencies were up 14 basis points. Yields were down 47 basis points in the month well below the normal seasonal weakness that Capital One has typically shown in January.

MBNA (KRB)'s loss rate was up 49 basis points in January to 4.39%. Delinquencies rose 18 basis points. We believe that the January loss rate is modestly overstated. There was a one-time adjustment in December (as expected) for the FFIEC guideline change requiring charge-off immediately upon 180 days past due. At CSFB's Financial Services Conference management indicated that their loss rate in January would be higher partially as a result of the "FFIEC hangover" from December, which we believe accounts for roughly half the increase in the loss rate. Since the monthly trust data is annualized, a mere two basis point swing in the monthly loss rate can cause a 25 basis points annualized change in the loss rate. The increase in delinquencies was largely a result of weaker seasonal balances. MBNA's yield was flat, falling four basis points.

Providian (PVN)'s loss rate rose 22 basis points in January, but down 5 basis points from the fourth quarter average of 6.04%. Management has indicated that the low-line business, which is not as well represented in the Trust, will show some effects of seasoning. Delinquencies were up 26 basis points for the month. The yield rose 111 basis points from December and 65 basis points higher than the fourth quarter average. This is higher than expected, particularly as January is usually a weaker month.

Metris (MXT)'s loss rate rose by 136 basis points in January, and 108 basis points from the fourth quarter average. About 50 basis points of the increase was a result of technical factors such as lower seasonal balances, and fewer account additions to the trust. Management had indicated they expected loss rates to rise in the first half of the year and stabilize in the second half. Delinquencies were up 39 basis points to 8.92%. The yield climbed 26 basis points in the month and 54 basis points above the fourth quarter average.

American Express (AXP)'s loss rate increased by 22 basis points in January and was up 17 basis points from the fourth quarter average. Delinquencies were relatively stable, rising 18 basis points. Yield rose 14 basis points from December, but was 17 basis points lower than the fourth quarter average.

Exhibit 6
Monthly Performance Data from Securitized Trust Portfolio

	MBNA			Capital One			Providian			Metris			American Express		
	Loss	Del.	Yield	Loss	Del.	Yield	Loss	Del.	Yield	Loss	Del.	Yield	Loss	Del.	Yield
Jun-99	4.52	4.69	17.44	3.76	4.66	22.23	7.29	3.58	24.37	12.12	7.77	27.02	6.42	3.07	20.76
Jul-99	4.50	4.75	18.70	3.58	4.58	22.11	6.91	3.64	23.09	11.72	7.58	25.99	6.18	2.98	20.52
Aug-99	4.38	4.70	18.20	3.76	4.52	22.15	6.67	3.58	23.04	10.66	7.66	26.80	6.04	3.95	19.99
Sep-99	4.29	4.71	20.38	3.78	4.98	23.15	6.88	3.67	21.36	10.92	7.97	25.91	6.03	3.40	19.17
Oct-99	4.24	4.86	19.41	3.87	5.11	23.51	6.40	3.67	21.56	10.56	7.83	27.21	5.61	4.12	19.99
Nov-99	4.24	4.81	18.33	3.76	5.13	24.13	6.18	3.60	21.42	10.63	7.86	27.92	6.14	3.89	19.83
Dec-99	4.20	4.46	19.14	3.37	5.02	24.40	6.55	3.59	21.18	10.00	7.72	26.54	5.94	3.74	19.83
Jan-00	4.02	4.78	17.77	3.49	5.31	23.00	5.85	3.75	22.17	10.37	7.99	25.81	5.59	3.25	18.19
Feb-00	4.10	4.71	18.80	3.52	5.09	23.41	5.89	3.78	19.96	11.39	7.99	29.89	6.20	3.25	20.73
Mar-00	4.12	4.37	19.40	4.03	4.63	22.60	6.99	3.52	21.84	11.86	7.70	28.75	6.22	3.13	20.83
Apr-00	4.01	4.53	18.13	3.72	4.42	21.05	6.27	3.57	19.17	10.84	7.60	27.21	5.97	3.00	20.40
May-00	3.96	4.51	19.29	3.01	4.20	22.47	6.08	3.52	21.23	11.07	7.62	27.69	6.16	2.96	20.86
Jun-00	3.93	4.45	18.75	3.27	4.22	22.55	6.40	3.49	20.68	11.25	7.75	27.35	5.86	2.97	20.19
Jul-00	3.91	4.63	19.22	2.85	3.94	22.72	6.14	3.55	20.38	11.10	7.86	25.46	5.68	2.95	20.60
Aug-00	3.88	4.64	19.12	2.38	3.93	23.45	6.25	3.51	19.76	11.52	8.11	27.48	5.65	2.93	22.70
Sep-00	3.89	4.67	19.91	2.63	3.82	21.53	5.73	3.67	18.88	11.18	8.38	26.89	5.30	3.06	21.80
Oct-00	3.89	4.94	19.62	2.56	3.91	22.17	6.37	4.15	21.98	12.15	8.37	26.78	5.43	3.07	22.57
Nov-00	3.88	4.96	19.74	2.78	3.96	21.20	5.98	4.40	19.85	11.40	8.53	27.23	5.45	3.11	22.10
Dec-00	3.90	4.51	19.79	2.60	4.06	21.70	5.77	4.29	20.22	11.35	8.53	27.42	5.36	3.04	21.87
Jan-00	4.39	4.69	19.75	2.32	4.20	21.23	5.99	4.55	21.33	12.71	8.92	27.68	5.58	3.22	22.01

Quarterly Averages

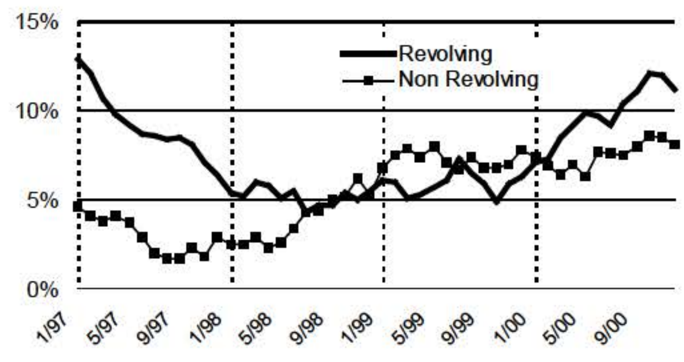
	Avg Loss	Chng	Avg Yld	Avg Loss	Chng	Avg Yld	Avg Loss	Chng	Avg Yld	Avg Loss	Chng	Avg Yld	Avg Loss	Change	Avg Yld
1Q98	4.24	0.12	17.71	6.82	(0.30)	20.61	7.68	(0.51)	22.22	10.71	0.56	26.40	6.66	0.07	21.53
2Q98	4.46	0.23	18.09	6.79	(0.03)	19.96	8.06	0.39	22.16	12.06	1.35	25.29	7.04	0.39	19.44
3Q98	4.47	0.01	18.40	5.86	(0.93)	20.57	7.05	(1.01)	23.04	12.38	0.32	24.26	6.25	(0.80)	20.54
4Q98	4.26	(0.21)	18.54	5.13	(0.73)	21.05	8.87	1.82	23.94	12.17	(0.20)	25.05	6.13	(0.12)	21.04
1Q99	4.41	0.15	18.40	4.36	(0.77)	21.14	8.20	(0.67)	23.75	11.34	(0.83)	28.45	7.00	0.87	20.93
2Q99	4.46	0.06	18.24	4.06	(0.30)	22.16	7.71	(0.49)	22.73	12.20	0.86	27.23	6.74	(0.26)	20.25
3Q99	4.39	(0.07)	19.09	3.71	(0.35)	22.47	6.82	(0.89)	22.50	11.10	(1.10)	26.23	6.08	(0.66)	19.89
4Q99	4.23	(0.16)	18.96	3.67	(0.04)	24.01	6.38	(0.44)	21.39	10.40	(0.70)	27.22	5.90	(0.19)	19.88
1Q00	4.08	(0.15)	18.66	3.68	0.01	23.00	6.24	(0.13)	21.32	11.21	0.81	28.15	6.00	0.11	19.92
2Q00	3.97	(0.11)	18.72	3.33	(0.35)	22.02	6.25	0.01	20.36	11.05	(0.15)	27.42	6.00	(0.01)	20.48
3Q00	3.89	(0.07)	19.42	2.62	(0.71)	22.57	6.04	(0.21)	19.67	11.27	0.21	26.61	5.54	(0.45)	21.70
4Q00	3.89	(0.00)	19.72	2.65	0.03	21.69	6.04	0.00	20.68	11.63	0.37	27.14	5.41	(0.13)	22.18

Source: Corporate reports.
Note: some of the quarterly averages have been adjusted to eliminate unusual items
Note: MBNA: loss and deliquency are for the whole managed portfolio. Yield is for the Master Trust

Industry Fundamentals Remain Favorable for Credit Card Issuers

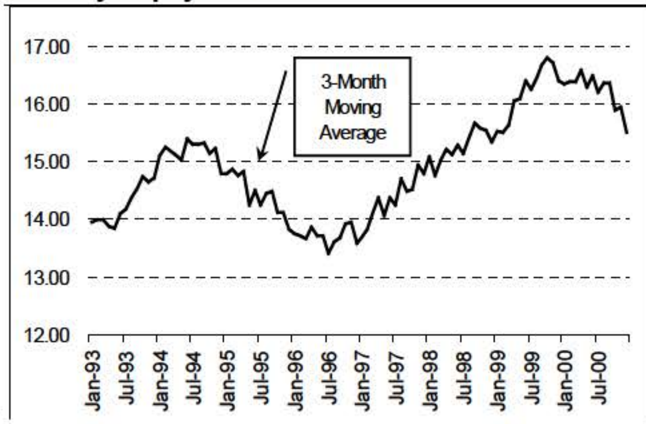
Balance growth has decelerated from the torrid pace of early-to-mid 1997, but will remain healthy. On a year-over-year basis, revolving credit grew roughly 11% in December, 12% in November, compared to 12% in October, 11.1% in September, 10.3% in August, and 9.2% in July. The declining monthly payment rate in recent months has contributed to the rebound in revolving credit. (See Exhibit 8.) We expect the payment rate to have declined further as a result of the sharp drop in consumer confidence, which should contribute to a continued moderate expansion in revolving consumer credit balances. We expect balance growth of 7-9% over the next several years.

Exhibit 7
Growth of Consumer Installment Credit (1)



(1) seasonally adjusted year-over-year growth rate
Source: Federal Reserve Board of Governors.
Source: Federal Reserve Board.

Exhibit 8
Monthly Repayment Rate

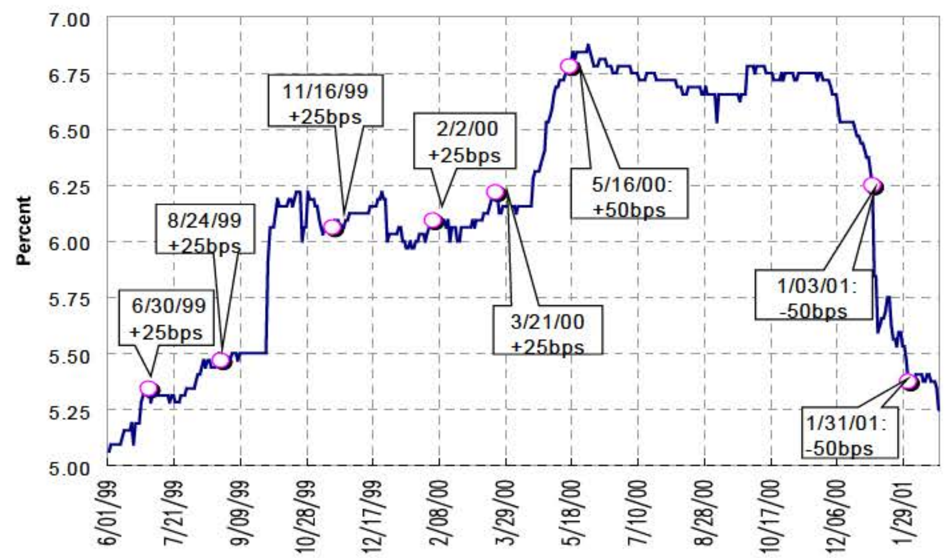


Source: Fitch Credit Card Index.

Interest Rate Environment—Better than Expected

Typically, credit card issuer margins react in a counter-cyclical manner to credit quality. That is, margins are typically under pressure in an expanding economy, as short-term rates are usually rising. However, that economic setting is usually also characterized by falling loss rates. Conversely, when credit quality is deteriorating, short term rates are usually falling, allowing for expanding net interest margins. As shown in Exhibit 9, three-month LIBOR has actually fallen some 140 basis points since the beginning of the year.

Exhibit 9
Daily Three-Month LIBOR Rate
in percent

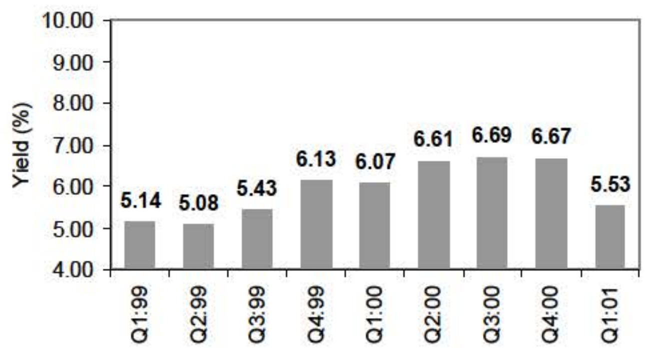


Source: FactSet, CSFB.

Average three-month LIBOR, the best proxy in our view for directional changes in the cost of funds for credit card issuers, is now down 110 basis points with the average fourth quarter level while the average prime rate (lagged one quarter) is unchanged. (See Exhibits 10 and 11.) Margins are likely to be up noticeably in the first quarter, except where strong prime and superprime balance growth dilute the high returns. We believe that the economic risks to the card companies are mitigated by the a rapid reduction in interest rates, allowing margin expansion to offset much of the higher credit costs that would be experienced. This decline in rates has been quicker and sharper than is typically experienced in a slowdown, and will be a good buffer for the earnings outlook.

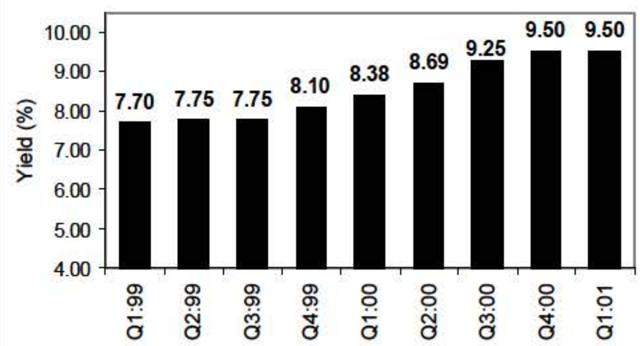
We believe that the economic risks to the card companies are mitigated by the fact that if the economy were to weaken, interest rates would likely fall quickly, allowing margin expansion to offset much of the higher credit costs that would be experienced.

Exhibit 10
Cost of Funds Proxy--3-month Libor Rate
(quarterly average using daily data)



*through 2/28/2001
Source: FactSet.

Exhibit 11
Yield Proxy—Quarterly Prime Rate
(quarterly average using daily data, lagged one quarter)

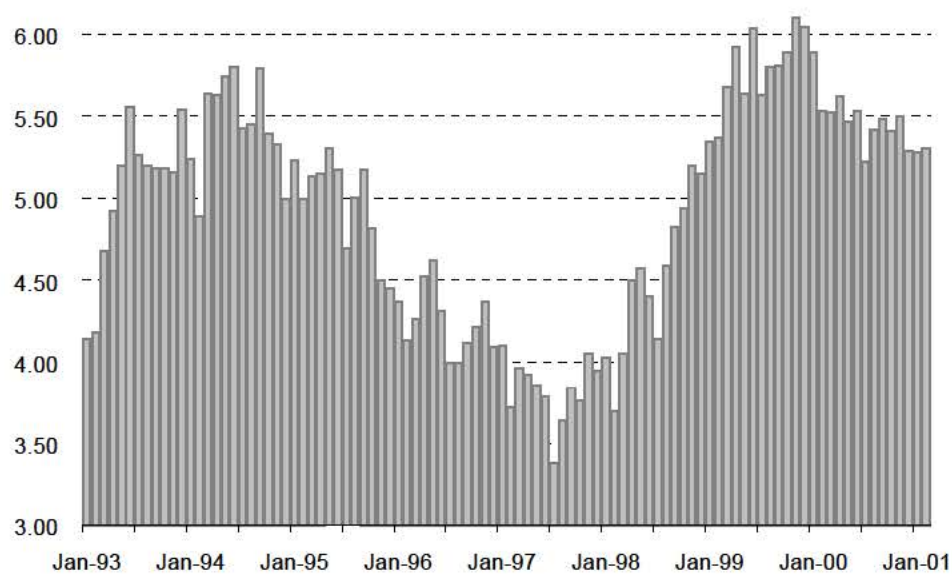


*through 2/28/2001
Source: FactSet.

Profit Margins Stable to Increasing

Excess spread for securitized credit card portfolios, which in our view is the best proxy for ROA for the credit card industry, stands at about 5.40% in January, still down 60 basis points from a year ago, but flat from the prior month. (See Exhibit 12.) This offers more evidence of the strong fundamentals at monoline credit card issuers. These data should improve again in the coming months, as we expect margins to widen given lower interest rates and only a moderate increase in credit losses.

Exhibit 12
Proxy for Profitability—Excess Spread for Credit Card Issuers

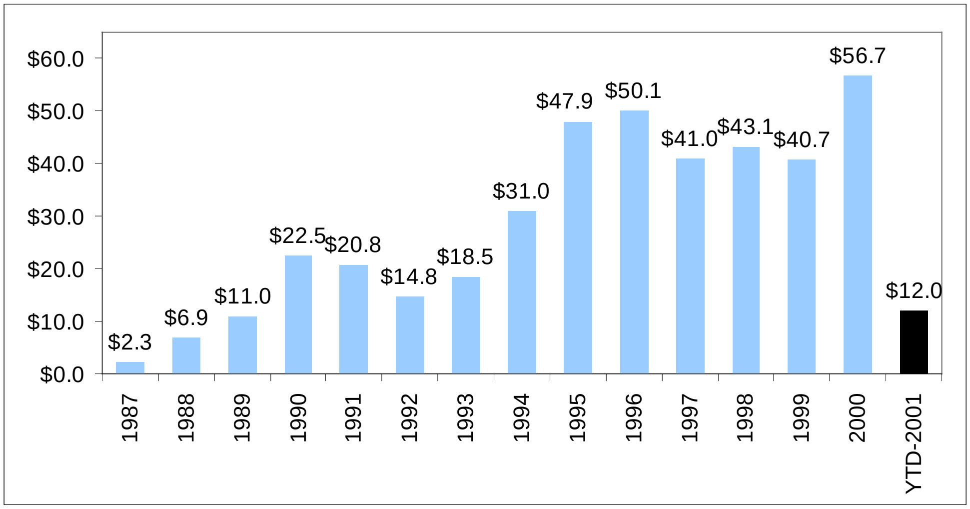


Source: Fitch Credit Card Index and CSFB estimates.

Liquidity Remains Strong

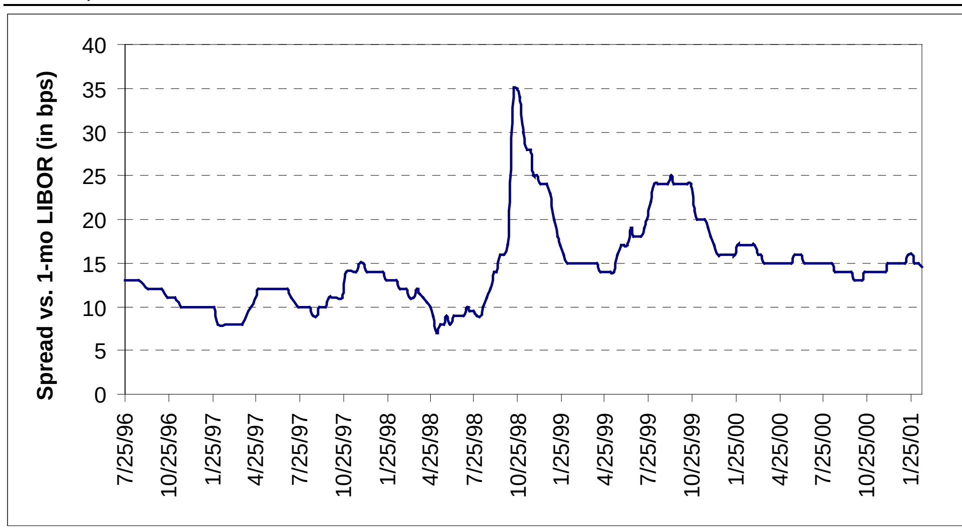
Card issuers continue to securitize receivables in the current environment. Public securitizations have totaled about $57 billion in 2000 and $12 billion so far in 2001, and have generally allowed for better terms over time. Additionally, the private and conduit markets have remained robust, allowing for continued access to sufficient funds for issuers to support good balance growth. Additionally, spreads have been remarkably stable. (See Exhibit 14.)

Exhibit 13
Credit Card ABS Issuance



Source: CSFB Securitized Assets Research.

Exhibit 14
Floating Five-Year Credit Card ABS Spreads (versus One-Month LIBOR)
in basis points



Source: CSFB Securitized Assets Research.

Recent Concerns Seem Overdone

Recently, it appears that credit quality, particularly in the underserved/nonprime lending area, has overwhelmed the favorable fundamentals. Concerns about deteriorating credit quality, particularly in the nonprime lending area, seem to have taken hold.

As we indicated above, while we are not seeing any signs of deteriorating credit quality in the near term, investors seem to be discounting a worsening in credit loss ratios and/or a significant lack of liquidity.

Current Valuation Level Provides a Compelling Buying Opportunity

Despite significantly better fundamentals, the stocks of major credit card issuers have fallen 19% cumulatively since peaking on January 4. Exhibit 19 summarizes our price targets for the monoline card issuers. The stocks are currently selling at approximately 66% of the market multiple, or roughly 15 times our 2001 earnings estimates. We expect these issuers to grow their earnings in excess of 30%, on average, from 2000 to 2001.

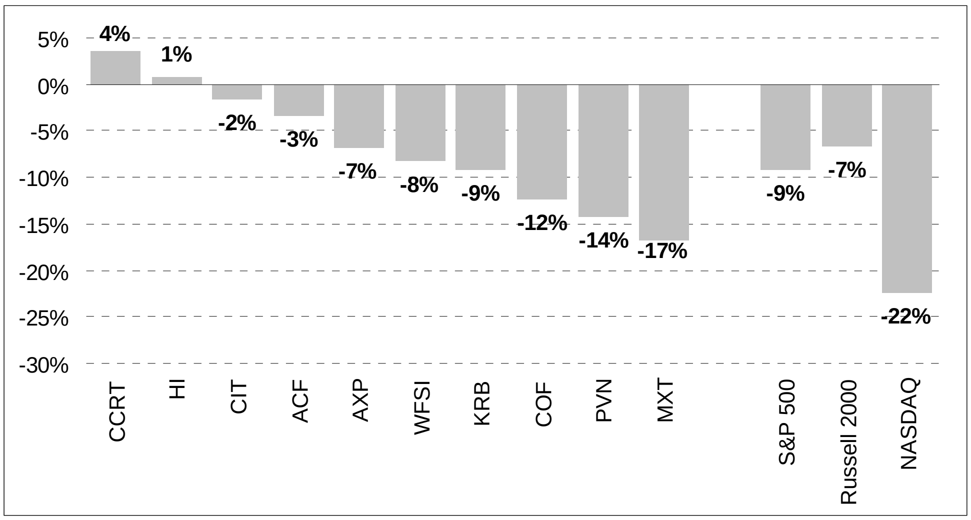
We believe that the earnings quality and strong franchise value of these companies will earn them higher valuations. The operating fundamentals have never been better. The quality of earnings of the major players will reflect these trends and the strength of their operations. The equities are inexpensive relative to their intrinsic values and solid growth rates. Among credit card issuers, we reiterate our Strong Buy rating on Capital One, and our Buy ratings on MBNA, Providian, Metris, and CompuCredit. Among consumer finance companies we reiterate our Strong Buy rating of AmeriCredit and our Buy rating on Household International as well as CIT Group and WFS Financial.

CSFB Specialty Finance Universe Performance

In the month of February, card stocks were down an average of 13%, underperforming the broad market by four percentage points.

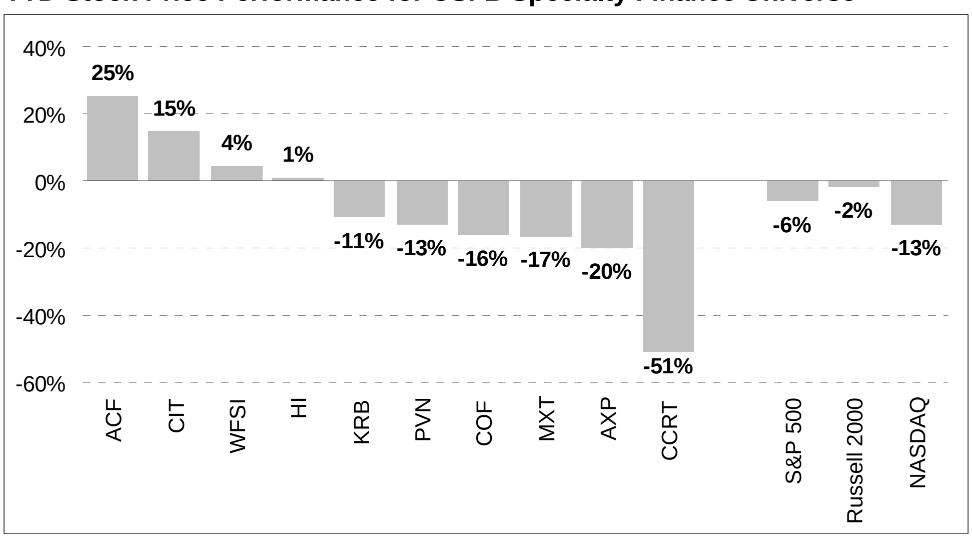
Year-to-date card stocks, down 14%, have underperformed the broader market by roughly eight percentage points while actually lagging the rest of the Specialty Finance Group on average. As we discussed in the beginning of this report, we expect this trend to reverse itself since the current downturn has now surpassed the depth of the average cycle, and the strong company-specific operating fundamental trends as well as a favorable macro environment.

Exhibit 15
February Stock Price Performance for CSFB Specialty Finance Universe



Source: FactSet.

Exhibit 16
YTD Stock Price Performance for CSFB Specialty Finance Universe



Source: FactSet.

Exhibit 17
Historical Stock Price Performance for CSFB Specialty Finance Universe

	2000													2001			Through 2/28/01		
	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sept	Oct	Nov	Dec.	YTD	Jan	Feb	YTD	1 yr.	3 yrs.	5 yrs.
Credit Card Companies																			
Capital One	-15%	-10%	30%	-9%	8%	-6%	31%	3%	16%	-10%	-12%	18%	37%	-4%	-12%	-16%	50%	35%	44%
CompuCredit	-9%	-6%	10%	-9%	-13%	5%	0%	32%	42%	-45%	-47%	10%	-53%	-53%	4%	-51%	-73%	NA	NA
MBNA	-7%	-9%	11%	4%	5%	-3%	23%	6%	9%	-2%	-5%	4%	36%	-2%	-9%	-11%	44%	11%	31%
Metris	3%	-29%	50%	-4%	-1%	1%	17%	23%	11%	-19%	-25%	9%	11%	0%	-17%	-17%	27%	14%	NA
Providian	-7%	-23%	34%	2%	1%	2%	13%	13%	10%	-18%	-13%	28%	26%	1%	-14%	-13%	55%	38%	NA
Average (1)	-7%	-18%	31%	-2%	3%	-1%	21%	11%	12%	-12%	-14%	14%	27%	-1%	-13%	-14%	21%	25%	38%
Diversified Financials																			
American Express	-1%	-19%	11%	0%	8%	-3%	9%	4%	3%	-1%	-8%	0%	-1%	-14%	-7%	-20%	-2%	13%	23%
Household	-5%	-9%	17%	12%	13%	-12%	7%	8%	18%	-11%	-1%	10%	48%	5%	1%	1%	81%	10%	21%
The CIT Group	-9%	-26%	39%	-13%	8%	-11%	14%	-5%	0%	0%	-4%	20%	-5%	17%	-2%	15%	64%	-11%	NA
Average	-5%	-18%	22%	0%	10%	-9%	10%	2%	7%	-4%	-4%	10%	14%	2%	-3%	-2%	48%	4%	22%
Auto Finance																			
AmeriCredit	-11%	-15%	18%	15%	-1%	-8%	22%	33%	4%	-7%	-23%	31%	47%	30%	-3%	25%	146%	36%	43%
WFS Financial	-24%	-6%	30%	0%	-19%	10%	-10%	-4%	14%	-7%	16%	1%	-12%	14%	-8%	4%	29%	17%	3%
Average	-18%	-11%	24%	7%	-10%	1%	6%	14%	9%	-7%	-3%	16%	17%	22%	-6%	15%	88%	26%	23%
Selected Indices																			
S&P 500 Index	-5%	-2%	10%	-3%	-2%	2%	-2%	6%	-5%	-1%	-8%	0%	-10%	3%	-9%	-6%	-9%	6%	14%
Russell 2000 Index	-2%	16%	-7%	-6%	-6%	9%	-3%	7%	-3%	-5%	-10%	8%	-4%	5%	-7%	-2%	-18%	1%	8%
NASDAQ Comp.	-3%	19%	-3%	-16%	-12%	17%	-5%	12%	-13%	-8%	-23%	-5%	-39%	12%	-22%	-13%	-54%	7%	14%

Source: Bridge and FactSet.
(1) Average excludes CompuCredit
Note: Periods greater than one year are annualized.

Earnings Expectations Rose in 2000, Stable in 2001

As shown in Exhibit 18, year-to-date, 2001 earnings expectations for card stocks are flat, after 2001 EPS consensus expectations rose 9% on average in 2000. The positive earnings momentum that these stocks have exhibited help support their premium valuations relative to other financial services firms. This earnings performance is in sharp contrast to large cap banks, where estimates fell 7% in 2000 and the S&P 500, which was down two percentage points (using 2001 EPS estimates).

Expectations for diversified consumers financials, such as American Express, Household and CIT are more mixed. Estimates for American Express have fallen slightly and Household has seen expectations creep upwards. CIT saw 2001 estimates cut by 21% in 2000 on margin pressure concerns, given their position as a primarily fixed-rate lender.

Exhibit 18
First Call Mean 2001 Consensus EPS Estimates

	Diversified Fin.				Card Stocks						Auto		
	AXP	HI	CIT	Avg. % chg	COF	MXT	CCRT	KRB	PVN	Avg.% chg (1)	ACF	WFSI	Avg. % chg
12/99	2.33	4.00	3.25	NA	2.80	2.10	3.00	1.70	3.30	NA	1.79	2.83	NA
3/00	2.33	4.03	3.20	-0.2%	2.80	2.33	2.97	1.75	3.31	1.6%	1.87	2.83	0.0%
6/00	2.34	4.04	3.05	-1.3%	2.80	2.45	3.10	1.77	3.32	0.0%	1.91	2.85	0.0%
9/00	2.35	4.05	2.76	-0.3%	2.83	2.53	3.27	1.83	3.36	0.5%	2.04	2.85	0.2%
12/00	2.35	4.05	2.55	-2.4%	2.90	2.56	3.10	1.85	3.39	-0.1%	2.17	2.76	-0.8%
1/01	2.32	4.06	2.52	-0.7%	2.91	2.54	1.04	1.86	3.40	0.1%	2.30	2.79	3.7%
2/01	2.32	4.06	2.52	0.0%	2.91	2.53	1.04	1.86	3.40	0.0%	2.31	2.79	0.1%
% Change													
2000	0.9%	1.2%	-21.7%	-6.5%	3.7%	21.7%	3.4%	8.7%	2.6%	9.2%	21.5%	-2.7%	9.4%
YTD 2001	-1.3%	0.3%	-1.0%	-0.7%	0.3%	-1.0%	-66.5%	0.7%	0.4%	0.1%	6.5%	1.3%	3.9%

(1) Average excludes CompuCredit

Source: FactSet and First Call.

Valuation

We believe that the earnings quality and strong franchise value of these companies will earn them higher valuations. The operating fundamentals have never been better. The quality of earnings of the major players will reflect these trends and the strength of their operations. The equities appear inexpensive relative to their intrinsic values and solid growth rates. As credit quality concerns fade, investors should prize these quality earnings streams.

Among credit card issuers, we reiterate our *Top Pick* rating on Capital One, and our *Buy* ratings on CompuCredit, MBNA, Metris and Providian.

On the consumer finance side, we reiterate our *Buy* ratings on Household International, as well as CIT Group and WFS Financial.

Exhibit 19
Summary Statistics for CSFB Specialty Finance Universe

Ticker	Name	Rating	2/28/01 Price	52 Week Low	52 Week High	YTD Return	Market Val($B)	Earnings Per Share 1999A	Earnings Per Share 2000A	Earnings Per Share 2001E	Earnings Per Share 2002E	EPS Growth 2000	EPS Growth 2001E	EPS Growth 2002E	Absolute P/E 2000E	Absolute P/E 2001E	Absolute P/E 2002E	Ticker
SPX	S&P 500		1,240	1,215	1,553	(6)%		$ 50.8	$ 56.8	$ 58.3	$ 65.4	12%	3%	12%	21.8	21.3	19.0	SPX
AXP	American Express	**H**	43.88	39.83	63.00	(20)%	$ 60.1	$ 1.81	$ 2.07	$ 2.30	$ 2.63	14%	11%	14%	21.2	19.1	16.7	AXP
ACF	AmeriCredit	**SB**	34.18	10.62	37.92	25%	$ 2.9	$ 1.33	$ 1.95	$ 2.57	na	47%	32%	na	17.5	13.3	na	ACF
COF	Capital One	**SB**	55.25	33.87	73.25	(16)%	$ 11.6	$ 1.72	$ 2.25	$ 2.90	$ 3.62	31%	29%	25%	24.6	19.1	15.3	COF
CIT	CIT	**B**	23.10	13.31	24.40	15%	$ 6.1	$ 2.25	$ 2.33	$ 2.55	$ 2.82	4%	9%	11%	9.9	9.1	8.2	CIT
CCRT	CompuCredit	**B**	8.88	7.25	66.06	(51)%	$ 0.4	$ 1.61	$ 1.79	$ 1.25	$ 1.60	11%	(30)%	28%	5.0	7.1	5.6	CCRT
HI	Household	**B**	57.92	31.37	61.10	5%	$ 27.8	$ 3.07	$ 3.55	$ 4.05	$ 4.65	16%	14%	15%	16.3	14.3	12.5	HI
KRB	MBNA	**B**	32.88	20.62	40.12	(11)%	$ 26.3	$ 1.21	$ 1.53	$ 1.88	$ 2.30	26%	23%	22%	21.5	17.5	14.3	KRB
MXT	Metris	**B**	21.96	13.58	42.94	(17)%	$ 1.9	$ 1.39	$ 2.12	$ 2.60	$ 3.10	53%	22%	20%	10.4	8.5	7.1	MXT
PVN	Providian	**B**	50.01	30.00	67.00	(13)%	$ 14.6	$ 1.89	$ 2.63	$ 3.45	$ 4.35	39%	31%	26%	19.1	14.5	11.5	PVN
WFSI	WFS Financial	**B**	19.31	13.50	22.75	4%	$ 0.5	$ 1.91	$ 2.35	$ 2.85	$ 4.00	23%	21%	40%	8.2	6.8	na	WFSI

Ticker	Name	Man. Loan ($B) 2000A	Man. Loan ($B) 01E/00	Revenues ($B) 2000A	Revenues ($B) 01E/00	2000A ROE	2000A ROA	2000A Losses	Cons. EPS 2000A	Cons. EPS 2001E	Cons. EPS 2002E	CSFB/Cons. 2001E	CSFB/Cons. 2002E	Target Price	Relative P/E Target	Relative P/E 2001E	Relative P/E 2002E	Ticker
AXP	American Express	$ 23.4	24%	$14.9	10%	28%	NM	6.2%	$ 2.05	$ 2.32	$ 2.62	(1)%	0%	**$ 50**	102%	90%	88%	AXP
ACF	AmeriCredit	$ 8.3	37%	$ 0.7	44%	22%	4.0%	4.0%	$ 1.95	$ 2.45	na	5%	na	**$ 40**	73%	62%	na	ACF
COF	Capital One	$ 29.5	30%	$ 5.0	36%	28%	2.1%	3.9%	$ 2.24	$ 2.91	$ 3.60	(0)%	1%	**$ 80**	130%	90%	80%	COF
CIT	CIT	$ 54.9	9%	$ 2.4	6%	11%	1.5%	0.7%	$ 2.33	$ 2.52	$ 2.83	1%	(0)%	**$ 25**	46%	43%	43%	CIT
CCRT	CompuCredit	$ 1.5	30%	$ 0.4	39%	25%	7.3%	10.5%	$ 1.79	$ 1.17	na	7%	na	**$ 22**	83%	33%	29%	CCRT
HI	Household	$ 87.6	9%	$ 9.2	12%	24%	2.3%	3.6%	$ 3.55	$ 4.06	$ 4.63	(0)%	0%	**$ 70**	81%	67%	66%	HI
KRB	MBNA	$ 88.8	16%	$ 8.9	25%	24%	1.4%	3.9%	$ 1.53	$ 1.86	$ 2.27	1%	1%	**$ 44**	110%	82%	75%	KRB
MXT	Metris	$ 9.3	22%	$ 1.8	22%	26%	2.2%	9.7%	$ 2.12	$ 2.54	$ 3.01	2%	3%	**$ 50**	91%	40%	37%	MXT
PVN	Providian	$ 27.1	33%	$ 5.7	33%	47%	2.8%	7.7%	$ 2.73	$ 3.40	$ 4.18	1%	4%	**$ 80**	109%	68%	61%	PVN
WFSI	WFS Financial	$ 6.8	33%	$ 0.4	48%	24%	1.3%	1.9%	$ 2.35	$ 2.79	na	2%	na	**$ 30**	49%	32%	na	WFSI

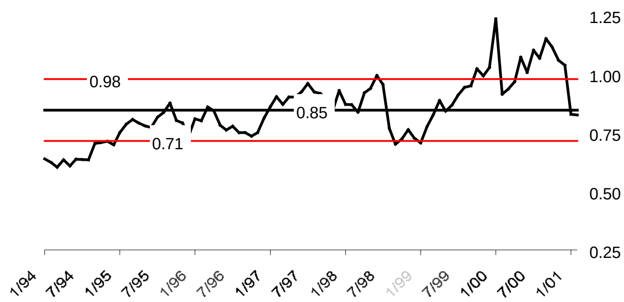
Earnings Per Share estimates for S&P 500 is the consensus figures reported by First Call.
(1)AmeriCredit's EPS estimates are on a CY basis as FYE is June 30 and all summary statistics for LTM.
SB - Strong Buy, B - Buy, H - Hold, S - Sell

Source: FactSet and First Call.

N.B.: CREDIT SUISSE FIRST BOSTON CORPORATION may have, within the last three years, served as a manager or co-manager of a public offering of securities for or makes a primary market in issues of any or all of the companies mentioned.

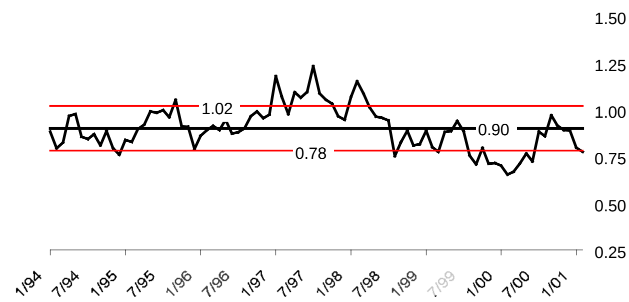
Exhibit 20
Valuation Historic and Target Relative P/E

Relative P/E: American Express (AXP)
Target Multiple of 95%



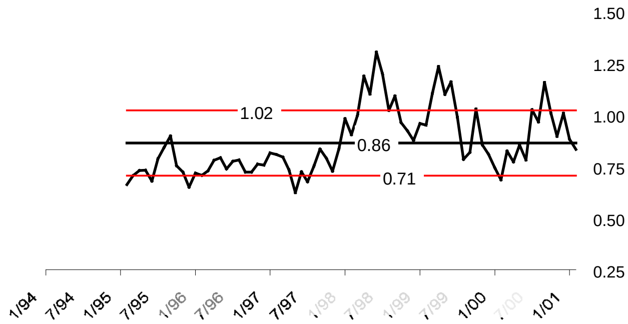
Monthly Data: 1/1994 to 2/2001

Relative P/E: MBNA (KRB)
Target Multiple of 100%



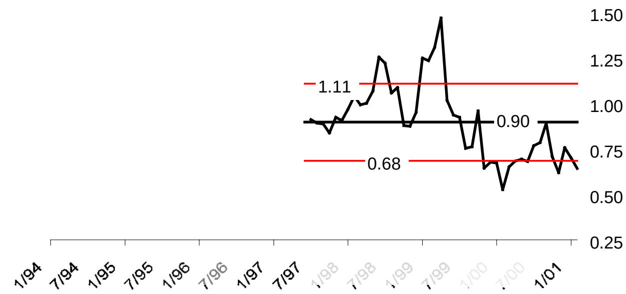
Monthly Data: 1/1994 to 2/2001

Relative P/E: Capital One (COF)
Target Multiple of 120%



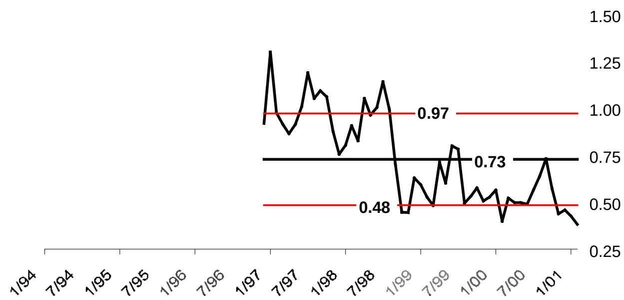
Monthly Data: 1/1994 to 2/2001

Relative P/E: Providian (PVN)
Target Multiple of 105%



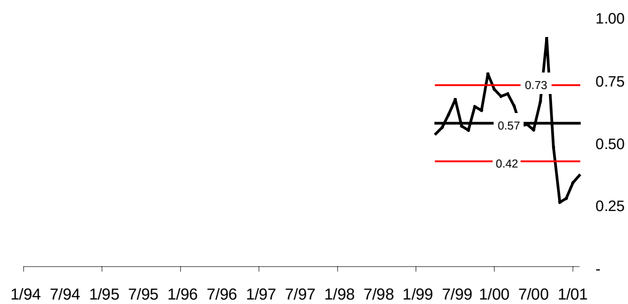
Monthly Data: 1/1994 to 2/2001

Relative P/E: Metris (MXT)
Target Multiple of 90%



Monthly Data: 1/1994 to 2/2001

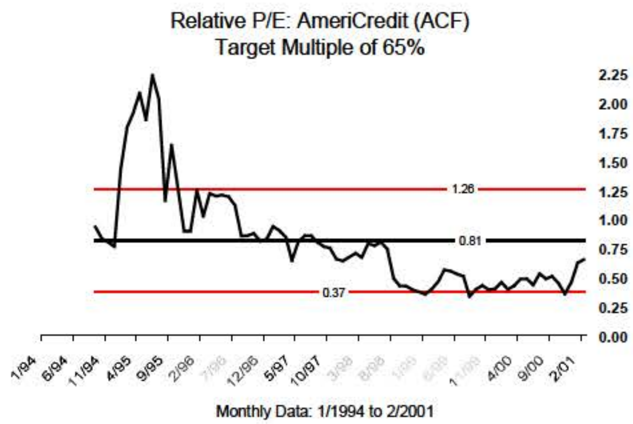
Relative P/E: CompuCredit (CCRT)
Target Multiple of 60%

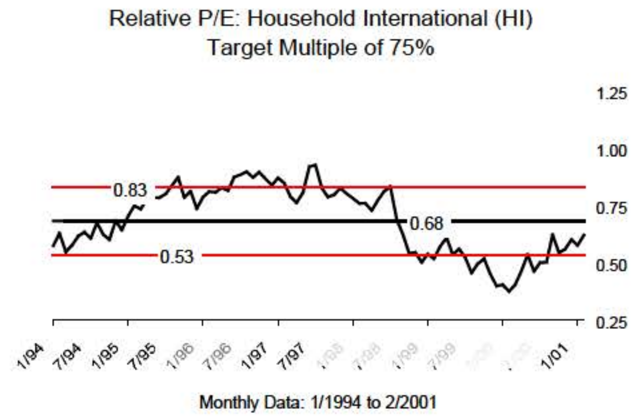


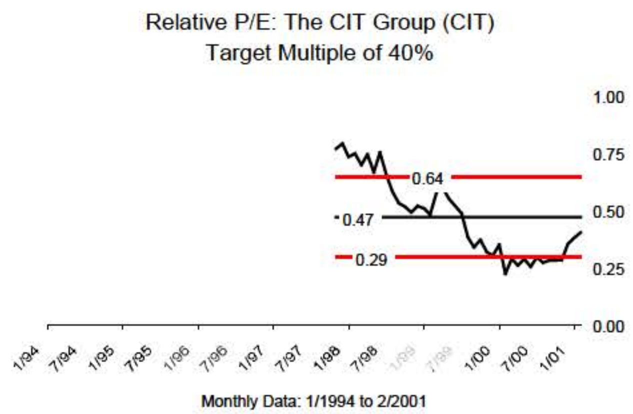
Monthly Data: 1/1994 to 2/2001

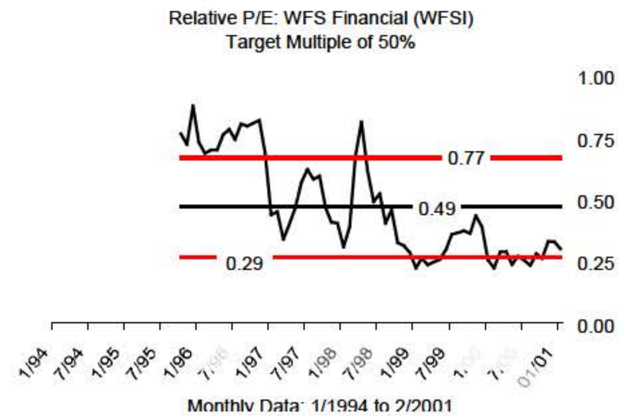
Source: FactSet and First Call.

Exhibit 21
Valuation Historic and Target Relative P/E









Source: FactSet and First Call.

CREDIT SUISSE | FIRST BOSTON

AMSTERDAM	31 20 5754 890	LONDON	44 20 7888 8888	SAN FRANCISCO	1 415 836 7600
ATLANTA	1 404 656 9500	MADRID	34 91 423 16 00	SÃO PAULO	55 11 3841 6000
AUCKLAND	64 9 302 5500	MELBOURNE	61 3 9280 1666	SEOUL	82 2 3707 3700
BALTIMORE	1 410 223 3000	MEXICO	52 5 283 89 00	SHANGHAI	86 21 6881 8418
BEIJING	86 10 6410 6611	MILAN	39 02 7702 1	SINGAPORE	65 538 6322
BOSTON	1 617 556 5500	MOSCOW	7 501 967 8200	SYDNEY	61 2 8205 4400
BUDAPEST	36 1 202 2188	MUMBAI	91 22 230 6333	TAIPEI	886 2 2715 6388
BUENOS AIRES	54 11 4394 3100	NEW YORK	1 212 325 2000	TOKYO	81 3 5404 9000
CHICAGO	1 312 750 3000	PALO ALTO	1 650 614 5000	TORONTO	1 416 352 4500
FRANKFURT	49 69 75 38 0	PARIS	33 1 40 76 8888	VIENNA	43 1 512 3023
GENEVA	41 22 394 70 00	PASADENA	1 626 395 5100	WARSAW	48 22 695 0050
HOUSTON	1 713 220 6700	PHILADELPHIA	1 215 851 1000	WELLINGTON	64 4 474 4400
HONG KONG	852 2101 6000	PRAGUE	420 2 210 83111	ZUG	41 41 727 97 00
				ZURICH	41 1 333 55 55

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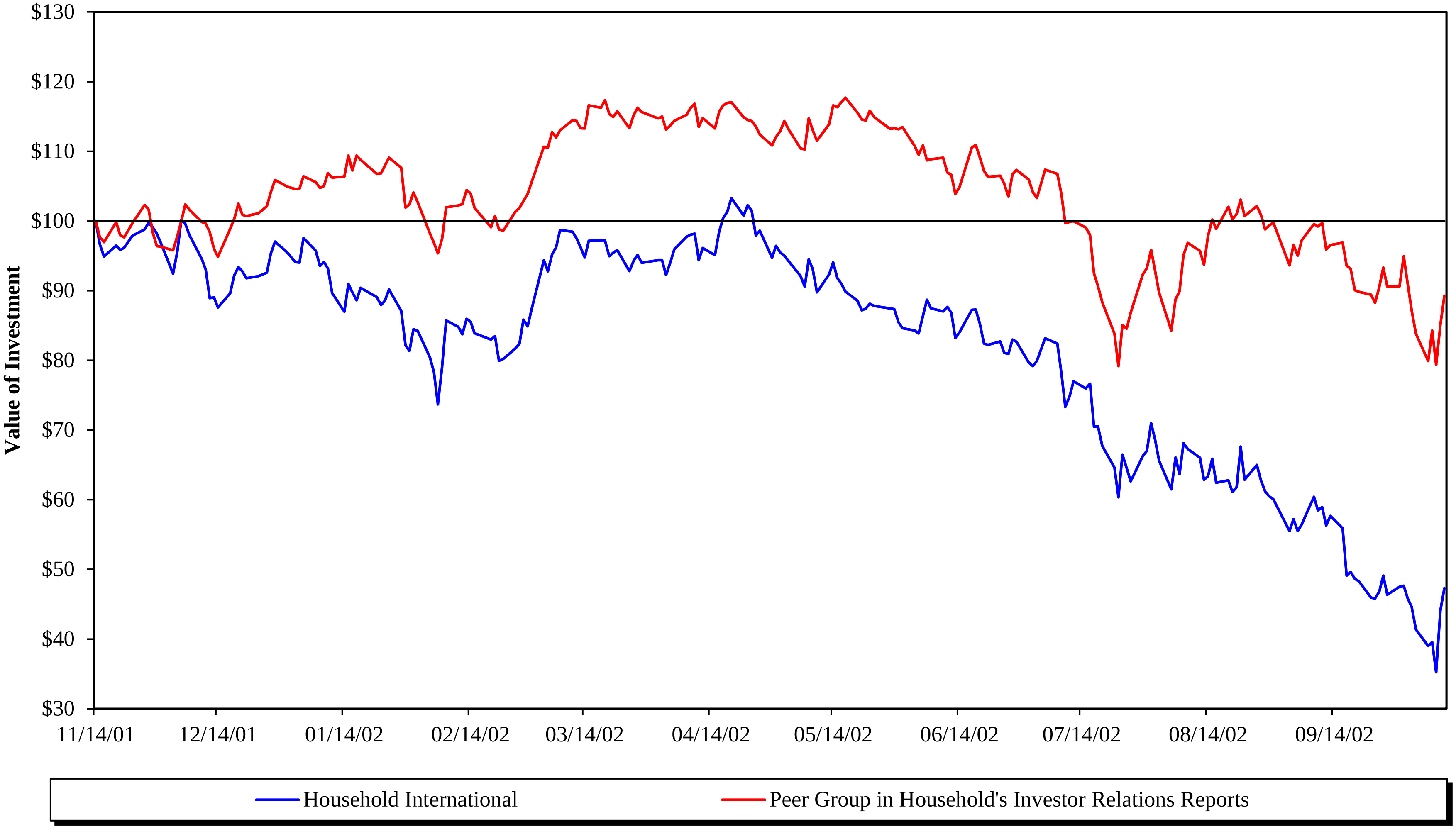
Exhibit 2

Value of $100 Invested in Household International and the Peer Group Identified in Household's Investor Relations Reports
November 14, 2001 - October 11, 2002



Note: Peer group as identified in Household's investor relations reports is an equal-weighted index of the stock total returns of American International Group, American Express, Bank One, Capital One Financial, Citigroup, MBNA, Providian Financial, U.S. Bancorp, and Wells Fargo. Providian Financial was removed from the peer group on March 1, 2002, as it was no longer listed as a peer in Household's investor relations reports beginning on that date. *See* Plaintiffs' Exhibits P0198, P0199, P0200, P0201 & P0202.

Exhibit 3

Effect on Statistical Significance of Specific Disclosures After Including Prof. Ferrell's Index of CSFB Specialty Finance Universe "Peers" in Fischel Report Regression Model

N	Date	Household Return	S&P 500 Index Return	S&P Financials Index Return	Prof. Ferrell's CSFB Specialty Finance Universe "Peer" Index Return	Predicted Return	Residual Return	Residual Price Change	t-Stat	Still Statistically Significant?
1	11/15/01	-3.28%	0.10%	-0.30%	0.75%	0.22%	-3.50%	-$2.13	-2.74	Yes
2	12/03/01	-4.58%	-0.83%	-1.54%	-2.44%	-1.47%	-3.11%	-$1.83	-2.43	Yes
3	12/05/01	4.76%	2.24%	1.81%	3.56%	1.95%	2.81%	$1.63	2.19	Yes
4	12/12/01	-4.43%	0.03%	-0.29%	-2.39%	-0.94%	-3.49%	-$1.98	-2.73	Yes
5	02/27/02	4.20%	0.05%	0.76%	2.02%	1.36%	2.84%	$1.42	2.22	Yes
6	07/26/02	-2.94%	1.70%	2.79%	1.29%	1.85%	-4.79%	-$1.86	-3.72	Yes
7	08/14/02	0.77%	4.01%	3.74%	4.84%	3.09%	-2.33%	-$0.88	-1.80	Yes
8	08/16/02	-5.20%	-0.15%	-0.65%	-2.36%	-1.10%	-4.10%	-$1.63	-3.21	Yes
9	08/27/02	-3.53%	-1.38%	-0.82%	-2.34%	-0.84%	-2.70%	-$1.05	-2.11	Yes
10	09/03/02	-7.62%	-4.15%	-4.90%	-7.48%	-4.47%	-3.14%	-$1.14	-2.42	Yes
11	09/23/02	-4.96%	-1.38%	-0.11%	-2.22%	-0.36%	-4.60%	-$1.34	-3.58	Yes
12	10/04/02	-7.29%	-2.23%	-2.94%	-5.53%	-3.09%	-4.21%	-$1.12	-3.27	Yes
13	10/10/02	25.24%	3.50%	5.50%	8.87%	5.85%	19.39%	$4.07	14.82	Yes
14	10/11/02	7.22%	3.91%	5.02%	4.30%	3.71%	3.52%	$0.93	2.69	Yes

EXHIBIT 13

The Loss Causation Requirement for Rule 10b-5 Causes of Action: The Implications of *Dura Pharmaceuticals, Inc. v. Broudo*

*By Allen Ferrell and Atanu Saha**

In order to have recoverable damages in a Rule 10b-5 action, plaintiffs must establish loss causation, i.e., that the actionable misconduct was the cause of economic losses to the plaintiffs. The requirement of loss causation has come to the fore as a result of the U.S. Supreme Court's landmark decision in Dura Pharmaceuticals, Inc. v. Broudo. *We address in this Article a number of loss causation issues in light of* Dura, *including the proper use of event studies to establish recoverable damages, the requirement that there be a corrective disclosure, what types of disclosure should count as a corrective disclosure, post-corrective disclosure stock price movements, the distinction between the class period and the damage period, collateral damage caused by a corrective disclosure, and forward-casting estimates of recoverable damages.*

I. Introduction: The Requirement of Loss Causation

In a Rule 10b-5 cause of action, plaintiffs have the burden of pleading and proving that the actionable misconduct, such as a reckless or intentional material misrepresentation upon which they relied, was responsible causally for damaging their shares. The requirement of establishing so-called "loss causation" has long been part of the common law.[1] It was at the very start of the development of Rule 10b-5 jurisprudence in *Schlick v. Penn-Dixie Cement Corp.* that a federal circuit court first mentioned the requirement of "loss causation" in a Rule 10b-5 action.[2] The requirement of loss causation for Rule 10b-5 causes of action was

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1. *See* Pasley v. Freeman, (1789) 100 Eng. Rep. 450, 457 (K.B.) (finding that if "no injury is occasioned by the lie, it is not actionable"); *see also* Dura Pharms., Inc. v. Broudo, 544 U.S. 336, 344 (2005) (discussing how "loss causation" is a requirement in common law deceit and misrepresentation actions).

2. 507 F.2d 374, 380–82 (1974), *cert denied*, 421 U.S. 976 (1975).

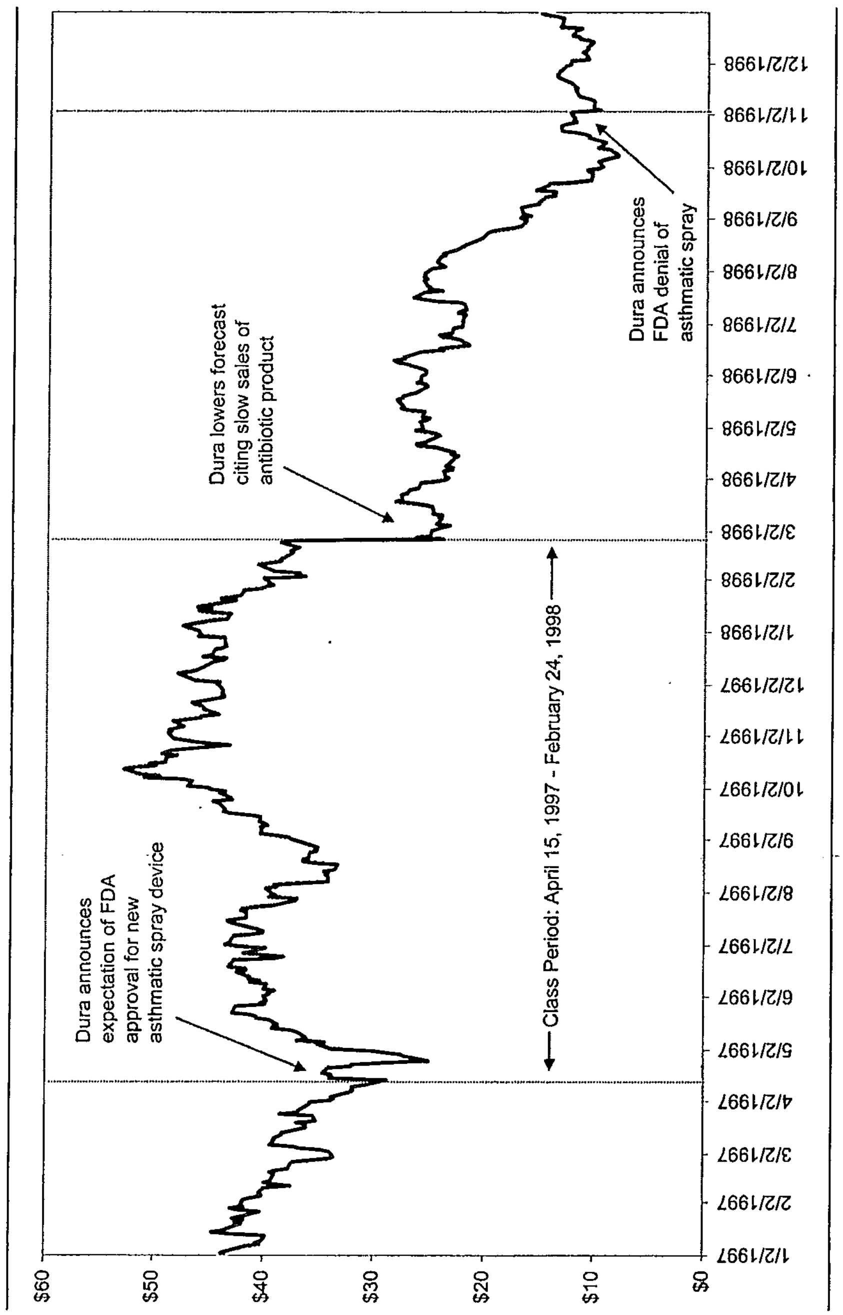
codified in the Private Securities Litigation Reform Act of 1995, which requires plaintiffs to "prov[e] that the act or omission of the defendant alleged to violate [section 10(b)] caused the loss for which the plaintiff seeks to recover damages."[3] The requirement of loss causation has become increasingly emphasized by federal circuit courts, especially in light of the U.S. Supreme Court's recent landmark decision on loss causation in *Dura Pharmaceuticals, Inc. v. Broudo.*[4] Perhaps the most notable decision in this regard is the U.S. Court of Appeals for the Fifth Circuit's recent opinion in *Oscar Private Equity Investments v. Allegiance Telecom, Inc.*[5] The court held that loss causation must be established before class-wide reliance can be presumed under a fraud-on-the-market theory *at the class certification stage.*[6]

The Supreme Court's decision in *Dura* provided some much-needed clarification on what constitutes "loss causation." In that case, the defendant Dura Pharmaceuticals was alleged to have stated falsely on April 15, 1997 that it was likely to receive U.S. Food and Drug Administration ("FDA") approval of an asthmatic spray device.[7] On February 24, 1998, Dura Pharmaceuticals lowered its earnings forecast citing slow drug sales.[8] Finally, on November 4, 1998, Dura Pharmaceuticals announced the FDA's denial of its asthmatic spray device.[9] Plaintiffs sued Dura Pharmaceuticals under Rule 10b-5 with the class period running from April 15, 1997—the date of the alleged misrepresentation concerning the likelihood of approval—to February 24, 1998—the date of the lowered forecast being disseminated to the market.[10] Dura's stock price over that time period is summarized in Figure 1.[11]

There are two aspects of the Court's analysis of plaintiffs' Rule 10b-5 action that are particularly noteworthy. First, the Court held that even if Dura Pharmaceuticals' stock price was artificially inflated as a result of a fraudulent statement concerning the expectation of FDA approval of Dura's asthmatic inhaler, that was nevertheless insufficient to establish loss causation.[12] In so doing, the Court rejected the position of the U.S. Court of Appeals for the Ninth Circuit that merely pleading price inflation was sufficient to state a claim under Rule 10b-5.[13] Second, and equally important, the Court explained that the mere fact that Dura Pharmaceuticals' shareholders who purchased after Dura had made the purportedly false statement

3. *See* Private Securities Litigation Reform Act of 1995, Pub. L. No. 104-67, § 101(b), 109 Stat. 737, 747 (codified at 15 U.S.C. § 78u-4(b)(4) (2000)) [hereinafter "PSLRA"]; *see also* PSLRA, § 105, 109 Stat. at 757 (codified at 15 U.S.C. § 77l(b) (2000)) (stating that loss causation means the "depreciation in value of the subject security" caused by the misrepresentation); PSLRA, § 101(b), 109 Stat. at 748–49 (codified at 15 U.S.C. § 78u-4(e) (2000)) (limiting Rule 10b-5 recovery based on stock price movements following disclosure of "the misstatement or omission that is the basis for the action").
4. 544 U.S. 336.
5. 487 F.3d 261 (5th Cir. 2007).
6. *Id.* at 268–69.
7. *See* Respondents' Brief at 1a, Dura Pharms., Inc. v. Broudo, 544 U.S. 336 (2005) (No. 03-932).
8. *Id.* at 4.
9. *See id.* at 1a.
10. *Dura Pharms., Inc.*, 544 U.S. at 339.
11. *See* Respondents' Brief at 1a, Dura Pharms., Inc. v. Broudo, 544 U.S. 336 (2005) (No. 03-932).
12. *Dura Pharms., Inc.*, 544 U.S. at 342–46.
13. *See id.* at 342–47.

Figure 1
Dura Pharmaceutical Share Prices: 1997–1998



to the market, and hence arguably purchased at an inflated price, suffered a decline in the value of their stock between the time of purchase and the time of sale was likewise insufficient to establish loss causation.[14] That conclusion was based on the observation that any number of factors could have caused shareholders' economic losses besides revelation of the misrepresentation (a so-called "corrective disclosure"), such as changing industry or market conditions.[15]

In short, the Supreme Court in *Dura* emphasized that the actionable misconduct must *cause* economic losses to shareholders who purchased shares at an inflated price. The method to calculate the portion (if any) of shareholders' losses attributable to the inflation caused by actionable misconduct raises a number of important issues. We begin by first outlining the basic analytical framework used in thinking about loss causation (as well as the related issue of materiality)—the event study—and then discuss several practically important damage issues that frequently come up in Rule 10b-5 securities litigation: the requirement that there be a "corrective disclosure"; what exactly constitutes a "corrective disclosure"; post-"corrective disclosure" stock market price movements; the allocation of inflation to different shares; collateral damage caused by revelation of the actionable misconduct; and back-casting versus forward-casting estimates of damages.

II. Analytical Framework for Event Study Analysis

Event study analysis is a ubiquitous tool in assessing claims of loss causation as well as the "materiality" of misstatements or fraudulently omitted information.[16] An event study is a regression analysis that measures the effect of an event, such as a firm's earnings announcement, on a firm's stock price.[17] In such an analysis, one must, of course, control for factors other than the event that may also simultaneously affect the stock price.[18]

A typical econometric model for measuring the effect of an alleged misrepresentation or a corrective disclosure on stock price is:

$$r_t = \ln\left(\frac{p_t}{p_{t-1}}\right) = \beta_0 + \beta_1 M_t + \beta_2 I_t + \sum_{i=1}^{k} \alpha_i D_i + \varepsilon_t$$

where r is the daily return (i.e., logarithmic percent change) of the stock price, M is the return on a market index, such as the S&P 500 Index or the Dow Jones Index, I is the return on an industry index (e.g., S&P Telecom Index), and the t subscript denotes the t^{th} day. $D_1 \ldots D_k$ are k day-dummy variables—that is, they are binary

14. *Id.* at 342–46.

15. *Id.* at 343.

16. *See, e.g.*, Jonathan R. Macey, Geoffrey P. Miller, Mark L. Mitchell & Jeffrey M. Netter, *Lessons from Financial Economics: Materiality, Reliance, and Extending the Reach of* Basic v. Levinson, 77 Va. L. Rev. 1017, 1028–42 (1991).

17. *See generally* John Y. Campbell, Andrew W. Lo & A. Craig MacKinlay, The Econometrics of Financial Markets 149–80 (1997).

18. Macey et al., *supra* note 16, at 1032, 1036–37.

variables, each taking the value of one for the day at issue and a value of zero for all other days.[19] These days may be the days of the alleged misrepresentations or days of the corrective disclosures.

The estimated coefficient of the i-th day dummy, $\hat{\alpha}_i$, is a measure of the market and industry-adjusted return, in short the "abnormal return" on the i-th day.[20] The t-statistics for $\hat{\alpha}_i$ provide statistical evidence on whether the price move on the i-th day, after controlling for market and industry factors, is explained by random chance or by firm-specific news. A sufficiently large value of the t-statistics (generally greater than 1.96 in absolute value for a 95% level of confidence) allows the investigator to conclude that the estimated abnormal return on the i-th day cannot be explained by chance alone and is therefore attributable to firm-specific news.[21] Thus, this analytical framework has obvious implications for both loss causation and materiality.

There are a number of important generic issues that must be considered in undertaking a rigorous event study analysis: proper choice of an industry index; the length of the "event-window"; the possible "trickling" out to the market of the fact that there had been a misrepresentation; and confounding events.

1. Proper Choice of an Industry Index

In selecting an appropriate industry index, it is important to pay particular attention to which firms are truly "comparable" in terms of their line of business and hence should be included in the industry index. The magnitude and the statistical significance of the $\hat{\alpha}_i$-s (i.e., the size and significance of the abnormal returns) can be highly sensitive to the choice of the industry comparables. The information source for the selection of firms to be used as industry comparables can include the firm's own financial filings (10-K, 10-Q), equity analysts' reports, and the constituents of widely-used industry indexes, such as the Dow Jones Internet Index or the S&P Telecom Index.

2. The Length of the "Event Window"

The $D_1 \ldots D_k$ can be single-day dummy variables, or two-day or three-day or even five-day dummy variables. It often makes sense to use multiple-day dummy variables because of possible "overreaction" in the market to a corrective disclosure. There is a substantial finance literature documenting that, in some circumstances, there appears to be market "overreaction" to certain disclosures and that it might take the market some time to "digest" fully and accurately the implications of a correc-

19. *See, e.g.*, Nihat Aktas, Eric de Bodt, Jean-Gabriel Cousin, *Event Studies with a Contaminated Estimation Period*, 13 J. Corp. Fin. 129–45 (2007).

20. This framework is analytically equivalent to estimating the model

$r_t = \ln\left(\frac{p_t}{p_{t-1}}\right) = \beta_0 + \beta_1 M_t + \beta_2 I_t + \varepsilon_t$ using all of the observations except the k-dummied days and the forecast for these k days.

21. *See* Campbell et al., *supra* note 17, at 166.

tive disclosure, such as an accounting restatement.[22] The market may correct for the "overreaction' over the course of several days, which would suggest the need to dummy out not only the day of the corrective disclosure but one or two days post-corrective disclosure as well. Alternatively, there can be "leakage" of news about the disclosure before the actual official corrective disclosure, suggesting, in some cases, the need to dummy the day or days prior to the actual corrective disclosure.

3. Post-Disclosure "Trickle" Effect

Corrective disclosures can occur over a protracted period of time, i.e., the truth gradually "trickles" out into the market. As a result, while a single day's abnormal return may not be significant, the cumulative effect on the firm's stock over the entire corrective disclosure period may be. To examine such a hypothesis, one can test the significance of $\hat{\alpha}_1 + \ldots + \hat{\alpha}_m$, assuming the disclosure period spans m days.

4. Confounding Events

On a corrective disclosure day, there may be a disclosure event as well as firm-specific news unrelated to the alleged fraud. In that case, the estimated abnormal return on that day $\hat{\alpha}_i$, measures the combined effect of the disclosure and the unrelated firm-specific news. This confounding effect problem is exacerbated when using multi-day event windows as the longer the event window the more likely it is that confounding events occurred. Potential ways of dealing with this problem include (a) deletion of confounded days from the event study; and (b) the use of intra-day data.

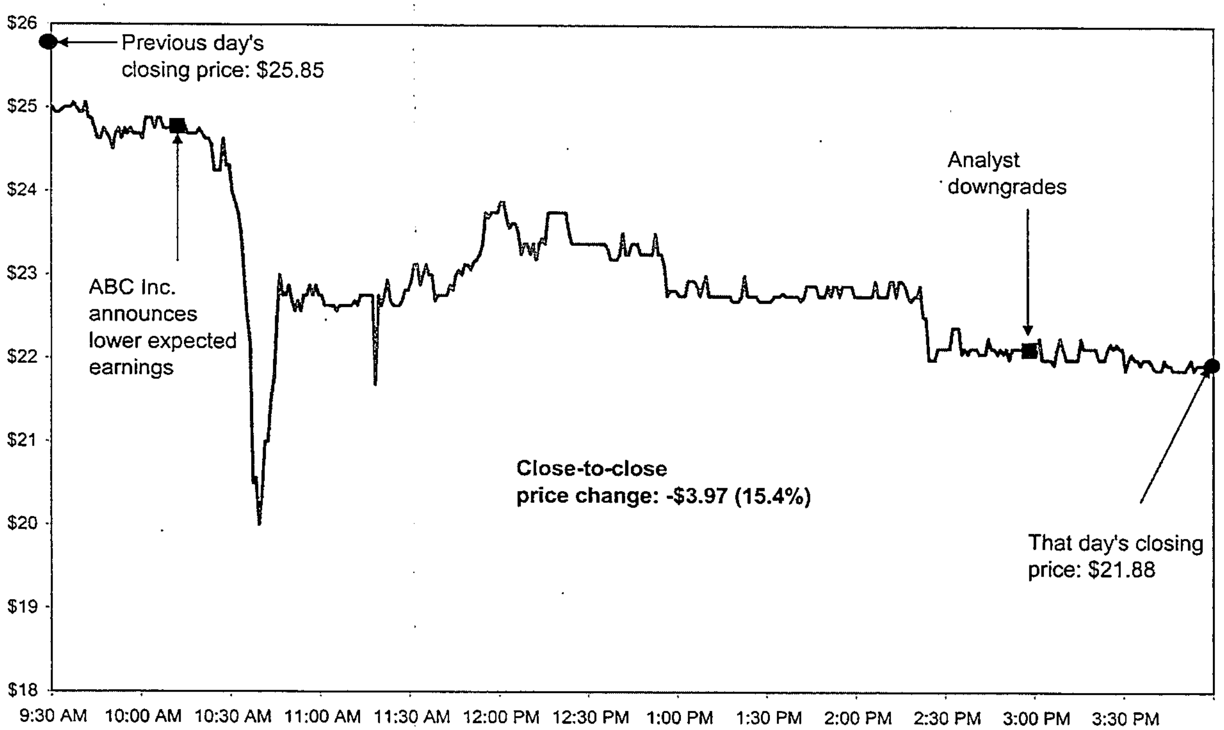
Deletion of confounded days from the event study, while sometimes necessary, incurs the cost of removing potentially relevant information. The use of intra-day data can sometimes avoid this problem. In Figure 2 we illustrate the usage of intra-day data to disentangle the effects of two confounding events. The hypothetical data used in this figure is very similar to the actual NYSE TAQ data of a publicly traded firm; we call the firm ABC. Suppose in this litigation, the plaintiffs' class alleged that an investment bank's analyst artificially propped up the share prices of ABC by providing overly optimistic ratings and target prices. Also suppose the plaintiffs alleged that disclosure occurred over a series of days in which the analyst lowered the ratings of ABC. The share price movement on such a "disclosure" day, during which the analyst downgraded his recommendation of ABC, is depicted in Figure 2.

In this example, ABC's prices moved down by 15.4%, falling from the previous day's close of $25.85 to $21.88 on that day. Event study analysis, based on close-to-close price change, shows that day's price drop to be statistically significant.

22. *See generally, i.e.*, Georgina Benou & Nivine Richie, *The Reversal of Large Stock Price Declines: The Case of Large Firms*, 27 J. Econ. & Fin. 19 (2003); Navin Chopra, Josef Lakonishok & Jay R. Ritter, *Measuring Abnormal Performance: Do Stocks Overreact?*, 31 J. Fin. Econ. 235 (1992); Marc Bremer & Richard J. Sweeney, *The Reversal of Large Stock-Price Decreases*, 46 J. Fin. 747 (1991).

Figure 2

Intra-Day Share Prices of ABC Inc.



Thus, based purely on daily price change one may erroneously conclude that the analyst's downgrade had a statistically significant negative impact on ABC's share price.

However, examination of the intra-day data leads to a wholly different conclusion. As shown in Figure 2, the analyst did not downgrade ABC until 3:00 PM that day. At 10:15 AM on the very same day, ABC announced that it expected next quarter's and year's earnings to be lower. As is clear from the figure, the price reaction to that negative earnings news was sharp and immediate. By the time the analyst downgraded the stock later that afternoon, more than 14% of the total 15.4% price drop had already occurred. After the analyst's downgrade, ABC's prices moved by a statistically insignificant negative 1% for the rest of the trading day.

In this example, while the day's return is statistically significant, examination of the intra-day data allows one to disentangle the confounding effects of the two events, and conclude that the effect of the corrective disclosure was not significant. In contrast to the overreaction effect, consideration of confounding events emphasizes the advantage of using a shorter event window when possible. Thus, damages experts need to be judicious in choosing the length of the event window. In the end this decision may well turn on a balancing act between capturing the full-impact of the disclosure (allowing for the correction for overreaction) and avoiding the contamination of confounding events.

III. When Does a Corrective Disclosure Occur?

1. The Requirement that There Be a Corrective Disclosure

The *Dura* court explained that the plaintiffs' failure to identify a fall in stock price "after the truth became known" to the market indicated a lack of loss causation.[23] The "truth" the Court is referring to is the revelation to the market of the actionable misconduct that forms the basis for the Rule 10b-5 cause of action.[24] For example, if an investor, who purchases at an inflated price because of a misrepresentation, "sells the shares quickly before the relevant truth begins to leak out, the misrepresentation will not have led to any loss."[25] The Court noted that a price decline does not result in recoverable damages if the decline is due to changes in "economic circumstances, changed investor expectations, new industry-specific or firm-specific facts, conditions, or other events . . . ."[26] Some federal circuit courts have rightfully emphasized this language in *Dura* indicating the need for a corrective disclosure as a prerequisite to establishing loss causation.[27]

23. *See* Dura Pharms., Inc. v. Broudo, 544 U.S. 336, 347 (2005).
24. *See id.*
25. *See id.* at 342.
26. *Id.* at 343.
27. *See, e.g.*, Glaser v. Enzo Biochem, Inc., 464 F.3d 474, 479 (4th Cir. 2006) ("It is only after the fraudulent conduct is disclosed to the investing public, followed by a drop in the value of the stock, that the hypothetical investor has suffered a "loss" that is actionable after the Supreme Court's decision in *Dura*.").

Some commentators, plaintiffs' damage experts, and courts have argued that despite this language in *Dura,* in-and-out traders—investors who purchase and sell after the misrepresentation but *prior* to any "corrective disclosure" or the "truth" of the earlier misrepresentation becoming known—should still be able to recover damages in some circumstances.[28] The basis for their conclusion is often what is called the "market forces operating on the fraud" theory.[29] They believe that in-and-out traders can prove loss causation in certain circumstances.

Consider the following situation. Suppose a widget manufacturer fraudulently states that it has spare capacity to build additional widgets so as to meet the market's demand for widgets in the event that demand for widgets increases. The stock price of the manufacturer increases, say from $80 to $100, as the market places a certain positive value on having spare capacity for producing widgets. Immediately after the fraudulent statement, an investor purchases shares in the widget manufacturer at $100. Subsequent to the purchase, the European Union imposes a tariff on widgets which substantially reduces the market's demand for widgets and thereby decreases the value of having spare capacity. As a result, the value of the investor's shares drops from $100 to $90 (in other words, the value of having spare capacity drops from $20 to $10). After the imposition of the tariff, the investor sells her shares. At no time does the market learn that the widget manufacturer's statement about having spare capacity is false. Did the fraudulent statement cause economic losses to the investor? More specifically, can the investor recover the amount of the disinflation—the difference between inflation at the time of purchase and inflation at the time of sale—which, in this example, is $10 ($20–$10)?

Employing the "market forces operating on the fraud" theory, some commentators would argue that this investor did suffer recoverable damages. The investor had to pay an inflated price for the shares initially as a result of the combined effect of the false statement concerning spare capacity and the market's value on having spare capacity at the time of purchase, and had to sell the shares at a less inflated price as a result of the European Union's tariff lowering the market's value on having spare capacity at the time of sale.[30]

28. *See, e.g.*, Madge S. Thorsen, Richard A. Kaplan & Scott Hakala, *Recovering the Economics of Loss Causation*, 6 J. Bus. & Sec. L. 93, 105–06 (2006) (finding that the theory is "rooted in thirty-year old legal precedent [and] sound economic theory" but recognizing that "it is controversial after *Dura*"). The several district courts that have considered whether in-and-out traders can show loss causation have been divided on the issue. *Compare In re* Bally Total Fitness Sec. Litig., No. 04C3530, 2005 WL 627960, at *5–6 (N.D. Ill. Mar. 15, 2005) (refusing to appoint as lead plaintiff an in-and-out trader who would need "to use considerable resources to establish" loss causation); Arduini/Messini P'ship v. Nat. Med. Fin. Servs. Corp., 74 F. Supp. 2d 353, 360–61 (S.D.N.Y. 1999) (holding that in-and-out traders cannot establish loss causation), *with* Montoya v. Mamma.com Inc., No. 05 Civ. 2313(HB), 2005 WL 1278097, at *2–3 (S.D.N.Y. May 31, 2005) (appointing a group that included in-and-out traders as lead plaintiff); *In re* Bearingpoint, Inc. Sec. Litig., 232 F.R.D. 534, 544 (E.D. Va. 2006) ("Moreover, it is also conceivable that the inflationary effect of a misrepresentation might well diminish over time, even without a corrective disclosure, and thus in-and-out traders in this circumstance would be able to prove loss causation.").

29. *See, e.g.*, Wool v. Tandem Computers Inc., 818 F.2d 1433, 1436–38 (9th Cir. 1986).

30. *See* Thorsen, Kaplan & Hakala, *supra* note 28, at 105–06.

Several observations based on *Dura* in assessing this argument are in order. First, the "market forces operating on the fraud" theory ignores the language in *Dura* about the need for the truth concerning the misrepresentation to become known in order for there to be loss causation. Under the theory, there are recoverable damages even if the market never learns (as in the example), directly or indirectly, of the actionable misconduct that forms the basis for Rule 10b-5 liability. Second, the theory severely limits the language in *Dura* about how there is no loss causation in a situation in which an investor sells his or her shares after purchase but before disclosure of the truth. If one accepts the "market forces operating on the fraud" theory, then that language in *Dura* must be confined to the highly unusual situation of instantaneous purchases and sales. If any time elapses between the purchase and sale then, according to the "market forces operating on the fraud" theory, recoverable damages might well exist. Third, such an approach ignores the discussion in *Dura* about how price declines from market and industry changes do not give rise to recoverable damages. According to the "market forces operating on the fraud" theory, market and industry changes, such as a change in the value placed by the market on spare capacity, can quite readily give rise to recoverable damages even in the absence of a corrective disclosure concerning the actionable misconduct.

Putting *Dura* aside, what about the economics of the situation described in the hypothetical? Has not such an investor suffered a loss, in an economic sense, from the fraudulent statement? The answer turns on whether one looks at the situation ex post or ex ante. Ex ante the investor is as likely to be the beneficiary of changes in the market's valuation placed on spare capacity as it is that the investor will incur losses as a result of a change. In the hypothetical, the investor would have gained if the market placed a greater value on having spare capacity (for whatever reason) between the time of purchase and sale. Indeed, an investor might have purchased the stock betting that this would happen. It is unclear why the securities laws should provide a put option for investors (i.e., bailing investors out when their bets turn out poorly) who speculate on changes in general market conditions when, as in the hypothetical, there has not even been a corrective disclosure to establish the necessary link between economic loss and the actionable misconduct.

2. What Constitutes a "Corrective Disclosure"?

Consider another hypothetical. A company misstates its financial statements and subsequently issues a downward revision of its earnings projection. Many months after the dissemination of the lowered earnings projection the company discloses the need to restate its financials. When did a "corrective disclosure" occur? Did the "truth" about the financial misstatements become "known" at the time of the downward earnings projection or at the time of the disclosure of the need to restate? To raise the stakes, further suppose that there was a statistically significant negative abnormal stock return associated with the downward earnings projection but there was none associated with the disclosure of the need to restate the financials. Indeed, this hypothetical is not so different from the fact situation in *Dura* itself in which the class period ended on the day Dura Pharmaceuticals released lower than forecasted revenues and lower earnings per share estimates—a day on which Dura's stock price fell approximately 47%.[31] In contrast, Dura Pharmaceuticals' price moved only modestly on the day that the FDA denied approval of the asthmatic spray device.[32]

The U.S. Court of Appeals for the Fifth Circuit in *Greenberg v. Crossroads Systems, Inc.*[33] addressed this issue most directly. The Fifth Circuit held that there was no loss causation in such a situation given that the earnings projection did "not report any concern that [the company's earlier earnings statements] may be incorrect."[34] But what about other circuits which have not squarely addressed when downward earnings projections can constitute the moment at which the "truth" about the earlier financial misstatements became, at least partially, revealed? What is the proper application of the loss causation requirement and *Dura* to this issue?

The issue of when negative stock price reactions to downward earnings projections can form the basis for establishing loss causation is often quite important both in its own right as well as for raising the general issue of whether a disclosure constitutes a "corrective disclosure" with respect to earlier misstatements when the disclosure does not directly indicate that the earlier statements were in fact false. One common claim is that a disclosure should be deemed a "corrective disclosure" when that disclosure reveals the "true financial condition" of the company that was being concealed by the earlier misstatement.[35] According to this approach, the "fact that no wrongdoing or error has been identified is unimportant...the company's true performance [ ] has entered the market and the market will react to that."[36]

The "true financial condition" theory, like the "market forces operating on the fraud" theory, is problematic. Any negative firm news, such as a downward earnings projection, can contain important information as to the true value of the firm and in that sense a downward-adjusted earnings projection can reveal the "true financial condition" of the firm. However, without a concrete reason to link the negative stock market reaction associated with the earnings projection (or whatever the negative news happens to be) to the removal of the inflation in the stock price caused by the actionable misconduct, such as a misstatement of the financials, loss causation is lacking. In the downward-adjusted earnings projection hypothetical, for example, there is the possibility that if the timing of the intent to restate and the timing of the downward-adjusted earnings projection had been switched, we would have observed exactly the same stock price reactions (significant negative stock market reaction to the earnings projection and none to the intent to restate). This would suggest that the market's reaction to the earnings

31. *See* Respondents' Brief at 1a, Dura Pharms., Inc. v. Broudo, 544 U.S. 336 (2005) (No. 03-932).
32. *See id.*
33. 364 F.3d 657 (5th Cir. 2004).
34. *Id.* at 668.
35. *See* Thorsen, Kaplan & Hakala, *supra* note 28, at 102–03.
36. *See id.*

projection was negative not because of the removal of inflation caused by the misrepresentation, but because of the implications of the earnings projection for the firm's future cash flows irrespective of the earlier misrepresentation.

It is worth emphasizing that if the downward-adjusted earnings projection had in fact indicated a concern with the veracity of the earlier stated financials, then there would have been a concrete reason to connect the negative market reaction associated with the downward-adjusted earnings projection to the removal of inflation caused by the misstated financials. Alternatively, if market analysts had called into question the earlier financials as a result of the earnings projection, then there likewise would have been a concrete reason to connect the negative stock market reaction to the removal of inflation caused by the misstated financials.[37] Without the requirement of establishing such a concrete connection, the "true financial condition" theory removes much of the disciplining effect of the loss causation requirement. One could merely label the firm disclosure associated with the largest negative abnormal stock return reaction as the "corrective disclosure," as such disclosure reveals the "true financial condition" of the company, and thereby generate the largest possible securities damage estimates.[38] It is interesting to note that the "market forces operating on the fraud" theory ensures that negative market changes are ready candidates for establishing loss causation, while the "true financial condition" theory ensures that disclosures of negative firm news are likewise ready candidates.

The "true financial condition" theory sometimes arises in the context of the Second Circuit's "zone of risk" test for loss causation. In *Lentell v. Merrill Lynch & Co. Inc.*, the Second Circuit explained that the loss causation question is whether "the loss was within the zone of risk *concealed* by the misrepresentations and omissions, ..."[39] If one characterizes the "zone of risk" that was concealed by a misrepresentation or omission, say a misstatement of the firm's financials, as the risk of investing in the company, then losses resulting from almost any subsequent negative news about the firm, such as a downward-adjusted earnings projection, can be said to be "caused" by the misrepresentation or omission under the "zone of risk" test. This characterization of the "zone of risk" is in reality just another version of the "true financial condition" theory of loss causation and therefore likewise also effectively vitiates the loss causation requirement.

A proper interpretation of the Second Circuit's "zone of risk" test for loss causation, consistent with *Dura*, is to require that there be a corrective disclosure in the sense that new information reaches the market that unveils earlier actionable

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37. In *In re Daou Systems, Inc. Securities Litigation*, 411 F.3d 1006, 1025–26 (9th Cir. 2005), *cert. denied sub nom.* Daou Systems, Inc. v. Sparling, 546 U.S. 1172 (2006), an analyst questioned the veracity of earlier statements by a firm, including its earlier financials, based on a quarterly earnings report that did not meet expectations.

38. As the district court explained in *In re Motorola Securities Litigation*,---F. Supp. 2d---, No. 03 C 287, 2007 WL 487738, at *34 (N.D. Ill. Feb. 8, 2007), the standard for determining when a disclosure constitutes a corrective disclosure "cannot be so lax that every announcement of negative news becomes a potential 'corrective disclosure.'"

39. 396 F.3d 161, 173 (2d Cir.) (emphasis in original), *cert. denied*, 546 U.S. 935 (2005).

misconduct. In the absence of such a corrective disclosure, the negative firm news, and the associated losses, should not be considered within the "zone of risk" concealed by the actionable misconduct. The reason for this is simple. Without imposing a requirement that there be a corrective disclosure in defining the "zone of risk," one runs the risk that the loss causation requirement would have been deemed satisfied even if there would have been the same negative price market reaction to the negative news without the conduct that ran afoul of Rule 10b-5. And it is the earlier misconduct, it must be remembered, that forms the basis for liability in the first place.

3. Post-Corrective Disclosure Stock Price Movements

Class membership in a securities class action suit often covers purchasers of stock between the date of the alleged misrepresentation (or the date of the first alleged misrepresentation) and the date of the "corrective disclosure" on which the market learns the truth about the misrepresentation (or the earliest date by which the full truth about the fraud is revealed).[40] Operationally, the "corrective disclosure" date identified by plaintiffs' counsel is often a date on which there is a large stock drop purportedly because of the market learning the truth about the earlier fraud.[41]

An important issue that often arises in estimating securities damages concerns stock price movements in the period immediately following the corrective disclosure date identified by the plaintiffs. In a number of circumstances, the stock price of the firm recovers, at least partially, in the immediate post-corrective disclosure period.[42] The question post-corrective disclosure stock price movements raise is what impact, if any, do these movements have on damages per share calculations in light of the Supreme Court's decision in *Dura*? It is important to emphasize that this issue is analytically distinct from the "cap" on damages contained in section 21D of the Securities Exchange Act of 1934, which limits damages to the average trading price of the security in the 90-day period following the corrective disclosure.[43] The issue here is not what the applicable "cap" on damages is, but rather what are in fact the damages.

If the stock price reaction in the days, weeks, and months following a corrective disclosure is a result of the market inferring additional information about the implications of a misrepresentation for the firm's valuation, then these stock price movements occurring after the corrective disclosure date identified by the plaintiffs should analytically be additional corrective disclosures. That is, the full truth

40. *See, e.g.*, Consolidated Amended Securities Class Action Complaint at 2, *In re* Royal Ahold N.V. Sec. & ERISA Litig., Civil No. 1:03-MD-01539 (D. Md. Feb. 18, 2004); Amended Class Action Complaint at 23, Ohio Pub. Employees Ret. Sys. v. Freddie Mac, Civil No. C2-03-711 (S.D. Ohio Jan. 15, 2004).

41. *See, e.g.*, *id.*

42. *See, e.g.*, *id. See also infra* Figure 3 for an illustration of Ahold share prices.

43. *See* Section 21D of the Securities Exchange Act of 1934, ch. 404, § 21D, 48 Stat. 881 (codified as amended at 15 U.S.C. § 78u-4(e) (2000)), as added by PSLRA, *supra* note 3, § 101(b), 109 Stat. at 748–49.

concerning the misrepresentation was revealed to the market on a series of dates. This can have important implications for securities damages.

Suppose, for instance, the market believes that an accounting restatement is indicative of deeper, as of yet undisclosed, problems at a firm. Then the market's reaction to a firm's restatement of its financials will reflect the expected negative effects of those undisclosed problems (perhaps, for instance, expected further accounting restatements) in addition to any negative implications for firm value of the initially misrepresented numbers. If no such problems are disclosed, then as time passes the market might view those hidden problems as less and less likely, resulting in positive stock price changes in the period following the disclosure of the financial restatement. In other words, the non-disclosure of additional problems itself can constitute new information to the market (no news is good news) that should be considered in evaluating the total harm caused by the initially misrepresented financials. Since nondisclosure of further bad news can itself constitute important positive information about the implications of misstated financials on firm value, the dissemination to the market of the full implications of the misrepresentation for firm value does not necessarily occur solely on the date of the disclosure of the true financials.

On a similar note, the disclosure of the misrepresentation can be partial. For example, suppose a firm simply announces that it will restate its prior years' financials without quantifying the extent of the restatement. Often a firm's share price falls, in many cases quite sharply, merely in response to the announcement of a restatement. Typically, the class action plaintiffs end the class period on the day of the announcement of the intent to restate. That is, they argue that the share price on the day of the announcement reflects the "fair value" of the stock and should be used in calculating damages. However, in this example, the restatement announcement, although "corrective," is by no means a full disclosure. In the subsequent weeks and months the firm may provide further details about the extent of the restatement and full disclosure occurs only after the firm finalizes its restatement. Of course, whether the stock price reaction is negative or positive in response to the additional disclosures depends on the market's prior expectation of the probability and type of likely disclosures by the firm.

In this context, the Ahold Securities litigation is illustrative. On February 24, 2003, Ahold announced that it would restate its financials for the period 2000–2002. In response to that news, Ahold share prices[44] fell by 61 percent—dropping from $10.69, the previous day's closing price, to $4.16 on the day of the announcement.[45] In the ensuing Ahold securities litigation, the plaintiffs filed a complaint with the class period ending on February 24, 2003—the day of the restatement announcement.[46]

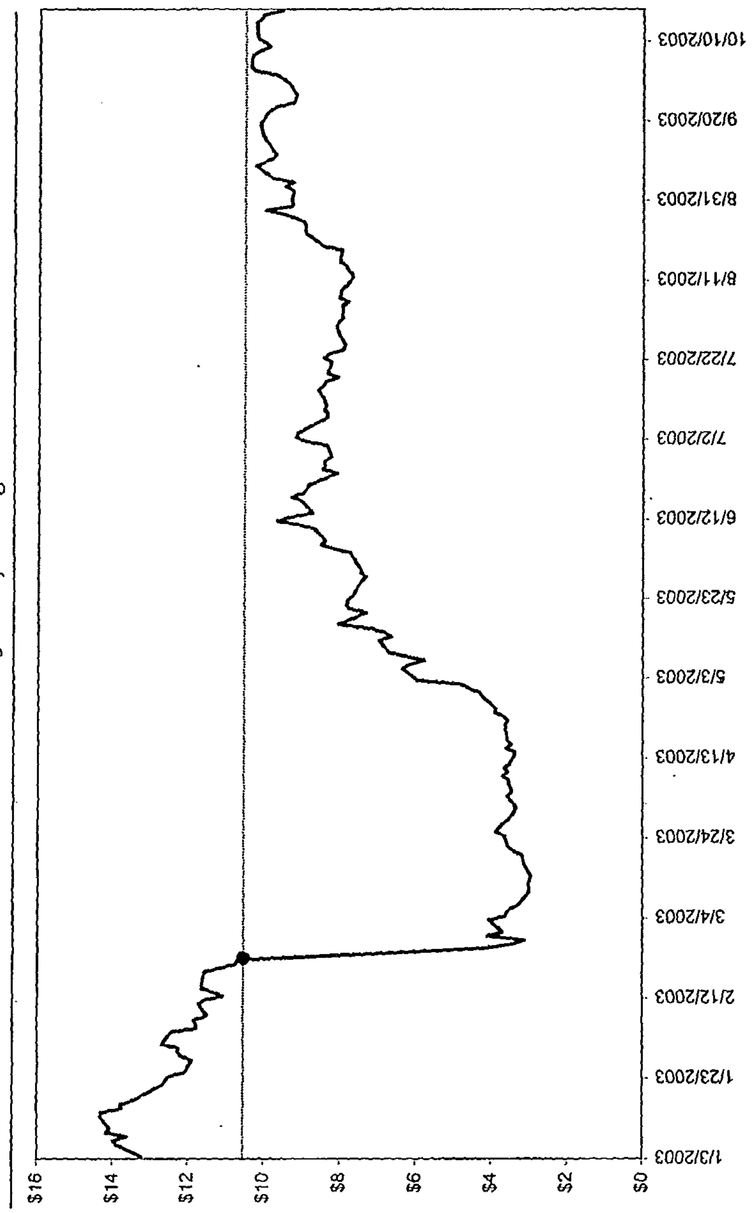
44. Ahold is traded as an ADR in the U.S. equity market.

45. We believe that the large price impact reflects, in part, the market's "overreaction" to news about financial restatements in the post-Enron environment.

46. *See* Consolidated Amended Securities Class Action Complaint at 2, *In re* Royal Ahold N.V. Sec. & ERISA Litig., Civil No. 1:03-MD-01539 (D. Md. Feb. 18, 2004).

Figure 3

Share Prices of Ahold: January through October 2003



However, as is evident from Figure 3, Ahold share prices continued to rebound as the company provided more news about the extent of the restatement in the subsequent months: on August 8, 2003, it announced that the net income restatement amount for the years 1998 through 2002 would be $880 million; on July 1, it further revised the restatement estimate to $1.2 billion; finally, on October 17, 2003, the company filed the restated financials with the U.S. Securities and Exchange Commission ("SEC") on a Form 20-F.[47] On that day, Ahold shares closed at $9.56, only 11% or $1.13 lower than the price prior to the first restatement announcement.[48] Here the critical question is what is the impact of the curative disclosures? From the plaintiffs' point of view the impact is $6.53, which is the 61% drop on February 24, 2003. However, if one recognizes that the time frame of the corrective disclosures spans the entire period between February 24, 2003 through October 17, 2003, and that full disclosure did not take place until the latter date, then the corrective disclosure impact[49] is only $1.13, the difference between the price on February 21, 2003 (the day before the first disclosure) and on October 17, 2003. Needless to say, the difference in the quantification of the impact of the curative disclosures has nontrivial implications for class-wide damages.

IV. Allocation of Inflation to Different Shares

An important distinction to bear in mind in allocating the artificial inflation in stock price to shares purchased at different points in time within the class period is the difference between the class period and the damage period. This is a distinction that is frequently overlooked despite its often important implications for the measure of damages. The distinction is best conveyed through the use of an example.

Suppose that a pharmaceutical company called Dura II truthfully announces that it expects that the FDA will soon grant approval to its new asthmatic spray device. Dura II learns several years later, however, that the FDA, after conducting an extensive examination of the device, is in fact unlikely to approve. When the firm learns of that fact it withholds the information but months later does announce the FDA's actual denial of the asthmatic spray device. Upon the announcement of the denial, Dura II's share price drops substantially. Plaintiffs' counsel, in such a situation, would typically extend the class period from the time of the negative announcement back to the day on which the firm had announced the prospects of likely approval. But, in the absence of a crystal ball, the firm could not have known on that day what it later learned. So despite the losses, perhaps considerable, for those shareholders who purchased upon the firm's announcement of likely approval, damages should exist only for those shareholders who purchased in the time period between when the firm had a legal duty to disclose

47. *See id. at* 113–57. The Ahold ADR price data used in Figure 3 is from Bloomberg LP.
48. *See id.*
49. Here, in the interest of simplicity, we are discussing the "raw" price difference without accounting for market or industry factors.

the FDA's likely denial (and hence arguably engaged in actionable misconduct because it did not promptly disclose) and the announcement of the denial.

Drawing a distinction between the class period and the damage period is faithful to *Dura's* emphasis on focusing on whether actionable misconduct, such as a misrepresentation or a fraudulent nondisclosure, caused economic harm to shareholders. In the pharmaceutical company hypothetical, the economic loss suffered by shareholders who purchased upon the initial positive announcement was not caused by the actionable misconduct, which is the fraudulent nondisclosure of the FDA's likely denial. The actionable misconduct therefore cannot be said to have caused the loss suffered by shareholders who purchased upon the initial positive announcement which, after all, occurred earlier in time. Put slightly differently, there was no inflation in the pharmaceutical's stock price at the time of the positive announcement as the firm at that point had not engaged in fraudulent conduct that would have given rise to Rule 10b-5 liability. To allow the investors who purchased at that point to recover their economic losses would "effectively convert Rule 10b-5 into a scheme of investor's insurance."[50]

Another important aspect of allocating the inflation, as proxied by the market's reaction to the corrective disclosure, to shares purchased at different times is the issue of apportionment of the harm resulting from multiple misrepresentations. Suppose that there is a substantial stock price drop in response to a firm announcing it will restate its financials for the prior years. Assume also the price drop can be attributed to the market removing the inflation in stock price because of a series of misrepresentations (i.e., prior years' financials) that had previously occurred. It is analytically obvious that one cannot use the entire price drop on the announcement day to measure inflation in stock price throughout the damage period because the price drop is the cumulative effect of the disclosure of a series of prior misrepresentations. To do so would result in a gross overestimation of damages. The critical challenge then becomes apportioning the cumulative inflation (as represented by the stock price drop in this example) to shares purchased in different periods. Indeed, this problem is sufficiently serious that it suggests, in some circumstances, that damages experts should not use the stock price drop in reaction to a restatement announcement covering multiple years to approximate the price inflation during the damage period, but should "forward-cast" when feasible. We revisit this issue in greater detail in Part VI.

V. Collateral Damage

Dividing misrepresentations, such as accounting misstatements, into two categories is helpful in thinking about which types of representations can legally give rise to recoverable damages. In the first category are misstatements that have direct implications for the current and future cash flows of a firm or the rate at which

50. Dura Pharms., Inc. v. Broudo, 544 U.S. 336, 345 (2005) (internal quotation marks omitted) (quoting with approval Basic Inc. v. Levinson, 485 U.S. 224, 252 (1988) (White, J., concurring) (internal quotation marks and citation omitted)).

those cash flows will be discounted. For instance, if a firm overstates its cash-flow generating assets on its balance sheet, that might artificially inflate expectations about the *future* cash flows of the business. Given that share prices, in an efficient market, are the discounted cash flows of the firm,[51] that overstatement would inflate the price of the stock all else being equal. There is, however, a second category of misstatements: those that do not have any bearing on the future cash flows of the firm or the discount rate that should apply to those cash flows when calculating the cash flows' present value. One possible example of such a misstatement might be an accounting statement by a firm that falsely states that the firm has $100 more in cash than it really does while falsely understating, in the same statement, the firm's corporate holdings of U.S. treasury bonds by an equivalent amount, $100.

There are three different doctrinal categories under which to analyze the second type of misstatement: loss causation, reliance, and materiality. The reasoning, whatever doctrinal category is employed, consistently points to a lack of recoverable damages. Consider, first, whether there is loss causation. Section 21D of the Securities Exchange Act of 1934 requires that the "act or omission of the defendant alleged to violate [section 10(b)] caused the loss for which the plaintiff seeks to recover damages."[52] This provision clearly indicates that the actionable Rule 10b-5 misconduct, i.e., the misstatement of corporate holdings, must cause the economic loss alleged by plaintiffs. Or as the U.S. Court of Appeals for the Seventh Circuit put it, "[t]o plead loss causation, the plaintiff must allege that it was the very facts about which the defendant lied which caused its injuries."[53] Given the fact that the overstatement of cash reserves exactly equals the understatement of U.S. treasury bonds (a highly liquid asset), it is difficult to argue that the misstatement or the revelation of the truth had any implications for the future cash flows of the firm or the applicable discount rate.

We can also analyze the issue, not in loss causation terms, but in terms of whether one can use the fraud-on-the-market theory to establish "reliance" (another necessary element for a Rule 10b-5 cause of action) on the misstatement. That was the approach adopted by the U.S. Court of Appeals for the Fifth Circuit. In *Greenberg v Crossroads Systems, Inc.*, the Fifth Circuit explained that "plaintiffs cannot trigger the presumption of reliance by simply offering evidence of any decrease in price following the release of negative information. Such evidence does not raise an inference that the stock's price was actually affected by an earlier release of positive information."[54] The question in the cash reserve example is whether there is any reason to believe that the misstatement constituted "positive information" that increased the firm's stock price above what it otherwise would have been if the correct holdings had been provided to the market. To posit such

51. *See* Maurice E. Stucke, *Behavioral Economists at the Gate: Antitrust in the Twenty-First Century*, 38 LOY. U. CHI. L.J. 513, 534 (2007).

52. *See* Section 21D of the Securities Exchange Act of 1934, ch. 404, § 21D, 48 Stat. 881 (codified as amended at 15 U.S.C. § 78u-4(b)(4) (2000)), as added by PSLRA, *supra* note 3, § 101(b), 109 Stat. at 747.

53. Caremark, Inc. v. Coram Healthcare Corp., 113 F.3d 645, 648 (7th Cir. 1997).

54. 364 F.3d 657, 665 (5th Cir. 2004).

a reason one would have to explain, as was the case when considering loss causation, how knowing the truth would have affected the market's expectation of the firm's future cash flows or the appropriate discount rate.

Finally, the same conclusion can be reached using instead the language of "materiality" (yet another necessary element for a Rule 10b-5 cause of action). Some circuits, such as the U.S. Court of Appeals for the Third Circuit in *Oran v. Stafford*,[55] have taken the position that in the context of an efficient market, if a misstatement does not artificially inflate the price of a stock, then the statement is not "material." Again, in the absence of a reason to believe that the misstatement impacted the market's expectations of the firm's cash flows or the applicable discount rate, the misstatement is necessarily immaterial as it would not have affected the stock price as an initial matter.

But suppose that the stock price dropped in reaction to a corrective disclosure that a firm had been misstating its holdings in the past. And further suppose that, using an event study, one concludes that the association of the negative stock reaction with the disclosure announcement is statistically significant. Does the mere fact of a price reaction to a disclosure announcement indicate that the misstatement (in the example, the misstatement concerning the corporate holdings) somehow affected expectations about cash flows and discount rates and is therefore in fact in the first category of statements which can give rise to recoverable damages? Such a conclusion would be premature.

It is possible to account for a negative price reaction associated with the corrective disclosure without assuming that the misstatement artificially inflated the stock price. The corrective disclosure can create negative stock price reactions because of what we will label "collateral damage." The presence of "collateral damage" is entirely consistent with the misstatement not inflating the price of the stock at the time the misstatement was made. By way of illustration we will consider two types of "collateral damage," both of which might well occur as a result of the disclosure of an accounting restatement necessitated by the misstatement of corporate holdings: reassessment of the quality of a firm's management or internal controls; and possible disruptive legal action.

a. Reassessment of a Firm's Management or Internal Controls

An example of collateral damage would be investors revaluing a firm not as a result of the information contained in the corrective disclosure contradicting the (false) representation made earlier, but rather as a result of a reassessment (perhaps only temporary) of how well the firm is run. Upon the announcement of the need for an accounting restatement, investors might infer that the quality of the firm's management and internal controls are lower than they had previously believed and revalue the firm downward accordingly. For example, investors might infer that the firm's internal controls are less rigorous than they had previously believed given the fact that false statements somehow made it into the firm's ac-

55. 226 F.3d 275, 282 (3d Cir. 2000).

counting statements. Such an inference could result, for example, in a reduction in firm value if investors placed some importance on the quality of the firm's internal controls in generating future cash flows.

However, this explanation for the stock price decline associated with a corrective disclosure is consistent with the original misstatement not artificially increasing the stock price (and hence the misstatement not causing economic losses á la *Caremark* or not creating reliance by inflating stock prices á la *Crossroads* or not being material by inflating prices á la *Oran*). If the original fraudulent accounting statement only contained information, albeit false, about corporate holdings then there was no statement, let alone a misstatement, about the quality of the firm's management or its internal controls. And it is only the actionable fraudulent statement that gives rise to potential Rule 10b-5 liability, i.e., the misstatement of corporate holdings, and only if that statement caused the stock price to be artificially inflated. There is no general duty to disclose, for instance, that the management of a firm or the quality of the firm's internal controls are not the same as those expected by the market. The U.S. Supreme Court succinctly captured this point when it flatly stated, "Silence, absent a duty to disclose, is not misleading under Rule 10b-5."[56]

The critical point is that the economic losses suffered by investors must be traceable to whatever misconduct is actionable under the federal securities laws, and not merely to the dissemination of information unrelated to the fraud. This later category includes information relating to conduct that might be actionable under other laws, such as state corporate law. The Court in *Broudo v. Dura Pharmaceuticals, Inc.* explained that loss causation only exists if a "plaintiff prove[s] that the defendant's *misrepresentation (or other fraudulent conduct)* proximately caused the plaintiff's economic loss."[57] Indeed, the U.S. Court of Appeals for the Seventh Circuit, going one step beyond that, recently emphasized that plaintiffs must show that each actionable misrepresentation individually has a "causal connection" with plaintiffs' losses.[58] As has been long established, it is simply not actionable misconduct under the federal securities laws for a firm to be poorly run nor does the fact that a firm's internal controls are weaker than those expected by the market give rise to a cause of action. The U.S. Supreme Court made this clear in *Santa Fe Industries, Inc. v. Green* when it explained that "Congress by 10(b) did not seek to regulate transactions which constitute no more than internal corporate mismanagement."[59] On a similar note, the U.S. Supreme Court in *Chiarella v. United States*[60] reversed a conviction under Rule 10b-5 in a case in which the jury instructions tracked the text of Rule 10b-5 but did not mention that nondisclosure is only actionable when there is a duty to disclose.

56. Basic Inc. v. Levinson, 485 U.S. 224, 239 n.17 (1988).
57. Dura Pharms., Inc. v. Broudo, 544 U.S. 336, 346 (2005) (emphasis added).
58. Tricontinental Indus., Ltd. v. PricewaterhouseCoopers, LLP, 475 F.3d 824, 843 (7th Cir. 2007) (internal quotation marks omitted), *cert. denied*,---S. Ct.---, No. 06-1670, 2007 WL 2819761 (U.S. Oct. 1, 2007).
59. 430 U.S. 462, 479 (1977) (internal quotation marks omitted) (quoting with approval Superintendent of Ins. v. Bankers Life & Cas. Co., 404 U.S. 6, 12 (1971)).
60. 445 U.S. 222, 236 (1980).

Nor is it obvious that such information about a firm's managerial quality or its internal controls would have reached the market earlier but for the misrepresentation. In other words, in the "but for" world, the hypothetical world in which the corporate holdings misstatement had not been made, it is not at all clear (or perhaps even plausible) that the firm would have disclosed to the market that its internal controls or the quality of its management was lower than the market's expectation. As a result, one could not plausibly claim that price declines resulting from investors' reassessment of managerial quality or the firm's internal controls were caused by the market learning the truth about the content of the misrepresentation concerning corporate holdings (returning to the earlier example) which is the purported basis for Rule 10b-5 liability in the first place.

In this context of "collateral damage," the facts surrounding the Freddie Mac securities litigation provide useful insights. The class action lawsuit against Freddie Mac followed the company's announcement in January 2003 that it would restate its earnings for four prior years. However, unlike the vast majority of Rule 10b-5 matters, here Freddie Mac had announced it would restate its earnings upward! Subsequently, on June 9, 2003, it announced that its top three officers would be replaced. On that day, Freddie Mac's share prices fell by 16%—from a previous close of \$59.87 to \$50.26—a \$9.61 drop. However, over the subsequent weeks Freddie Mac continued to provide further information about its restatement, announcing, for example, on June 25 that the upward restatement could be as high as \$4.5 billion. On November 21, 2003, Freddie Mac finally filed its restated financials with the SEC, and not unexpectedly, the share prices went up in response to the news. The share price movement for Freddie Mac over this relevant period is depicted in Figure 4. In the class action complaint, the plaintiffs chose to end the class period on June 9, 2003, the day of the announcement of the top officers being replaced.[61]

The Freddie Mac securities litigation exemplifies a case in which collateral damages associated with the replacement of management had no bearing on the misstatement of the company's prior years' financial results. Likewise, there was not a direct link between the misstatement and an adverse impact on share prices. It is unclear how revision of prior years' earnings *upward* could have harmed the firm's value and its then-current share prices. Moreover, while the replacement of the top officers was associated with a price drop, it is equally unclear why that drop should lead to any recoverable damages based on Rule 10b-5 claims.

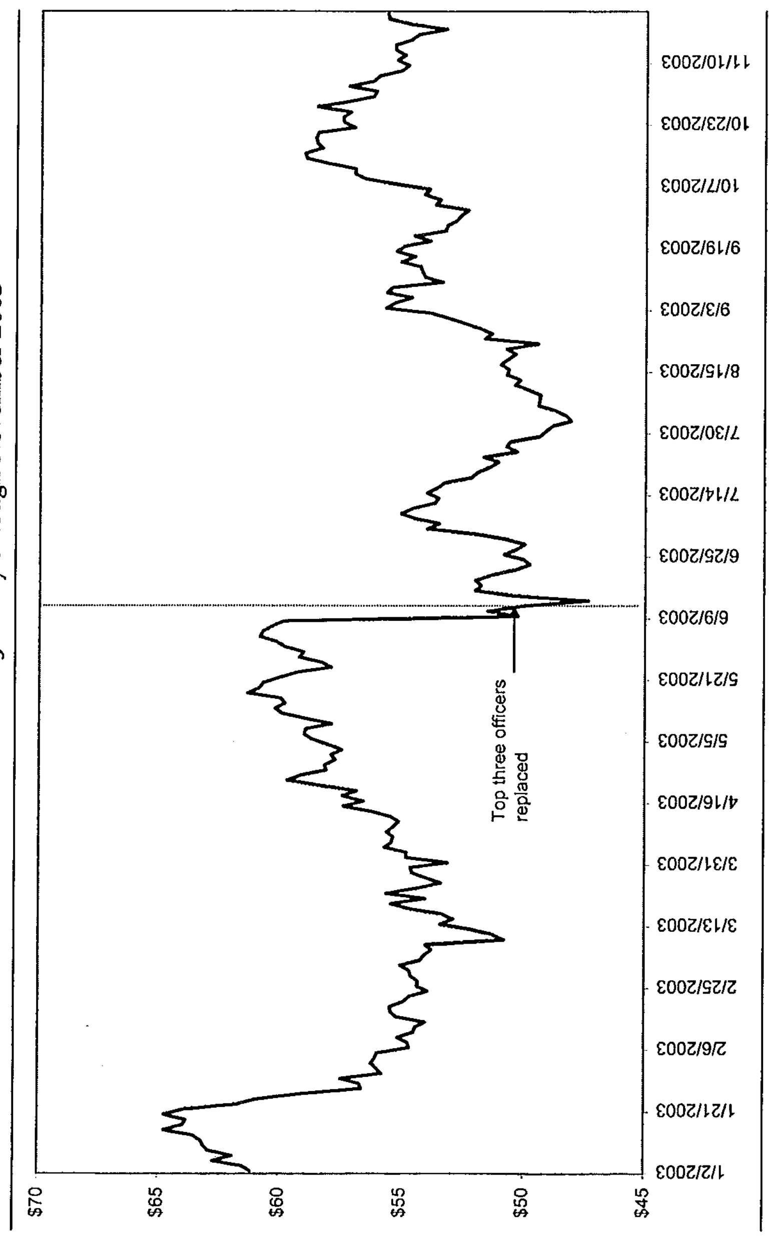
b. Disruptive Legal Action

Revisiting the corporate holdings misstatement example, suppose that the stock price decline was due to investors predicting that the company was likely to be subject to disruptive lawsuits, state attorneys general actions, and SEC en-

61. See Amended Class Action Complaint at 23, 157, Ohio Pub. Employees Ret. Sys. v. Freddie Mac, Civil No. C2-03-711 (S.D. Ohio Jan. 15, 2004). The Freddie Mac stock price data used in Figure 4 is from Bloomberg L.P.

Figure 4

Freddie Mac Share Prices: January through November 2003



forcement proceedings as a *result* of the accounting restatement. In particular, if investors valued the retention of the executives who were responsible for the misstatement, then expected legal action could well have the effect of these executives losing their jobs and thereby hurting the value of the firm. A company's stock price could decline for this reason even if investors placed absolutely no lower value on the firm as a result of the information contained in the accounting restatement. As the Supreme Court explained in *Dura*, price changes "may reflect, not the earlier misrepresentation, but changed economic circumstances, changed investor expectations, new industry-specific or firm-specific facts, conditions or other events. . . ."[62] The price decline in this situation would be due to new "firm-specific facts" as opposed to firm revaluation resulting from the market learning the truth about corporate holdings which was the subject of the earlier fraudulent representation.

VI. Confirmatory Statements and Forward-Casting Estimates of Damages

In estimating per-share damages, plaintiffs' experts typically adopt a "back-casting" approach.[63] That is, they use the price decline as a result of the curative disclosure to measure the inflation during the class period.[64] In particular, they begin with the share prices at the end of the class period (which presumably reflect the fair market value of the security) and proceed backward in time to the beginning of the class period in constructing the but-for share price line.[65] The difference between the actual price and the 'back-casted' but-for price is purported to provide a measure of per-share damages on a given day within the class period.

This 'back-casting' approach can suffer from some problems. As we discussed earlier, market overreaction, post-corrective disclosure price movement, collateral damage, and apportionment issues can render it difficult to estimate with any degree of reliability the inflation during the damage period using the price drop associated with the disclosure.

A potential avenue for avoiding these problems is to use a "forward-casting" approach in creating the but-for price line. In forward-casting, one estimates the inflation in stock price associated with the misrepresentation announcement as opposed to inferring the extent of the inflation from the price decline associated with the curative disclosure. The doctrines of loss causation, reliance, and materiality, after all, all point to the inflation in stock price (and its subsequent removal via a corrective disclosure) as the potential harm to shareholders associated with a misrepresentation.

62. Dura Pharms., Inc. v. Broudo, 544 U.S. 336, 343 (2005).

63. *See* John Finnerty & George Pushner, *An Improved Two-Trader Model for Measuring Damages in Securities Fraud Class Actions*, 8 Stan. J.L. Bus. & Fin. 213, 220 (2003) (discussing the "basic plaintiff-style approach" before critiquing it).

64. *See id.*

65. *See id.*

The application of the forward-casting approach is straightforward when the false information, which the market believes is true, was unanticipated by the market. In such an event, the stock price reaction (net of market, industry and other confounding effects) associated with the initial dissemination of the misrepresentation would represent the inflation in stock price which potentially harms shareholders by artificially inflating the purchase price.

A number of misrepresentations, however, are motivated by the firm's desire to meet market expectations, such as a desire to meet the market's expectations of earnings. These so-called "confirmatory statements" pose some challenging issues in terms of estimating securities damages. As the U.S. Court of Appeals for the Fifth Circuit noted, "[C]onfirmatory information has already been digested by the market and will not cause a change in stock price."[66] It is still possible, nevertheless, to use a forward-casting approach even in a "confirmatory statement" situation.

Suppose, for instance, that a firm overstates its earnings in order to meet the market's earnings expectations and there is, accordingly, no market reaction to the misrepresentation. In this case, the forward-casting approach would entail estimating what the market reaction would have been had the restated lower earnings been known on the misstated earnings announcement days. This estimation can be undertaken through an event study using the firm's prior earnings announcement days and quantifying the relationship between price response and earnings surprises or changes.[67] This relationship could then be used to estimate the but-for stock returns in the earnings announcement days using the firm's restated earnings. These but-for returns when substituted for the actual returns on the earnings announcement days would generate the forward-casted but-for price line. The difference between the actual and the but-for price line would be a direct measure of the inflation caused by the overstated earnings. Our experience suggests that, typically, the back-casted and the forward-casted approaches yield substantially different but-for price lines, and hence vastly dissimilar estimates of damages.

VII. Conclusion

The Supreme Court's decision in *Dura* raises a host of important issues concerning the contours of the loss causation requirement for Rule 10b-5 actions. These important issues include the proper application of event study analysis, the requirement that there be a corrective disclosure, what constitutes a corrective disclosure, the proper treatment of post-corrective disclosure stock price movements, the allocation of inflation to different shares, the treatment of collateral damage from a corrective disclosure, and the use of forward-casted damage estimates. The proper resolution of these issues plays a critical role in ensuring that the loss causation requirement, a requirement emphasized by the Court's opinion in *Dura*, plays its important role in preventing Rule 10-b5 damages from becoming a costly insurance scheme for investors.

66. Greenberg v. Crossroad Sys., Inc., 364 F.3d 657, 665–66 (5th Cir. 2004).

67. While this estimation can be undertaken using only the 'clean' period (i.e., the period preceding the misstatement) as long as market believed in the stated earnings, there is no reason necessarily to exclude the class period from this estimation.

EXHIBIT 14

CIBC

CIBC WORLD MARKETS

Equity Research

October 3, 2002

Industry Update Sector Weighting: *Market Weight*

Specialty Finance—Third-Quarter 2002 Preview

Specialty Finance

- The credit card issuers should post modest portfolio growth as seasonal spending provides a lift. Margin compression could occur, but cost cutting could offset any earnings impact. Credit erosion and regulatory pressure may continue to be an overhang, further depressing valuations.
- Diversified lenders and mortgage companies should demonstrate robust growth as record low mortgage rates and solid housing fundamentals support healthy demand. Although credit erosion remains a risk, the lenders are generally well-reserved to manage rising losses.
- Although the commercial finance companies continue to be the beneficiaries from the banks' pullback from corporate lending, weakness in construction and trucking could dampen production for some lenders. Credit quality erosion is likely, but most participants remain well-reserved.
- The financial technology sector continues to be plagued by the extended sales cycle and implementation delays, but the disparity among the peers could become increasingly evident in the third quarter. Aggressive cost-cutting remains the primary avenue for preserving profitability.

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Table Of Contents

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Exhibit 1. CIBC World Markets Specialty Finance Universe Summary

Sector Weighting		Ticker	Closing Price 10/2/02	52-Week Range High	52-Week Range Low	Market Cap. ($ Mil.)	Fiscal Year	12-Month Price Target
Market Weight	**Commercial Finance**							
SP	Allied Capital	ALD	$20.47	$29.00	$16.90	$2,039	Dec.	NA
SO	CIT Group (2,3)	CIT	17.22	24.05	15.95	3,444	Sept.	$24
SP	DVI, Inc.	DVI	4.48	21.00	4.00	64	June	9
SP	Financial Federal (4)	FIF	32.36	36.00	23.70	465	July	35
SU	MicroFinancial	MFI	4.43	14.00	4.06	74	Dec.	NA
Market Weight	**Credit Card Issuers**							
SO	Capital One Financial (4)	COF	$33.60	$66.50	$24.05	$7,090	Dec.	$45
SO	MBNA Corp.	KRB	18.51	26.30	12.95	23,730	Dec.	26
SU	Metris Companies	MXT	2.36	28.95	1.55	151	Dec.	NA
SU	Providian Financial (4)	PVN	4.63	22.00	2.00	1,316	Dec.	NA
Market Weight	**Diversified Finance**							
SP	American Express	AXP	$31.20	$44.91	$26.69	$41,683	Dec.	$40
SO	Countrywide Credit (4)	CCR	48.53	55.00	37.60	6,142	Dec.	62
SP	Household International (4)	HI	27.32	63.25	26.10	12,622	Dec.	36
Overweight	**Mortgage Finance**							
SO	Fannie Mae	FNM	$64.62	$85.14	$58.85	$65,072	Dec.	$92
SO	Freddie Mac	FRE	59.00	71.25	52.60	41,163	Dec.	76
Underweight	**Financial Technology**							
SP	Alliance Data Systems	ADS	$16.00	$26.20	$13.95	$1,208	Dec.	$20
SU	Bottomline Technologies (1)	EPAY	4.93	13.10	4.37	68	June	NA
SP	CheckFree Corp. (1, 4)	CKFR	11.78	25.40	7.45	1,026	June	15
SU	Corillian Corp. (1)	CORI	1.30	5.70	0.85	45	Dec.	NA
SO	Digital Insight (1)	DGIN	16.15	29.20	9.70	475	Dec.	20
SO	Fair, Isaac	FIC	32.59	45.50	23.80	1,098	Sept.	40
SO	Hypercom Corp. (2, 3)	HYC	2.95	8.15	2.80	117	Dec.	8
Overweight	**Mortgage REITs**							
SO	IMPAC Mortgage Holdings (2, 3)	IMH	$10.99	$13.48	$6.85	$339	Dec.	$12
	S&P 500*		827.91	1,176.97	775.68			

CIBC Industry Rating System: O—Overweight, MW—Market Weight, U—Underweight.
CIBC Rating System: SO—Sector Outperformer, SP—Sector Performer, SU—Sector Underperformer.
(1) CIBC World Markets Corp., or one of its affiliated companies, makes a market in the securities of this company.
(2) CIBC World Markets Corp., or one of its affiliated companies, managed or co-managed a public offering of securities for this company within the last three years.
(3) CIBC World Markets Corp., or one of its affiliated companies, managed or co-managed a public offering of securities for this company in the past 12 months.
(4) This company has a convertible included int eh CIBC World Markets convertible universe.
* CIBC World Markets estimates.

Source: Company reports and CIBC World Markets Corp.

Exhibit 2. CIBC World Markets Specialty Finance Universe Summary

Sector Weighting		Ticker	Earnings Per Share 2001	2002E	2003E	Price/Earnings 2002E	2003E	Relative P/E 2003E
Market Weight	**Commercial Finance**							
SP	Allied Capital	ALD	$2.17	$2.28	$2.45	9.0	8.4	0.66
SO	CIT Group (2,3)	CIT	2.53	3.16	3.67	5.4	4.7	0.37
SP	DVI, Inc.	DVI	1.44	1.59	1.72	2.8	2.6	0.20
SP	Financial Federal (4)	FIF	1.75	1.99	2.23	16.3	14.5	1.14
SU	MicroFinancial	MFI	1.26	0.67	0.68	6.6	6.5	0.51
				Group Average		8.0	7.3	0.58
Market Weight	**Credit Card Issuers**							
SO	Capital One Financial (4)	COF	$2.91	$3.80	$4.55	8.8	7.4	0.58
SO	MBNA Corp.	KRB	1.28	1.51	1.73	12.2	10.7	0.84
SU	Metris Companies	MXT	2.62	(0.17)	0.20	—	11.8	0.93
SU	Providian Financial (4)	PVN	0.49	0.41	0.58	11.3	8.0	0.63
				Group Average		10.8	9.5	0.74
Market Weight	**Diversified Finance**							
SP	American Express	AXP	$0.98	$1.98	$2.22	15.8	14.1	1.10
SO	Countrywide Credit (4)	CCR	3.89	6.07	6.27	8.0	7.7	0.61
SP	Household International (4)	HI	4.08	4.58	5.12	6.0	5.3	0.42
				Group Average		11.2	10.2	0.79
Overweight	**Mortgage Finance**							
SO	Fannie Mae	FNM	$5.20	$6.20	$7.02	0.8	0.7	0.72
SO	Freddie Mac	FRE	4.21	5.03	5.73	2.3	2.1	0.81
				Group Average		1.6	1.4	0.77

		Ticker	Earnings Per Share 2001	2002E	2003E	Price/ '03EPS	Price/Revenue 2002E	2003E
Underweight	**Financial Technology**							
SP	Alliance Data Systems	ADS	$0.52	$0.62	$0.73	21.9	1.4	1.3
SU	Bottomline Technologies (1)	EPAY	(0.53)	(0.32)	(0.18)	—	1.0	1.1
SP	CheckFree Corp. (1, 4)	CKFR	(0.18)	0.19	0.60	19.6	2.1	2.0
SU	Corillian Corp. (1)	CORI	(0.65)	(0.46)	(0.34)	—	1.1	1.1
SO	Digital Insight (1)	DGIN	(0.28)	0.35	0.80	20.2	4.0	3.0
SO	Fair, Isaac	FIC	1.33	1.62	1.92	17.0	3.3	2.6
SO	Hypercom Corp. (2, 3)	HYC	(0.54)	0.15	0.33	8.9	0.5	0.4
				Group Average		17.5	1.9	1.6

		Ticker	Earnings Per Share 2001	2002E	2003E	Price/ '03EPS	Annual Dividend	Dividend Yield
Overweight	**Mortgage REITs**							
SO	IMPAC Mortgage Holdings (2, 3)	IMH	$1.25	$1.67	$1.75	6.6	$1.60	14.6%

	Earnings Per Share 2001	2002E	2003E	Price/Earnings 2002E (X)	2003E (X)
S&P 500*	$46.00	$55.00	$65.00	15.1	12.7

CIBC Industry Rating System: O—Overweight, MW—Market Weight, U—Underweight.
CIBC Rating System: SO—Sector Outperformer, SP—Sector Performer, SU—Sector Underperformer.
(1) CIBC World Markets Corp., or one of its affiliated companies, makes a market in the securities of this company.
(2) CIBC World Markets Corp., or one of its affiliated companies, managed or co-managed a public offering of securities for this company within the last three years.
(3) CIBC World Markets Corp., or one of its affiliated companies, managed or co-managed a public offering of securities for this company in the past 12 months.
(4) This company has a convertible included int eh CIBC World Markets convertible universe.

Source: Company reports and CIBC World Markets Corp.

New FFIEC Guidelines Could Have Far-Reaching Implications For The Credit Card Issuers

Until recently, the credit card issuers were held to very limited regulatory scrutiny, enabling the industry to exploit the lax accounting and capital reserve guidelines to profitably expand into multiple market segments, most notably the underserved (or sub-prime) segment. Credit card issuer failures, such as NextCard, and building consumer complaints and heightened credit risk on the heels of aggressive growth prompted the Federal Financial Institutions Examinations Council (FFIEC) to step up its oversight of the industry and impose more stringent lending and capital restrictions. The result of the heightened credit card issuer surveillance was sweeping industry changes in the absolute definition of sub-prime lending, accounting procedures, internal controls and corporate governance, and risk-based capital requirements.

Credit management, overlimit practices, workout programs and settlement, income recognition and capital adequacy are all addressed by the FFIEC

Following the groundswell of concerns surrounding the credit card issuers and capital adequacy levels, in July 2002 the FFIEC released draft guidelines to serve as the basis for prudent sub-prime credit card lending. The FFIEC guidelines address credit management, overlimit practices, workout programs and settlement, income recognition and loss allowance practices. Although the monoline issuers and bankcard lenders are targeted by the guidelines, we believe the magnitude and scope of the FFIEC's guidance could have disparate implications for the individual issuers. Overall, we believe many (if not all) monoline issuers will ultimately find some one-time charges unavoidable in light of the new guidance.

- *Credit Management.* Under the new mandate, credit card issuers should consider the borrowers' repayment ability more conservatively before extending credit line increases or multiple cards. Moreover, risk exposure should be aggregated through sufficient internal controls before additional credit is offered. Previously, card issuers could provide blanket line increases and multiple lines without consideration of the overall risk profile of the client.

- *Overlimit Practices.* The second FFIEC concern is the use of overlimit practices as a means to extend credit line increases and generate fee income. A managed portfolio's credit risk is exacerbated by inadequate control of overlimit authorizations and the negative amortization of overlimit accounts. The guidelines pertaining to overlimit policies, however, are vague.

- *Workout Programs and Settlement Practices.* According to the FFIEC rules, workout programs should be designed to maximize principal reduction and thereby limit interest rates and finance charges so that an increased percentage of customer payments can be applied to the lessening of principal. The goal is to enable customers to repay their card debt within four years. It also requires that debt forgiven under a settlement agreement should be charged off immediately.

- *Income Recognition and Loss Allowance Practices.* The final concern for the FFIEC involves income recognition and the allowance for loan losses. The allowance for loan losses should be sufficient to absorb credit losses that are probable and estimable on all loans. The calculation of the allowance should consider both delinquent and current loans and include an analysis of roll rates on delinquent accounts. Given the divergent income recognition and loss allowance practices among credit card issuers, providing loss allowances for uncollectable fees and finance charges, or placing delinquent and impaired receivables on nonaccrual status, are methods the FFIEC recommends to accurately measure income. Under the new rules, the institutions' allowance methodologies should incorporate the increased likelihood for incremental losses inherent in overlimit accounts.

  Additionally, the regulators discovered that some issuers were charging off principal balances only while reversing out of revenue uncollectable fees. In subsequent recoveries, however, those issuers included interest and fees in the total recovery, thereby understating the net charge-off experience. Accordingly, the FFIEC advises institutions to ensure that amounts reported as recoveries on loans are limited to the principal amounts previously charged off against the allowance on those loans.

FFIEC risk-based capital guidelines assign all assets and credit equivalent amounts of off-balance sheet items to one of several risk categories— 0%, 20%, 50% and 100%. Cash, repurchase agreements and available for sale securities are normally in the 0% category. Derivative transactions are weighted by 50%. Most loan receivables qualify for the 100% risk weighting. The total dollar value in each category is multiplied by the appropriate risk weight, and the resulting values are summed to calculate the bank's total risk-weighted assets, which is the denominator of the risk-based capital ratios. Each percentage provided in the following table is a measure of a company's risk-weighted assets in each category divided by total risk-weighted assets.

Exhibit 3. Credit Card Issuer Capital Adequacy

Risk Weighting	Capital One	Metris	Providian	MBNA
0%	3.36%	0.19%	18.12%	4.37%
20%	13.95%	10.62%	1.89%	16.66%
50%	0.53%	0.13%	1.61%	0.10%
100%	82.16%	89.06%	78.38%	78.88%
Total	1.44%	18.55%	5.06%	0.52%

Source: Call TFR Reports and CIBC World Markets Corp.

Metris' Direct Merchants Bank has the greatest portion of its capital in the 100% risk weighting

Risk-weighted assets are further evaluated through a tier system that measures capital reserve adequacy and leverage. The Tier 1 ratio measures the amount of equity, preferred stock, and minority interest to the amount of total risk-weighted assets. Tier 2 capital includes additional preferred equity along with convertible and hybrid capital instruments, subordinated debt, and less than 45% of net unrealized holding gains of available-for-sale securities. The total risk-based capital ratio measures the total amount of Tier 1 and Tier 2 capital to total risk-weighted assets. The leverage ratio compares the amount of Tier 1 capital to adjusted total assets. The denominator is based on the amount of total assets after deducting cash, U.S. Treasuries and U.S. Government agencies, and adding back the allowance for loan losses.

By our calculations, Metris' Direct Merchants Bank has the greatest percentage of its capital base in the 100% risk weighting category, most of which is comprised of credit card loans. Appropriately, Metris' allowance is roughly three times greater than that of its closest competitor, Providian, which also has 100% of its loans in the 100% risk weighting.

Capital One has the second-highest weighting of 100% risk-based capital. Within this calculation, 40% of its capital base includes loans net of unearned income, and another 40% reflects other assets from the savings bank. The remaining portion includes low-level recourse securitization transactions, a classification that applies to transactions accounted for as sales under GAAP, by which the institution contractually limits its recourse exposure to less than the full risk-based capital requirements. Under the regulatory guidelines, institutions should hold capital on a dollar-for-dollar basis up to the amount of the aggregate credit enhancements. Although Capital One added $247 million to the allowance for loan losses for both the bank and the savings bank, its allowance is still well below that of Metris.

Within the 50% risk-based capital weighting, which includes premises and fixed assets, real estate owned, investments in unconsolidated subsidiaries, customers' liabilities on acceptances outstanding, and intangible assets, Providian Financial has a slightly higher percentage than its peers. Fed funds sold, repurchase agreements, and available for sale securities comprise most of Providian's 0% risk weighted capital. In the event the company cannot access the capital markets, Providian has chosen to retain $7.9 billion in cash until 2003.

Interestingly, MBNA trails Providian by a significant margin for its 0% risk-weighted assets, since Providian has chosen to maintain excess cash contingent upon unattractive financing alternatives. Like Providian, a hefty percentage of MBNA's 100% risk-weighted assets are cloaked under derivative and off-balance sheet transactions. Because MBNA specializes in the prime market segment, its loans net of unearned income comprise a smaller percentage of risk-based capital than its competitors. Appropriately, its allowance for loan losses is less than those of Capital One, Providian and Metris.

Overall, if a greater percentage of the receivables are found to be sub-prime than originally anticipated, the appropriate amount of risk-based capital that should be held against those assets would be affected. However, given that the majority of the loan receivables for most issuers mentioned are weighted at 100%, a run-up in total risk-based assets appears unlikely. *The one issuer, however, that could be affected is Capital One, because of its asset mix across the credit spectrum.*

MBNA will take a $200-$300 million charge in the third quarter related to reserve building against accrued interest and fee income

Although MBNA has not yet been subject to restrictions, the company is not immune to the FFIEC changes. Most of the key points of the FFIEC draft are aimed at issuers with targeted sub-prime lending efforts, which historically has not been a market that MBNA has pursued. While the company has not specifically targeted sub-prime borrowers and has not disclosed its proportion of loans below the FFIEC's designated sub-prime cutoff (a 660 FICO credit score), we believe MBNA has at least modest exposure. The company announced it would take a $200-$300 million charge in the third quarter related to reserve building against accrued interest and fee income. It has not, however, indicated it would boost its loan loss reserve based on the new risk-based capital requirements. Given that MBNA holds approximately 14% of U.S. industry receivables, coupled with the fact that 37% of industry loans have FICO scores of 660 or below (according to an Equifax study cited by Capital One), it seems likely MBNA would be vulnerable to the FFIEC guidelines.

Timeline leading up to the FFIEC guidelines

Providian's woes got the ball rolling back in 1999

By charging borrowers higher fees and interest rates and aggressively selling high-cost add-on products, Providian was the first credit card company that targeted a group of customers that its competitors avoided—the sub-prime segment. This underserved market was an untapped resource that proved to be extremely profitable during the mid-to-late 1990s. However, as the economy has weakened, household debt burdens and unemployment rates have risen. The accounts Providian rapidly added in the mid-1990s began to season, resulting in rising delinquency among the marginal cardholders, which ultimately translated into surging credit losses.

The earliest problems within the industry and specifically at Providian were uncovered during the San Francisco District Attorney and bank regulators' investigations of consumer fraud allegations in 1999. These accusations stemmed from the company's charging unwarranted customer fees and its incomplete disclosure of credit terms. As one of the first wide-ranging consumer enforcement actions that concentrated on the financial soundness of credit card banks, it was a precedent-setting case that broadened the regulators' scope in restraining abusive credit practices.

NextCard ranks as one of the largest bank failures on record

Next on the chopping block—NextCard. NextCard became the second credit card issuer to fall under the regulators' microscope following its acquisition of Textron National Bank in 1999. NextCard was one of the earlier issuers to aggressively use federally guaranteed deposits held at the bank as a low-cost funding source. Although all of the issuers have bank charters and are able to collect deposits, NextCard was one of the first to fund its sub-prime accounts through this source. As a result, the FDIC became increasingly exposed to credit and fraud-related losses, which ultimately led to one of the largest bank failures in recent history.

The initial events at NextCard, including accounting irregularities such as the inappropriate booking of fraud-related losses, continued to snowball and resulted in a subsequent determination by the Office of the Comptroller of the Currency (OCC) that its $538 million of term securitizations would no longer qualify for low-level recourse treatment. Consequently, NextBank's risk-weighted assets jumped from $1.5 billion to $2.1 billion. Additionally, the reclassification of loan losses caused NextCard to boost its loan loss provision by $40.6 million, depleting shareholder's equity and the Tier 1 Capital necessary to preserve the capital adequacy ratios imposed by the FFIEC. Yet even more accounting irregularities were eventually uncovered, including the improper booking of advertising expenditures as expenses when incurred while the bank simultaneously capitalized those amounts. Accordingly, the regulators forced NextCard to write-off $35.7 million of customer acquisition costs capitalized by NextBank. Although the effect on earnings was immaterial, it reduced the capital available to NextBank to satisfy reserve requirements.

Metris was the first issuer to be directly subjected to the new guidelines, leaving its subsidiary bank to enter into a formal agreement with the OCC. Despite Metris' slower, more controlled growth, the company has always trafficked in the deep sub-prime area, traditionally recognizing interest income and fees up front whether or not they are likely to be collected—a similar policy to that of Providian. Once the loan is charged off, the interest and fee portion of the account balance is deducted from current period interest income and credit card fees.

According to its 2001 10K filing, Metris disclosed that in order to slow account growth while maintaining revenue gains, it began to increase credit lines on higher balance accounts. This practice could potentially lead to higher charge-off rates, particularly given the company's sub-prime concentration. The company also violated a debt covenant on one of its securitizations by allowing the excess spread to drop below a predetermined level—this securitization, however, has since been retired. Finally, the company allowed for a sale of assets from the bank to the holding company that reduced capital requirements. Rather than retaining higher risk assets at the bank, which would require twice the capital coverage of prime receivables, Metris transferred the loans to its holding company, where the regulations are less stringent.

Capital One already has largely addressed regulators' concerns

Capital One rounds out the monoline issuers that faced regulatory action in 2002. Prior to the industry-wide guidelines issued by the FFIEC, Capital One and its subsidiary banks entered into an informal memorandum of understanding (MOU) with bank regulators. Since the merger of Capital One's bank and thrift, the company has been brought under the jurisdiction of new regulators. Following the problems of other credit card issuers, the authorities compiled a list of high-risk areas and placed Capital One under the microscope to examine these issues.

The chief problem cited by regulators was the difficulty of regulatory oversight since the company's business lines and formal policies cut across the banks rather than the legal entities. In order to sustain its remarkably high top-line growth, regulators instructed Capital One to enhance its enterprise risk management and internal controls. To fulfill this goal, the company created a new senior executive management position responsible for enterprise risk management. Instead of engaging in business and strategic planning by line of business, Capital One also separated its business and strategic planning by legal entity. Importantly, unlike the regulatory agreements established among Capital One's competitors in the sub-prime market, the regulators did not put any restraints on deposit growth or dividend disbursements.

Currently, Capital One's negative amortization practice is in line with the industry, but we believe the recommended guidelines by the FFIEC could impact the company's cash flows and credit quality ratio performance. Before the guidelines were established, Capital One required a 3% minimum payment. Discontinuing overlimit fees after the initial cycle, requiring minimum payment that is sufficient to cover all interest and fees, and requiring the minimum payment to include full payment of the overlimit amount are all measures the FFIEC recommends to limit portfolio risk.

In Capital One's reported consumer loan portfolio, the allowance for loan losses is estimated to absorb probable losses, net of recoveries (including those on collateral). The amount is calculated from a migration analysis of delinquent and current accounts. In accordance with the sub-prime guidelines, which applies for nearly 40% of the total portfolio, Capital One will maintain an allowance for loan losses sufficient to absorb 12 months of future losses. The company also added $247 million to the loan loss allowance to comply with the new guidelines. Before the FFIEC guidelines, Capital One's principal collections on charged-off amounts were netted against the gross charge-off amount. Because Capital One did not to sell its charged-off accounts, it applied all of the recovery to the loss reserve regardless of the initial revenue reversal. As a result, its recovery rate of 40% on all charged-off loans was much higher than the industry average of 14%. As a result of the new guidelines, Capital One's recovery rate will likely decline and subsequently, its net charge-off rate will rise.

We believe Capital One's net charge off rate could rise by roughly 60 bps following the adoption of the FFIEC guidelines, while the interest and fees from the recoveries could augment revenue possibly by 40 bps. Interest and fee income recoveries tend to be higher as a percentage of net charge-offs for Capital One than for other issuers which could position the company for greater sensitivity to the rule change than it is for its peers. The bottom line, however, should not be affected because the company likely will offset any revenue gain with a higher provision for losses.

Credit Card Issuers

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Capital One (COF—$33.60—SO)
Expected Reporting Date—Tuesday, October 15
12-18 Month Price Target—$45

Fiscal Year: Dec.	CIBC Earnings Estimates 1Q	2Q	3QE	4Q	Year
2001	$0.66	$0.70	$0.75	$0.80	$2.91
2002E	0.83	0.92	1.00	1.05	3.80
2003E	1.07	1.13	1.19	1.24	4.55

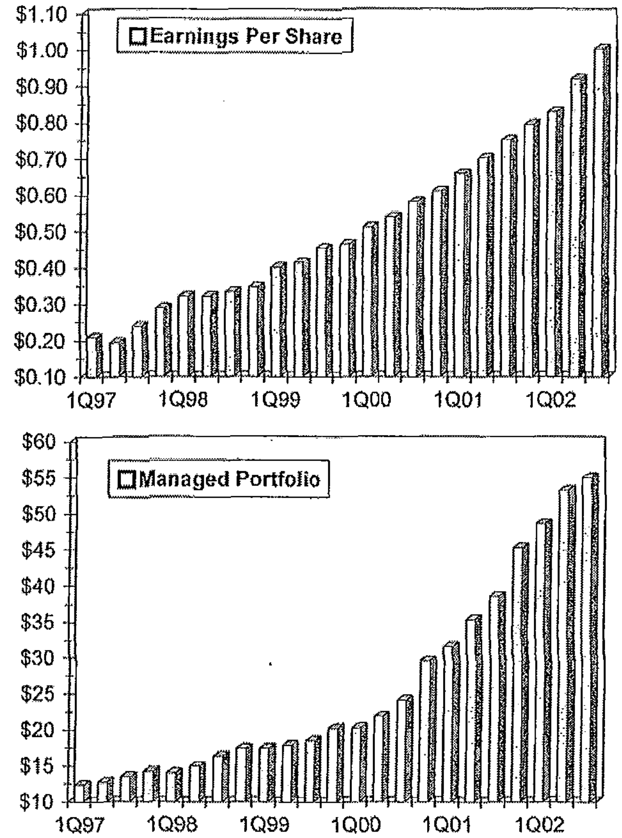
	Consensus EPS Estimate
3Q02E	$0.98
2002E	3.77
2003E	4.51

SO—Sector Outperformer

- Active direct mail marketing should lift total accounts above 50 million, while seasonal spending and the continued push into the auto lending arena should drive the managed portfolio to nearly $55 billion.
- Margin compression could occur owing to modestly higher funding costs in the asset-backed securities (ABS) market. Steady card usage should minimize the revenue impact, while tighter cost controls alleviate any earnings pressure.
- Operating expenses should increase with higher loan loss provisioning and elevated infrastructure costs related to Capital One's MOU with regulators. Operating efficiency, however, should largely remain in check as high-cost TV marketing expenses are reined in.
- Credit quality deterioration should continue as balances season and the fragile economy affects consumers' ability to repay. Revised recovery accounting recognition should also lead to a higher net charge-off rate.
- Regulatory scrutiny of internal controls and loan loss reserves for sub-prime accounts could continue to pressure price performance. However, continued progress in remediation of regulators' concerns should improve investor confidence as the fourth quarter commences.

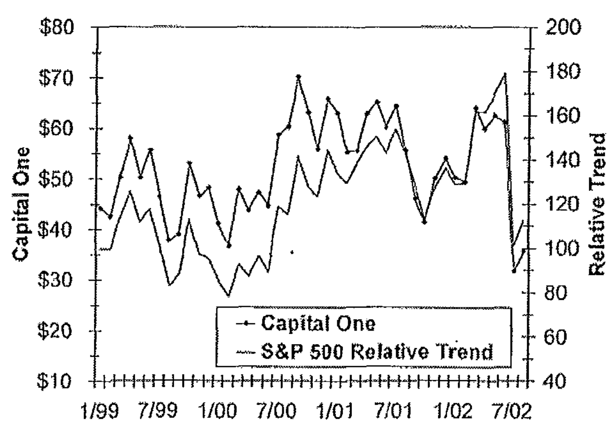
Investment Risk: Additional regulatory scrutiny could pressure price performance and profitability should the company be required to add further reserves. Moreover, weak capital markets performance and economic uncertainty continue to weigh on consumer confidence, which could adversely affect spending trends and portfolio growth.

Fundamental Trend Performance
(Dollars in billions, except where noted)



Source: Company reports and CIBC World Markets Corp.

Relative Monthly Stock Performance
(Relative to S&P 500: 1/98=100.0)



Source: FactSet and CIBC World Markets Corp.

Exhibit 4. Capital One Income Statement Projections

(Dollars in millions, except where noted)

	2001		2002E				Full Year		
	3Q	4Q	1QA	2QA	3Q	4Q	2001	2002E	2003E
Net Interest Income	$926.7	$982.9	$1,120.9	$1,185.2	$1,289.2	$1,396.9	$3,492.6	$4,992.2	$6,590.6
Non-Interest Income	852.5	941.5	959.9	1,113.9	1,216.4	1,287.6	3,337.4	4,577.8	6,201.5
Total Revenue	**1,779.2**	**1,924.4**	**2,080.8**	**2,299.0**	**2,505.6**	**2,684.5**	**6,830.0**	**9,570.0**	**12,792.1**
Provision For Losses	437.6	563.3	617.6	801.6	857.8	919.7	1,736.5	3,196.7	4,451.0
Marketing Expenses	281.9	301.2	353.5	320.4	351.6	369.4	1,083.0	1,394.9	1,750.4
Other Operating Expenses									
Salaries And Benefits	349.5	374.8	380.7	379.4	419.1	456.8	1,392.1	1,636.0	2,225.9
DP And Communication	92.7	86.8	92.2	101.6	112.4	122.5	327.7	428.7	596.8
Supplies And Equipment	77.5	84.4	84.5	88.8	99.5	108.4	310.3	381.3	528.3
Occupancy	32.2	42.2	33.4	38.3	41.4	45.2	137.0	158.3	220.1
Other	241.1	185.2	215.5	225.1	248.7	271.1	807.9	960.4	1,320.8
Total Oper. Expenses	**793.0**	**773.4**	**806.4**	**833.2**	**921.1**	**1,004.0**	**2,975.0**	**3,564.6**	**4,892.0**
Pretax Income	**266.7**	**286.5**	**303.3**	**343.7**	**375.1**	**391.4**	**1,035.5**	**1,413.7**	**1,698.6**
Income Taxes	101.3	108.9	115.2	130.6	142.5	148.7	393.5	537.1	645.5
Net Income	**165.4**	**177.6**	**188.1**	**213.1**	**232.6**	**242.7**	**642.0**	**876.6**	**1,053.2**
Diluted Avg Shares Out (Mil.)	219.9	223.4	226.6	231.7	231.7	231.7	220.6	230.4	231.7
Diluted EPS	**$0.75**	**$0.80**	**$0.83**	**$0.92**	**$1.00**	**$1.05**	**$2.91**	**$3.80**	**$4.55**
Cumulative	$2.11	$2.91	$0.83	$1.75	$2.75	$3.80			
Dividends Per Share	$0.03	$0.03	$0.03	$0.03	$0.03	$0.03	$0.12	$0.12	$0.12
Income Statement Analysis									
NIM As % Of AMIEA	9.27%	8.68%	8.87%	8.53%	8.48%	8.43%	7.71%	7.53%	7.48%
Fee Income As % Of AMR	9.21%	9.11%	8.22%	8.68%	8.65%	8.40%	8.07%	7.47%	7.61%
Loss Provision As % Of AMR	4.73%	5.45%	5.29%	6.25%	6.10%	6.00%	4.20%	5.21%	5.46%
Marketing As % Of AMR	3.05%	2.91%	3.03%	2.50%	2.50%	2.41%	2.62%	2.28%	2.15%
Operating Exp. As % Of AMR	8.57%	7.48%	6.91%	6.49%	6.55%	6.55%	7.19%	5.81%	6.00%
Risk Adjusted Revenue	$1,417	$1,468	$1,614	$1,740	$1,852	$1,918	$5,392	$7,124	$9,041
Risk Adjusted Margin	14.17%	12.96%	12.78%	12.53%	12.18%	11.58%	13.0%	11.6%	11.1%
Profitability Analysis									
Pretax Margin	15.0%	14.9%	14.6%	15.0%	15.0%	14.6%	15.2%	14.8%	13.3%
Net Margin	9.3%	9.2%	9.0%	9.3%	9.3%	9.0%	9.4%	9.2%	8.2%
Return On Average Assets	1.53%	1.45%	1.39%	1.42%	1.42%	1.36%	1.31%	1.23%	1.11%
Return On Average Equity	22.54%	22.04%	21.06%	21.20%	21.08%	20.18%	19.92%	18.22%	16.47%
Total Loan Portfolio	**$38,489**	**$45,264**	**$48,564**	**$53,208**	**$54,964**	**$56,503**	**$45,264**	**$56,503**	**$67,893**
Number of Accounts	40.1	43.8	46.6	48.6	50.6	52.5	43.8	52.5	59.5
Credit Quality									
Managed Delinquency Rate	5.20%	4.95%	4.80%	4.54%	4.75%	4.60%	4.95%	4.60%	4.55%
Mgd. Net Charge-Off Rate	3.92%	4.42%	4.00%	4.36%	4.65%	5.00%	4.02%	4.54%	5.06%

Source: Company reports and CIBC World Markets Corp.

MBNA Corp. (KRB—$18.51—SO)

Expected Reporting Date—Week of October 7
12-18 Month Price Target—$26

Fiscal Year: Dec.	CIBC Earnings Estimates 1Q	2Q	3QE	4Q	Year
2001	$0.23	$0.29	$0.36	$0.40	$1.28
2002E	0.28	0.35	0.42	0.47	1.51
2003E	0.35	0.40	0.47	0.51	1.73

	Consensus EPS Estimate
3Q02E	$0.42
2002E	1.51
2003E	1.74

SO—Sector Outperformer

- Aggressive balance transfer initiatives and solid account growth could drive the managed portfolio above $100 billion.

- The net interest margin should remain relatively flat from the prior quarter owing to the lack of Federal Reserve interest rate action during the quarter. Although modest asset-backed spread widening could impact funding costs, the healthy portfolio gains should drive healthy revenue growth.

- Loan-loss provisioning and reserves may rise in anticipation of further credit quality deterioration. The company should also record a one-time charge of $200-$300 million related to the establishment of a reserve for accrued interest and fees.

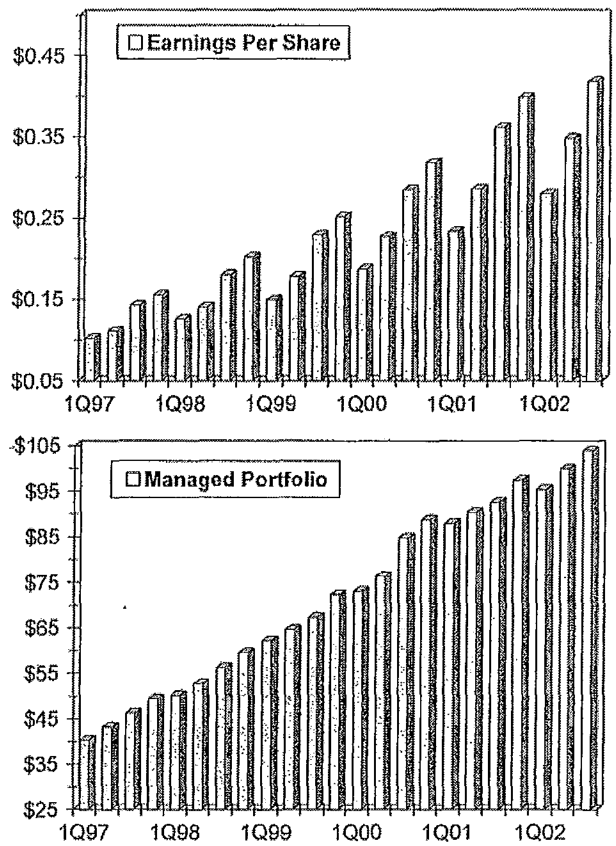
- Persistent economic uncertainty and portfolio seasoning may drive the net charge-off rate into the 5.1%-5.2% range. Reserve levels, however, should be able to easily absorb any increase.

- International growth, particularly in the United Kingdom, should continue to be strong and may gain increasing attention as investors increasingly focus on diversification efforts. We believe the international portfolio could exceed $11.5 billion on a managed basis in the third quarter.

Investment Risk: MBNA's overwhelmingly fixed-rate portfolio leaves the company with greater interest rate sensitivity. Should interest rates rise dramatically, profitability should be adversely impacted. However, the likelihood of meaningful rate movement in the near term, is unlikely, in our opinion.

Fundamental Trend Performance

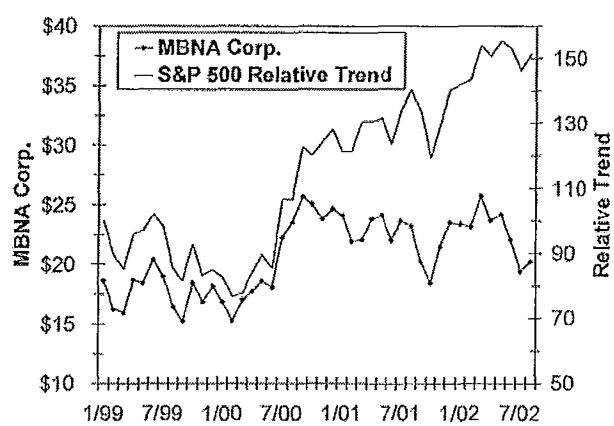
(Dollars in billions, except where noted)



Source: Company reports and CIBC World Markets Corp.

Relative Monthly Stock Performance

(Relative to S&P 500: 1/99=100.0)



Source: FactSet and CIBC World Markets Corp.

Exhibit 5. MBNA Corp. Income Statement Projections
(Dollars in millions, except where noted)

	2001		2002E				Full Year		
	3Q	4Q	1QA	2QA	3Q	4Q	2001	2002E	2003E
Net Interest Income	$2,120.1	$2,314.7	$2,275.1	$2,303.2	$2,367.9	$2,474.3	$8,204.1	$9,420.4	$10,054.6
Provision For Losses	1,213.5	1,190.6	1,278.9	1,246.9	1,277.3	1,306.8	4,578.4	5,109.9	5,213.6
Int. Margin After Losses	**906.5**	**1,124.1**	**996.2**	**1,056.3**	**1,090.6**	**1,167.4**	**3,625.8**	**4,310.5**	**4,841.0**
Total Net Revenue	**3,120.5**	**3,226.4**	**3,029.1**	**3,110.5**	**3,289.5**	**3,433.4**	**11,768.4**	**12,862.4**	**13,638.9**
Other Operating Income	1,000.5	911.7	754.0	807.2	921.6	959.1	3,564.3	3,442.0	3,584.3
Operating Expense	1,140.4	1,194.8	1,166.7	1,141.4	1,152.0	1,161.8	4,474.8	4,621.9	4,847.9
Income Before Taxes	**766.6**	**841.0**	**583.5**	**722.1**	**860.2**	**964.8**	**2,715.2**	**3,130.6**	**3,577.4**
Income Taxes	288.2	316.2	213.5	264.3	314.8	353.1	1,020.9	1,145.8	1,309.3
Net Income	**478.3**	**524.8**	**369.9**	**457.8**	**545.4**	**611.7**	**1,694.3**	**1,984.8**	**2,268.0**
Preferred Dividends	3.5	3.4	3.4	3.4	3.4	3.4	14.1	13.5	13.5
Net Income To Common	474.8	521.4	366.5	454.5	542.0	608.3	1,680.1	1,971.3	2,254.5
Shares Outstanding	1,312.7	1,310.1	1,311.1	1,305.3	1,305.3	1,305.3	1,314.3	1,306.7	1,305.3
Earnings Per Share	**$0.36**	**$0.40**	**$0.28**	**$0.35**	**$0.42**	**$0.47**	**$1.28**	**$1.51**	**$1.73**
Cumulative	$0.88	$1.28	$0.28	$0.63	$1.04	$1.51			
Dividends	$0.06	$0.07	$0.07	$0.07	$0.07	$0.07	$0.25	$0.27	$0.28
Income Statement Analysis									
NIM As % Of AMIEA	8.57%	9.00%	8.84%	8.73%	8.70%	8.65%	8.40%	8.73%	8.64%
Fee Income As % Of AMR	4.36%	3.86%	3.13%	3.29%	3.60%	3.55%	9.03%	9.31%	9.03%
Loss Provision As % Of AMR	5.28%	5.04%	5.31%	5.09%	4.95%	4.80%	5.04%	5.05%	4.68%
Operating Exp. As % Of AMR	4.97%	5.06%	4.85%	4.66%	4.50%	4.30%	4.92%	4.57%	4.35%
Risk-Adjusted Revenue	$1,995.3	$2,079.2	$1,825.4	$1,862.5	$1,978.7	$2,042.0	$7,463.6	$7,708.5	$7,890.3
Risk-Adjusted Margin	8.06%	8.30%	7.00%	7.04%	6.91%	6.80%	7.58%	6.93%	5.96%
Profitability Analysis									
Pretax Margin	24.6%	26.1%	19.3%	23.2%	26.1%	28.1%	23.1%	24.3%	26.2%
Net Margin	15.3%	16.3%	12.2%	14.7%	16.6%	17.8%	14.4%	15.4%	16.6%
Effective Tax Rate	37.6%	37.6%	36.6%	36.6%	36.6%	36.6%	37.6%	36.6%	36.6%
Return On Avg. Mgd. Assets	1.70%	1.81%	1.26%	1.53%	1.72%	1.83%	1.52%	1.59%	1.54%
Return On Managed Equity	26.7%	27.8%	19.2%	22.8%	25.8%	27.9%	24.1%	24.1%	24.9%
Loan Portfolio									
Loans Held For Securitizations	$5,742	$9,930	$8,203	$7,425	$8,011	$8,371	$9,930	$8,371	$9,509
Loan Portfolio	13,309	14,704	14,592	16,957	18,024	19,097	14,704	19,097	21,395
Securitized Loans	73,534	72,862	72,567	75,584	77,929	81,694	72,862	81,694	88,936
Total Loan Portfolio	**92,585**	**97,496**	**95,361**	**99,965**	**103,964**	**109,162**	**97,496**	**109,162**	**119,841**
Sequential Growth	2.4%	5.3%	-2.2%	4.8%	4.0%	5.0%	9.8%	12.0%	9.8%
Credit Quality									
Managed Delinquency Rate	4.23%	5.09%	4.97%	4.80%	4.75%	4.70%	5.09%	4.70%	4.65%
Managed Net Charge-Off Rate	4.90%	4.86%	5.00%	5.09%	5.12%	5.15%	4.74%	5.09%	5.16%

Source: Company reports and CIBC World Markets Corp.

Metris Companies (MXT—$2.36—SU)

Expected Reporting Date—Wednesday, October 16
12-18 Month Price Target—$4

Fiscal Year: Dec.	CIBC Earnings Estimates 1Q	2Q	3QE	4Q	Year
2001	$0.57	$0.63	$0.70	$0.72	$2.62
2002E	0.54	(0.74)	0.00	0.03	(0.17)
2003E	0.02	0.04	0.06	0.08	0.20

	Consensus EPS Estimate
3Q02E	($0.33)
2002E	(0.61)
2003E	0.23

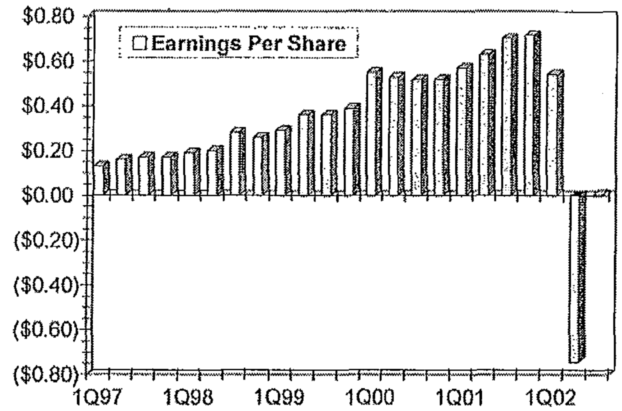
SU—Sector Underperformer

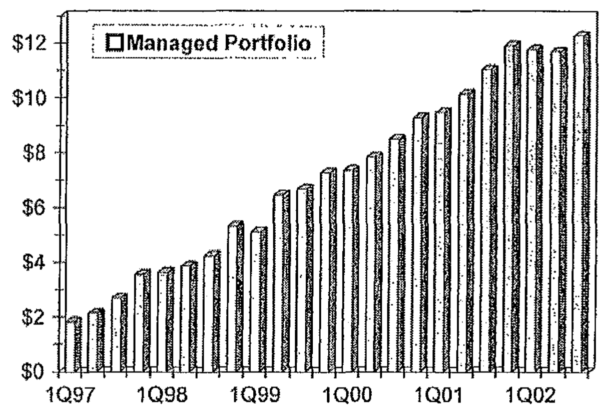
- Further credit quality deterioration is likely given the weak economy and ongoing portfolio seasoning. Heavy marketing and net new account growth, however, could generate new receivables, which may artificially depress net charge-off rates.
- Marketing expenses should further climb as the company focuses on adding new accounts and growing the portfolio. As new accounts are added, portfolio seasoning diminishes, which may result in further credit problems as accounts age.
- Profitability should remain under pressure owing to higher funding costs related to liquidity concerns and credit quality erosion. Fee income should also be pinched because of regulatory constraints.
- Rapid credit erosion and regulatory requirement should prompt greater loan loss provisioning. The net charge-off rate should further rise and may exceed 15.5% for the quarter.
- Our confidence in current earnings estimates remains limited, because of the uncertain outlook and lack of management guidance.

Investment Risk: Further credit quality deterioration and regulatory scrutiny could adversely profitability and earnings growth. Credit quality erosion and liquidity concerns may limit access to capital and result in higher funding costs.

Fundamental Trend Performance

(Dollars in billions, except where noted)

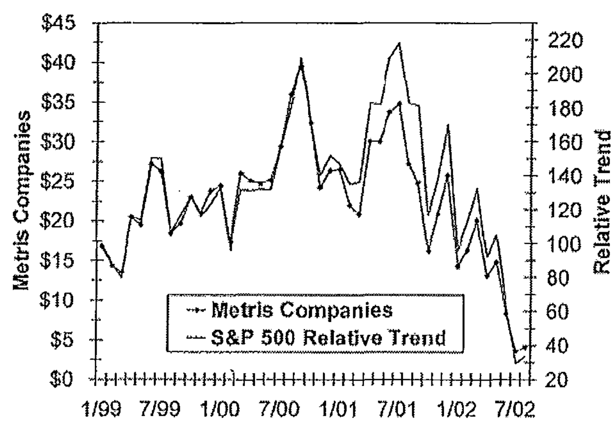




Source: Company reports and CIBC World Markets Corp.

Relative Monthly Stock Performance

(Relative to S&P 500: 1/99=100.0)



Source: FactSet and CIBC World Markets Corp.

Exhibit 6. Metris Companies Income Statement Projections
(Dollars in millions, except where noted)

	2001		2002E				Full Year		
	3Q	4Q	1QA	2QA	3Q	4Q	2001	2002E	2003E
Net Interest Income	$395.2	$415.8	$438.3	$428.9	$452.4	$473.9	$1,492.9	$1,793.4	$2,092.9
Non-Interest Income	155.9	171.2	130.8	119.3	125.4	129.7	612.7	505.2	583.7
Fee-Based Service Revenue	86.2	92.8	95.0	95.6	100.3	108.0	340.1	398.9	499.5
Total Revenue	**637.3**	**679.8**	**664.0**	**643.8**	**678.1**	**711.6**	**2,445.8**	**2,697.6**	**3,176.0**
Provision For Loan Losses	333.6	400.5	404.8	493.0	508.4	540.0	1,309.7	1,946.2	2,379.7
Solicitation & Marketing	42.3	40.3	40.6	56.2	46.5	47.2	174.8	190.5	197.0
Employee Compensation	61.1	53.5	56.5	54.4	50.8	50.6	225.5	212.3	211.1
DP Svcs. & Communications	23.1	22.6	22.3	20.8	16.9	16.9	90.2	76.9	70.4
Warranty & Claims Servicing	10.5	10.2	11.2	15.9	13.0	13.0	35.6	53.1	54.2
Credit Card Fraud Losses	2.6	1.6	2.2	3.0	2.2	2.2	9.1	9.6	9.1
Other	49.7	36.4	41.5	59.3	39.8	38.8	178.9	179.4	161.8
Total Non-Interest Expense	**189.3**	**164.6**	**174.4**	**209.5**	**169.3**	**168.6**	**714.1**	**721.8**	**703.5**
Income Before Taxes	**114.4**	**114.7**	**84.8**	**(58.7)**	**0.4**	**3.0**	**422.0**	**29.5**	**92.9**
Income Taxes	43.6	43.9	32.5	(22.3)	0.2	1.1	161.6	11.5	35.3
Net Inc. Before Extra. Items	**70.8**	**70.7**	**52.3**	**(36.4)**	**0.3**	**1.8**	**260.4**	**18.1**	**57.6**
Accounting Changes	—	—	—	—	—	—	14.5	—	—
Net Income	**70.8**	**70.7**	**52.3**	**(36.4)**	**0.3**	**1.8**	**245.9**	**18.1**	**57.6**
Preferred Dividends	8.8	9.0	9.2	9.4	9.4	9.4	34.8	37.4	37.6
Net Income To Common	**62.0**	**61.8**	**43.2**	**(45.8)**	**(9.1)**	**(7.6)**	**211.1**	**(19.3)**	**20.0**
Earnings Per Share	**$0.70**	**$0.72**	**$0.54**	**($0.74)**	**$0.00**	**$0.03**	**$2.62**	**($0.17)**	**$0.20**
Cumulative EPS	$1.90	$2.62	$0.54	($0.20)	($0.20)	($0.17)			
Average Shares Outstanding	101.0	98.7	97.0	61.5	61.5	61.5	99.5	70.4	100.0
Income Statement Analysis									
NIM As % Of NIMEA	14.2%	14.0%	14.5%	14.0%	14.0%	14.1%	14.0%	15.9%	14.2%
Non-Int. Income As % Of AML	5.9%	6.0%	4.4%	4.0%	4.0%	4.0%	5.9%	4.6%	4.1%
Fee-Based inc. As % Of AML	3.2%	3.2%	3.2%	3.2%	3.2%	3.3%	3.3%	3.6%	3.5%
Loss Provision As % Of AML	12.5%	14.0%	13.5%	16.7%	16.2%	16.7%	12.7%	17.7%	16.6%
Non-Int. Expense As % Of AML	7.1%	5.7%	5.8%	7.1%	5.4%	5.2%	6.9%	6.6%	4.9%
Risk Adjusted Revenue	351.0	339.4	279.9	202.1	192.2	192.7	1,305.6	866.8	1,183.3
Risk Adjusted Margin	13.2%	11.8%	9.4%	6.8%	6.1%	5.9%	12.6%	7.9%	8.3%
Profitability Analysis									
Pretax Margin	18.0%	16.9%	12.8%	-9.1%	0.1%	0.4%	17.3%	1.1%	2.9%
Net Margin	11.1%	10.4%	7.9%	-5.6%	0.0%	0.3%	10.6%	0.7%	1.8%
Return On Managed Assets	2.59%	2.43%	1.74%	-1.22%	0.01%	0.06%	2.44%	0.16%	0.38%
Return On Average Equity	27.0%	26.9%	18.1%	-12.6%	0.1%	0.6%	25.7%	1.7%	3.9%
Total Managed Portfolio	**$11,024**	**$11,906**	**$11,773**	**$11,691**	**$12,276**	**$13,013**	**$11,906**	**$13,013**	**$14,683**
Number Of Net Accounts	4,814	4,929	4,837	4,841	4,866	4,891	4,929	4,891	5,101
Enhancement Services Active Members	5,857	5,775	5,587	5,487	5,567	5,647	5,775	5,647	5,727
Total Mgd. Delinquency Rate	8.89%	9.43%	9.80%	10.23%	10.70%	11.00%	9.43%	11.00%	11.10%
Mgd. Net-Charge-Off Rate	10.76%	11.86%	12.85%	14.97%	15.50%	16.00%	11.02%	16.67%	13.92%

Source: Company reports and CIBC World Markets Corp.

Providian Financial (PVN—$4.63—SU)

Expected Reporting Date—Week of October 28
12-18 Month Price Target—N/A

Fiscal Year: Dec.	CIBC Earnings Estimates 1Q	2Q	3QE	4Q	Year
2001	$0.80	$0.82	$0.20	($1.39)	$0.49
2002E	0.02	0.31	0.03	0.05	0.41
2003E	0.07	0.13	0.17	0.21	0.58

	Consensus EPS Estimate
3Q02E	$0.04
2002E	0.20
2003E	0.61

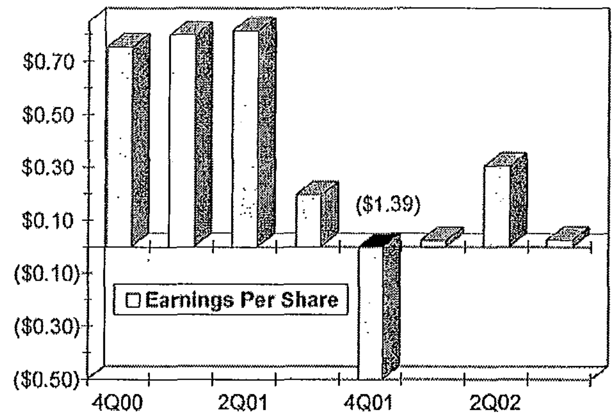
SU—Sector Underperformer

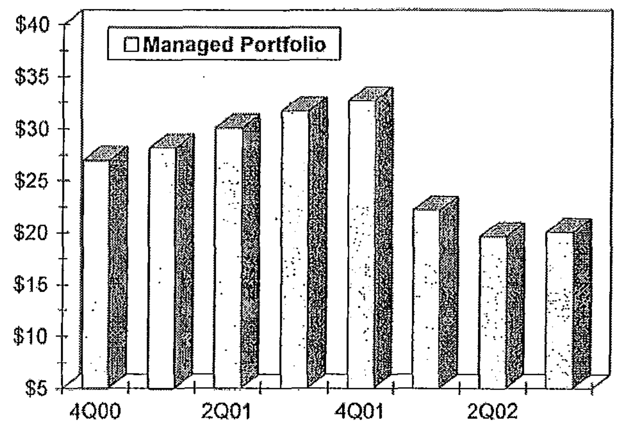
- Further credit deterioration is likely, leading to the managed net charge-off rate potentially reaching 18.5%. Heavy loan-loss provisioning should provide adequate reserves to absorb losses.
- Revenue growth could be tempered by the lower finance yields and fee income from higher-quality accounts. Higher funding costs related to company-specific concerns may also squeeze the net interest margin.
- The ongoing restructuring and strategic shift toward higher-quality accounts could limit new account growth during the quarter, with the managed portfolio remaining nearly flat at roughly $20 billion.
- The cost benefit from decommissioned facilities and employee layoffs should further be realized and begin to be translated into margin improvement.
- With liquidity issues resolved, the focus has turned to the ongoing restructuring. Although significant improvement has been made, earnings should remain depressed through year end.

Investment Risk: Credit quality deterioration is likely to continue, promoting further reserve building and negatively affect earnings. Limited visibility, especially regarding any further impact from the implementation of the FFIEC guidelines, has resulted in a lack of confidence in our current earnings estimates.

Fundamental Trend Performance

(Dollars in billions, except where noted)

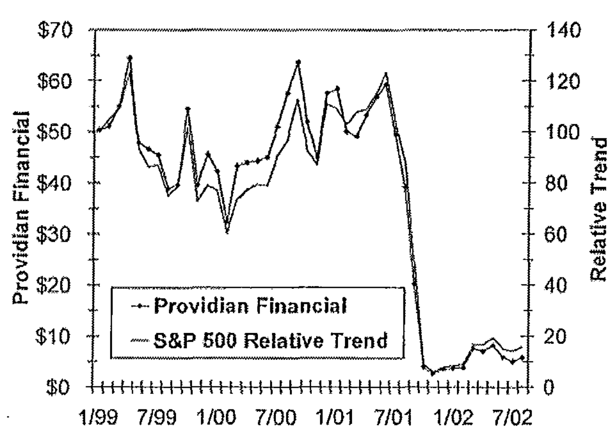




Source: Company reports and CIBC World Markets Corp.

Relative Monthly Stock Performance

(Relative to S&P 500: 1/99=100.0)



Source: FactSet and CIBC World Markets Corp.

Exhibit 7. Providian Financial Income Statement Projections

(Dollars in millions, except where noted)

	2001		2002E				Full Year		
	3Q	4Q	1QA	2QA	3Q	4Q	2001	2002E	2003E
Net Interest Income	$996.5	$990.9	$962.4	$783.2	$816.5	$812.3	$3,818.0	$3,374.4	$3,370.1
Non-Interest Income	687.1	224.4	1,079.1	532.6	574.1	562.7	2,477.0	2,748.5	2,383.2
Total Revenue	**1,683.6**	**1,215.3**	**2,041.5**	**1,315.8**	**1,390.6**	**1,375.1**	**6,295.0**	**6,122.9**	**5,753.3**
Provision For Loan Losses	977.5	1,272.0	1,483.1	677.9	918.5	898.1	3,713.8	3,977.7	3,593.4
Salaries And Benefits	—	142.3	165.0	138.9	129.1	119.0	667.9	551.9	503.2
Solicitation	—	167.8	108.7	104.2	114.8	119.9	615.4	447.6	517.5
Occupancy And Equipment	—	65.5	53.2	82.5	46.4	45.2	222.2	227.4	188.0
DP And Communication	—	46.9	49.3	44.7	41.3	40.7	202.5	176.0	169.2
Other	—	174.1	170.9	119.1	127.7	127.6	639.5	545.2	501.9
Total Non-Interest Expense	**610.1**	**596.6**	**547.1**	**489.3**	**459.3**	**452.4**	**2,347.5**	**1,948.1**	**1,879.7**
Income Before Taxes	**96.0**	**(653.3)**	**11.3**	**148.6**	**12.7**	**24.5**	**233.7**	**197.1**	**280.2**
Income Taxes	37.9	(258.0)	4.5	58.7	5.0	9.7	92.3	77.9	110.7
Net Income—Continuing Ops.	**58.1**	**(395.3)**	**6.8**	**89.9**	**7.7**	**14.8**	**141.4**	**119.2**	**169.5**
Discontinued Operations	(14.8)	(85.9)	3.2	64.0	—	—	(118.2)	67.2	—
Accounting Change	—	—	—	—	—	—	1.8	—	—
Net Income	57.2	(481.2)	10.0	153.9	7.7	14.8	38.9	186.4	169.5
Average Diluted Shares Out.	295.0	283.4	288.5	294.2	294.2	294.2	293.5	292.8	294.2
Diluted Earnings Per Share									
Continuing Operations	**$0.20**	**($1.39)**	**$0.02**	**$0.31**	**$0.03**	**$0.05**	**$0.49**	**$0.41**	**$0.58**
Discontinued Operations	($0.05)	($0.31)	$0.01	$0.22	—	—	—	—	—
Cumulative Continuing Ops.	$1.81	$0.49	$0.02	$0.33	$0.36	$0.41	—	—	—
Cumulative Total Operations	$1.76	$0.13	$0.03	$0.56	$0.59	$0.64	$0.13	$0.64	$0.58
Managed Profitability Analysis									
Pretax Margin	5.7%	-53.8%	0.6%	11.3%	0.9%	1.8%	3.7%	3.2%	4.9%
Net Margin	3.5%	-32.5%	0.3%	6.8%	0.6%	1.1%	2.2%	1.9%	2.9%
Total Managed Portfolio	**$31,704**	**$32,654**	**$22,144**	**$19,639**	**$20,032**	**$20,402**	**$32,654**	**$20,402**	**$21,932**
Number Of Accounts	17.9	18.4	15.0	12.9	13.4	13.9	18.4	13.9	14.4
Total Delinquency Rate	8.7%	8.8%	10.2%	10.2%	10.2%	10.4%	8.8%	10.4%	10.1%
Mgd. Net-Charge-Off Rate	10.4%	12.7%	15.1%	17.5%	18.5%	20.0%	10.8%	15.6%	15.9%
Risk Adjusted Revenue	879.8	195.3	1,025.2	449.1	328.5	271.7	3,078.2	2,532.3	2,046.5
Risk Adjusted Margin	11.42%	2.43%	15.19%	9.08%	5.72%	4.92%	10.32%	11.03%	8.79%
Period-End Balance Sheet Data									
Cash & Equivalents	—	$450	$388	$385	$395	$399	$450	$399	$431
Federal Funds Sold	—	1,611	3,536	5,604	3,416	3,450	1,611	3,450	3,723
Investment Securities Avail.	—	1,324	1,709	1,863	1,618	1,543	1,324	1,543	1,562
Net Finance Receivables	**—**	**9,626**	**6,893**	**6,288**	**6,651**	**6,943**	**9,626**	**6,943**	**7,026**
Due From Securitizations	—	2,926	2,277	2,471	2,157	2,179	2,926	2,179	2,205
Total Assets	**—**	**19,938**	**18,729**	**17,799**	**17,977**	**18,157**	**19,938**	**18,157**	**18,375**
Deposits	—	15,318	14,425	13,907	13,842	13,981	15,318	13,981	14,148
Long-Term Notes Payable	—	959	865	871	809	817	959	817	827
Accrued Expenses And Other	—	1,532	1,352	745	1,294	1,307	1,532	1,307	1,286
Total Liabilities	**—**	**17,926**	**16,734**	**15,614**	**16,035**	**16,196**	**17,926**	**16,196**	**16,353**
Shareholders' Equity	**—**	**1,908**	**1,890**	**2,081**	**1,837**	**1,857**	**1,908**	**1,857**	**1,917**

Source: Company reports and CIBC World Markets Corp.

Diversified Finance

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American Express (AXP—$31.20—SP)

Expected Reporting Date—Monday, October 28
12-18 Month Price Target—$40

Fiscal Year: Dec.	CIBC Earnings Estimates 1Q	2Q	3QE	4Q	Year
2001	$0.40	$0.13	$0.22	$0.22	$0.98
2002E	0.46	0.51	0.53	0.50	1.98
2003E	0.52	0.58	0.58	0.57	2.22

	Consensus EPS Estimate
3Q02E	$0.51
2002E	1.99
2003E	2.25

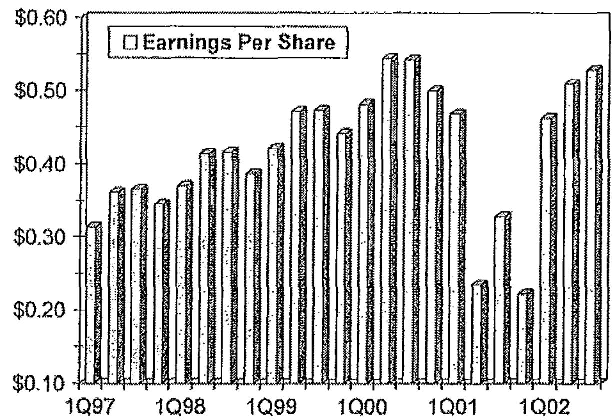
SP—Sector Performer.

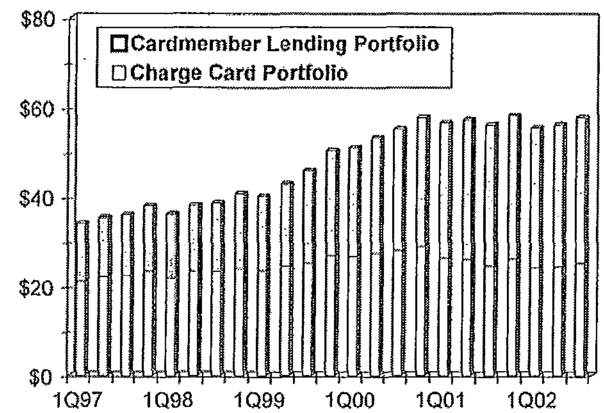
- The potential exists for a deferred acquisition cost (DAC) write-down related to annuity sales by AEFA given the volatile capital markets environment and dismal stock market returns. Any write-down, however, would be considered a non-core charge that would not affect operating EPS.
- Sluggish corporate spending and weak travel activity should continue to limit revenue growth at TRS. Earlier cost-cutting initiatives, however, should offset any bottom-line impact. Aggressive marketing during the second half could support modest growth in billed business volume and cardmember spending.
- AEFA's earnings contribution should remain under pressure, as operating improvements geared toward enhanced efficiency only partially offset potential deterioration in assets under management because of the weak stock market and fund outflows during the quarter.
- AEB should remain a modest contributor to earnings as fundamental performance improves and the company shifts away from corporate banking in favor of consumer lending.
- Credit quality trends should remain relatively stable, but may demonstrate some modest erosion in the lending portfolio given the ongoing economic weakness. Reserves, however, should remain sufficient to absorb losses.

Investment Risk: Corporate spending could remain depressed, while depressed consumer sentiment levels could translate into reduced consumer charge activity. However, the budding recovery and cost containment efforts could alleviate the impact on TRS results.

Fundamental Trend Performance

(Dollars in billions, except where noted)

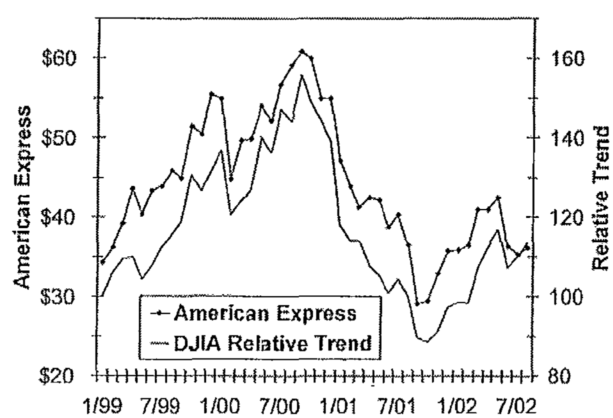




Source: Company reports and CIBC World Markets Corp.

Relative Monthly Stock Performance

(Relative to DJIA: 1/99=100.0)



Source: FactSet and CIBC World Markets Corp.

Exhibit 8. American Express Company Income Statement Projections

(Dollars in millions, except where noted)

	2001		2002E				Full Year		
	3Q	4Q	1QA	2QA	3Q	4Q	2001	2002E	2003E
Travel Related Services	$4,466	$4,527	$4,452	$4,655	$4,692	$4,696	$18,102	$18,495	$19,415
American Express Finl. Advisors	908	949	964	893	881	899	2,825	3,637	4,054
American Express Bank	165	168	178	180	190	193	650	741	807
Consolidated Net Revenue	**5,539**	**5,644**	**5,594**	**5,728**	**5,763**	**5,788**	**21,577**	**22,873**	**24,276**
Corporate & Other	(61)	(54)	(52)	(48)	(61)	(61)	(218)	(221)	(261)
Total Consolidated Net Revenue	**5,478**	**5,590**	**5,542**	**5,680**	**5,703**	**5,727**	**21,359**	**22,652**	**24,015**
Travel Related Services	4,150	4,331	3,786	3,833	3,862	3,930	16,123	15,411	16,290
American Express Finl. Advisors	714	729	712	691	693	698	2,849	2,794	2,984
American Express Bank	227	152	158	153	166	168	664	645	698
Consolidated Oper. Expenses	**5,091**	**5,212**	**4,656**	**4,677**	**4,721**	**4,796**	**19,636**	**18,850**	**19,971**
Travel Related Services	316	196	666	822	830	766	1,979	3,084	3,125
American Express Finl. Advisors	194	220	252	202	188	201	(24)	843	1,070
American Express Bank	(62)	16	20	27	24	25	(14)	96	109
Consolidated Pretax Income	**448**	**432**	**938**	**1,051**	**1,042**	**992**	**1,941**	**4,023**	**4,305**
Corporate & Other	(94)	(85)	(80)	(90)	(97)	(92)	(346)	(359)	(372)
Total Consolidated Pretax Inc.	**354**	**347**	**858**	**961**	**945**	**900**	**1,595**	**3,665**	**3,933**
Travel Related Services	248	170	467	565	585	540	1,459	2,157	2,219
American Express Finl. Advisors	145	163	182	145	135	144	52	606	768
American Express Bank	(43)	9	13	18	14	15	(13)	61	66
Consolidated Net Income	**350**	**342**	**662**	**728**	**735**	**699**	**1,498**	**2,824**	**3,053**
Corporate & Other	(52)	(45)	(44)	(45)	(52)	(49)	(187)	(190)	(214)
Total Consolidated Net Income	**298**	**297**	**618**	**683**	**683**	**650**	**1,311**	**2,634**	**2,839**
Average Common Shares Outstanding									
Basic	1,324	1,329	1,325	1,325	1,318	1,285	1,324	1,313	1,263
Diluted	1,335	1,336	1,335	1,341	1,334	1,301	1,338	1,328	1,278
Earnings Per Share									
Basic	$0.33	$0.22	$0.47	$0.52	$0.52	$0.51	$1.09	$2.01	$2.25
Diluted	**$0.33**	**$0.22**	**$0.46**	**$0.51**	**$0.51**	**$0.50**	**$0.98**	**$1.98**	**$2.22**
Cumulative Basic	$0.87	$1.09	$0.47	$0.98	$1.50	$2.01	—	—	—
Cumulative Diluted	$0.75	$0.98	$0.46	$0.97	$1.48	$1.98	—	—	—
Cash Dividends Per Share	$0.08	$0.08	$0.08	$0.08	$0.08	$0.08	$0.32	$0.32	$0.32

Source: Company reports and CIBC World Markets Corp.

Countrywide Credit (CCR—$48.53—SO)

Expected Reporting Date—Week of October 14
12-18 Month Price Target—$62

Fiscal Year: Dec.	CIBC Earnings Estimates 1Q	2Q	3QE	4Q	Year
2001*	—	—	—	—	$3.89
2002E	1.32	1.48	1.62	1.65	6.07
2003E	1.55	1.60	1.58	1.55	6.27

	Consensus EPS Estimate
3Q02E	$1.62
2002E	6.02
2003E	6.36

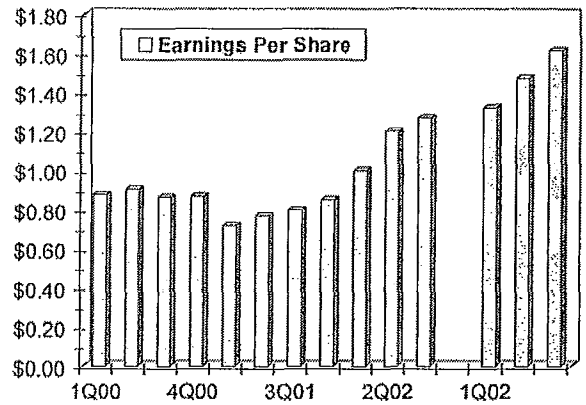
* Fiscal year end changed to Feb. from Sept. effective 1/1/02
SO—Sector Outperformer.

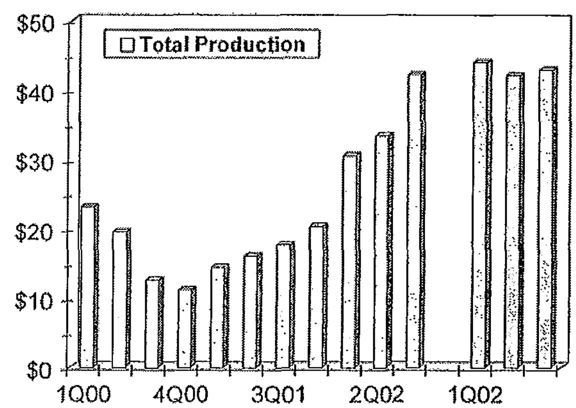
- Record low mortgage rates, sound housing market fundamentals and healthy home price gains should drive robust mortgage origination volume approaching $43 billion.
- Mortgage banking, specifically mortgage production, should remain the primary earnings driver, but the ongoing expansion of the LandSafe closing services business, as well as the other diversified operations, should increasingly contribute to total income.
- Capital Markets revenue growth should be bolstered by heavy mortgage securities trading volume and increased penetration of third-party investment banking clients.
- The Insurance unit may increasingly contribute to growth, specifically through the Balboa carrier business, which has upgraded its sales force to improve market penetration.
- The Banking unit rapidly is gaining momentum by growing its assets and leveraging its low-cost deposit base to improve profitability.
- Although the risk for a mortgage servicing rights (MSR) asset write-down exists, the bottom line impact should be offset by heavy origination growth, which operates as a natural hedge.

Investment Risk: Rising interest rates and a flattening of the yield curve could slow mortgage production volume growth in 2003; however, Countrywide's large servicing portfolio acts as a natural hedge and should generate accelerated fee income in such a scenario.

Fundamental Trend Performance

(Dollars in billions, except where noted)

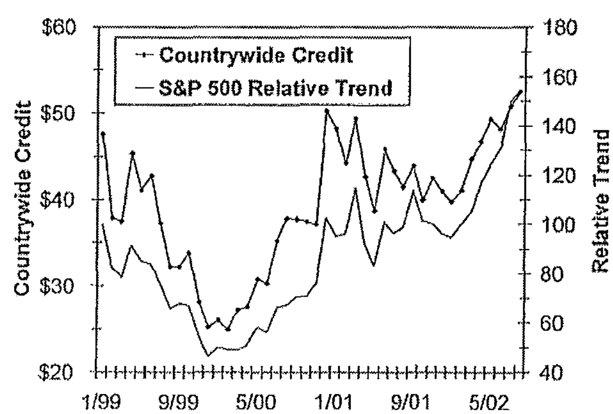




Source: Company reports and CIBC World Markets Corp.

Relative Monthly Stock Performance

(Relative to S&P 500: 1/99=100.0)



Source: FactSet and CIBC World Markets Corp.

Exhibit 9. Countrywide Credit Income Statement Projections
(Dollars in millions, except where noted)

	Calendar 2002E				10 Mths. Ended	Calendar Full Year	
	1QA	2QA	3Q	4Q	12/2001	2002E	2003E
Loan Origination Fees	$237.4	$224.2	$236.2	$240.5	$765.9	$938.2	$919.9
Gain On Sale Of Loans	397.8	375.0	386.5	393.5	913.1	1,552.7	1,519.3
Loan Production Revenue	**635.1**	**599.1**	**622.7**	**633.9**	**1,679.0**	**2,490.9**	**2,439.2**
Net Interest Income	**202.8**	**185.4**	**208.7**	**237.9**	**347.2**	**834.8**	**1,143.1**
Loan Servicing Revenue	438.7	461.4	523.3	565.2	1,281.7	1,988.6	2,504.6
Amort. & Impairment/ Recovery Of MSRs, Net	576.4	479.1	523.3	565.2	1,220.3	2,144.0	2,630.4
Net Loan Servicing Fees	**(137.8)**	**(17.7)**	**0.0**	**0.0**	**61.3**	**(155.4)**	**(125.8)**
Net Premiums Earned	116.3	133.7	149.8	164.8	316.4	564.6	750.2
Commissions & Fees	98.9	97.7	105.0	111.3	231.7	412.9	486.4
Total Revenue	**915.4**	**998.3**	**1,086.2**	**1,147.9**	**2,635.7**	**4,147.8**	**4,693.0**
Salaries	391.4	410.7	445.3	481.0	996.1	1,728.5	2,021.6
Occupancy	94.4	96.1	105.4	111.3	330.0	407.2	485.8
Marketing	18.1	23.9	25.0	27.5	54.1	94.5	113.9
Insurance Net Losses	51.3	59.9	65.2	68.9	132.4	245.2	281.6
Other Operating Expenses	94.0	102.5	110.8	117.1	334.4	424.3	492.8
Total Expenses	**649.3**	**693.0**	**751.6**	**805.8**	**1,847.1**	**2,899.8**	**3,395.7**
Pretax Income	**266.1**	**305.3**	**334.5**	**342.1**	**788.6**	**1,248.0**	**1,297.3**
Provision For Taxes	98.5	114.4	125.4	128.2	302.6	466.6	486.2
Net Income	**167.6**	**190.9**	**209.2**	**213.9**	**486.0**	**781.4**	**811.1**
Diluted Shares Outstanding	126.6	129.3	129.3	129.3	124.8	128.6	129.3
Diluted EPS	**$1.32**	**$1.48**	**$1.62**	**$1.65**	**$3.89**	**$6.07**	**$6.27**
Cumulative	$1.32	$2.80	$4.42	$6.07			
Profitability Analysis							
Pretax Margin	29.1%	30.6%	30.8%	29.8%	29.9%	30.1%	27.6%
Net Margin	18.3%	19.1%	19.3%	18.6%	18.4%	18.8%	17.3%
Effective Tax Rate	37.0%	37.5%	37.5%	37.5%	38.4%	37.4%	37.5%
Revenue Breakdown							
Production	$786.4	$737.8	$622.7	$633.9	—	$2,780.9	$2,347.2
Servicing	(163.0)	(54.5)	65.2	68.9	—	(83.4)	281.6
Closing Services	35.1	33.7	137.6	169.6	—	376.0	937.9
Total Mortgage Banking	658.6	717.1	825.5	872.4	—	3,073.5	3,566.6
Insurance	141.3	160.6	162.9	172.2	—	637.0	703.9
Capital Markets	84.6	78.6	67.3	71.2	—	301.7	295.7
Global Operations	20.2	23.7	27.2	28.7	—	99.8	117.3
Banking	16.2	25.1	10.9	11.5	—	63.7	46.9
Other	(5.5)	(6.8)	2.2	2.3	—	(7.8)	9.4
Total Diversified Businesses	256.8	281.2	270.5	285.8	—	1,094.3	1,173.2
Total Revenue	**915.4**	**998.3**	**1,086.2**	**1,147.9**	**—**	**4,167.9**	**4,739.9**
Pretax Income							
Production	$448.4	$379.8	$155.7	$158.5	—	$1,142.3	$672.7
Servicing	(271.2)	(168.3)	24.1	25.5	—	(389.9)	103.8
Closing Services	14.4	14.0	87.2	89.7	—	205.3	236.9
Total Mortgage Banking	191.5	225.5	267.0	273.7	—	957.7	1,013.4
Insurance	26.1	29.4	32.9	35.4	—	123.9	148.9
Capital Markets	39.5	37.5	25.6	27.8	—	130.4	116.8
Global Operations	0.1	(1.3)	1.9	2.1	—	2.8	9.1
Banking	10.2	16.2	6.5	7.1	—	40.1	29.5
Other	(1.4)	(2.1)	0.6	(3.9)	—	(6.8)	(20.4)
Total Diversified Businesses	74.6	79.7	67.6	68.4	—	290.3	283.9

Source: Company reports and CIBC World Markets Corp.

Household International (HI—$27.32—SP)

Expected Reporting Date—Wednesday, October 16
12-18 Month Price Target—$36

Fiscal Year: Dec.	CIBC Earnings Estimates 1Q	2Q	3QE	4Q	Year
2001	$0.85	$0.90	$1.02	$1.15	$3.91
2002E	1.04	1.07	1.17	1.30	4.58
2003E	1.17	1.20	1.30	1.45	5.12

	Consensus EPS Estimate
3Q02E	$1.18
2002E	4.57
2003E	5.13

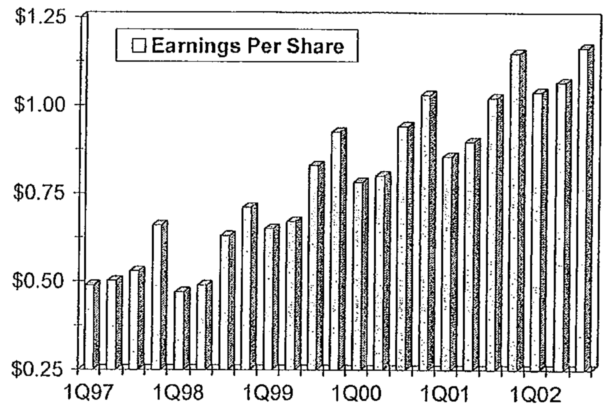
SP—Sector Performer.

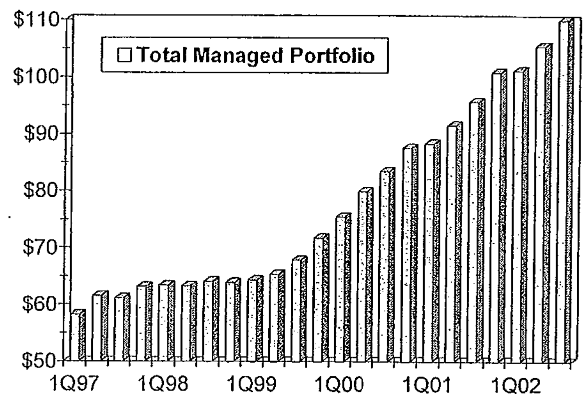
- The difference of opinion between Household International's former and current accounting firms has resulted in an earnings restatement from 1994 to the present. The change should reduce EPS by roughly $0.05 for the quarter, based on our calculations.
- Low interest rates and sustained consumer demand should drive robust portfolio gains to bring the total managed portfolio over $110 billion.
- The net finance margin should remain unchanged despite the company's pullback from the corporate debt market. ABS issuance should continue to be heavy and offer a solid, modestly priced funding alternative.
- Credit losses should continue to rise, particularly within the bankcard portfolio, as the managed portfolio seasons and the economy remains weak. Heightened concern also exists regarding the auto finance portfolio record-high reserve levels, however, should be more than adequate to absorb any future losses.
- Ongoing pressure from consumer advocates and state regulators regarding predatory lending accusations could continue to pressure price performance and drive legal expenses higher.

Investment Risk: Although rising interest rates could pressure home equity loan production and margins, the ability to reprice portions of the portfolio should mitigate the impact.

Fundamental Trend Performance

(Dollars in billions, except where noted)

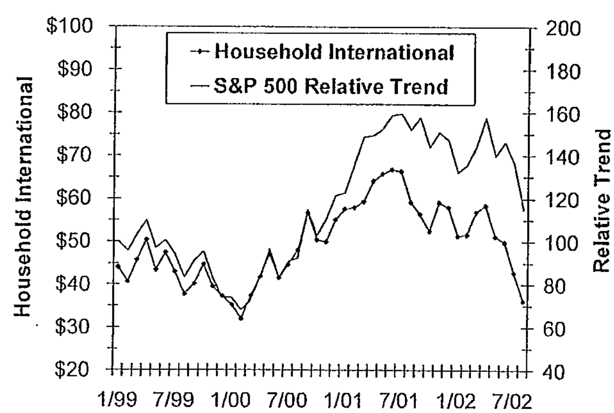




Source: Company reports and CIBC World Markets Corp.

Relative Monthly Stock Performance

(Relative to S&P 500: 1/99=100.0)



Source: FactSet and CIBC World Markets Corp.

Exhibit 10. Household International Income Statement Projections
(Dollars in millions, except where noted)

	2001		2002E				Full Year		
	3Q	4Q	1QA	2QA	3Q	4Q	2001	2002E	2003E
Finance Income	$3,304.8	$3,385.0	$3,388.5	$3,426.8	$3,678.1	$3,845.2	$13,153.4	$14,338.7	$16,641.2
Interest Expense	1,280.7	1,192.6	1,124.0	1,137.5	1,265.4	1,347.4	5,212.8	4,874.3	5,824.3
Net Interest Margin	**2,024.1**	**2,192.4**	**2,264.5**	**2,289.3**	**2,412.8**	**2,497.8**	**7,940.6**	**9,464.4**	**10,816.9**
Provision For Credit Losses	966.8	1,184.0	1,362.3	1,278.4	1,257.7	1,297.6	4,018.4	5,195.9	5,883.7
Interest Margin After Losses	**1,057.3**	**1,008.4**	**902.2**	**1,010.9**	**1,155.1**	**1,200.2**	**3,922.2**	**4,268.5**	**4,933.1**
Insurance Revenue	169.2	175.3	170.1	177.5	180.7	184.3	662.4	712.6	757.9
Investment Income	42.3	45.8	46.2	44.0	48.1	51.7	167.7	190.0	223.4
Fees Income	407.9	421.1	396.3	362.7	382.8	401.9	1,618.5	1,543.7	1,725.4
Securitization Income (Expense)	18.2	120.4	145.8	134.2	143.3	126.9	135.7	550.2	621.4
Other Income	51.5	59.9	188.0	95.3	98.4	97.6	322.5	479.3	397.3
Total Other Operating Revenue	**689.1**	**822.5**	**946.4**	**813.7**	**853.3**	**862.4**	**2,906.8**	**3,475.8**	**3,725.4**
Total Net Revenues	**1,746.4**	**1,830.9**	**1,848.6**	**1,824.6**	**2,008.4**	**2,062.6**	**6,829.0**	**7,744.2**	**8,658.5**
Salaries And Benefits	408.3	424.1	445.3	453.0	492.1	501.2	1,597.2	1,891.6	2,120.6
Sales Incentives	74.1	71.0	54.1	67.6	80.3	80.4	273.2	282.5	321.6
Occupancy And Equipment	86.1	84.1	92.2	93.3	100.4	94.9	337.4	380.8	430.4
Other Marketing	127.1	128.0	148.4	141.5	150.6	144.4	519.3	584.9	663.1
Other Servicing And Admin.	172.3	172.2	229.3	202.5	216.9	212.5	709.6	861.2	969.4
Amor. Of Intang. And Goodwill	37.4	37.4	18.2	12.5	20.1	20.6	151.2	71.4	86.6
Total Expenses	**905.3**	**916.8**	**987.5**	**970.4**	**1,060.4**	**1,054.0**	**3,587.9**	**4,072.3**	**4,591.7**
Policyholders' Benefits	77.5	74.5	84.0	87.4	84.4	82.5	302.6	338.3	367.1
Exp. & Policyholders' Benefits	**982.8**	**991.3**	**1,071.5**	**1,057.8**	**1,144.8**	**1,136.5**	**3,890.5**	**4,410.6**	**4,958.7**
Pretax Income	**763.6**	**839.6**	**777.1**	**766.8**	**863.6**	**926.1**	**2,938.5**	**3,333.6**	**3,699.8**
Income Tax Expense	259.8	290.7	266.1	253.3	285.3	305.9	1,015.0	1,110.6	1,222.2
Net Income	**503.8**	**548.9**	**511.0**	**513.5**	**578.3**	**620.2**	**1,923.5**	**2,223.0**	**2,477.6**
Preferred Dividend	2.9	8.0	8.5	15.5	15.5	15.5	15.5	55.0	62.0
Net Income For Common	**500.9**	**540.9**	**502.5**	**498.0**	**562.8**	**604.7**	**1,908.0**	**2,168.0**	**2,415.6**
Restatement Amount	(23.4)	(9.3)	(20.0)	(6.1)	(23.1)	(4.6)	(75.9)	(53.8)	(55.3)
Net Income After Restatement	**477.5**	**531.6**	**482.5**	**491.9**	**539.8**	**600.1**	**1,832.1**	**2,114.3**	**2,360.3**
Fully Diluted Shares Outstanding	467.7	463.2	462.1	461.2	461.2	461.2	468.0	461.4	461.2
FD EPS Ex. Charges And Gain	**$1.07**	**$1.17**	**$1.09**	**$1.08**	**$1.22**	**$1.31**	**$4.08**	**$4.70**	**$5.24**
Restatement Impact	($0.05)	($0.02)	($0.05)	($0.01)	($0.05)	($0.01)	($0.16)	($0.12)	($0.12)
FD EPS Including Restatement	**$1.02**	**$1.15**	**$1.04**	**$1.07**	**$1.17**	**$1.30**	**$3.91**	**$4.58**	**$5.12**
Cumulative	$2.77	$3.92	$1.04	$2.11	$3.28	$4.58			
Dividends Per Share	$0.22	$0.22	$0.22	$0.25	$0.25	$0.25	$0.85	$0.97	$1.06
Gross Managed Receivables	**95,655**	**100,823**	**101,178**	**105,461**	**110,206**	**115,386**	**100,823**	**115,386**	**131,737**
NIM As % Of AMIEA	8.57%	8.85%	8.79%	8.58%	8.69%	8.57%	8.50%	8.12%	8.10%
Provision For Losses As % Of AM	1.0%	1.2%	1.3%	1.2%	1.2%	1.1%	4.3%	4.5%	4.5%
Fee Income As % Of AMR	0.44%	0.43%	0.39%	0.35%	0.35%	0.35%	1.75%	1.34%	1.31%
Total Expenses As % Of AMR	1.0%	0.9%	1.0%	0.9%	1.0%	0.9%	3.9%	3.5%	3.5%
Managed Profitability Analysis									
Net Interest Margin	8.57%	8.85%	8.79%	8.58%	8.69%	8.57%	7.88%	8.20%	8.21%
Pretax Margin Ex. Charges	19.1%	20.0%	17.9%	18.1%	19.1%	19.7%	18.3%	18.7%	18.2%
Net Margin Ex. Charges	12.6%	13.0%	11.8%	12.1%	12.8%	13.2%	12.0%	12.5%	12.2%
Effective Tax Rate	34.0%	34.6%	34.2%	33.0%	33.0%	33.0%	34.5%	33.3%	33.0%

Source: Company reports and CIBC World Markets Corp.

Mortgage Finance

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Fannie Mae (FNM—$64.62—SO)

Expected Reporting Date—Week of October 7
12-18 Month Price Target—$92

Fiscal Year: Dec.	CIBC Earnings Estimates 1Q	2Q	3QE	4Q	Year
2001	$1.20	$1.27	$1.33	$1.40	$5.20
2002E	1.48	1.52	1.56	1.59	6.20
2003E	1.66	1.71	1.78	1.85	7.02

	Consensus EPS Estimate
3Q02E	$1.57
2002E	6.20
2003E	7.00

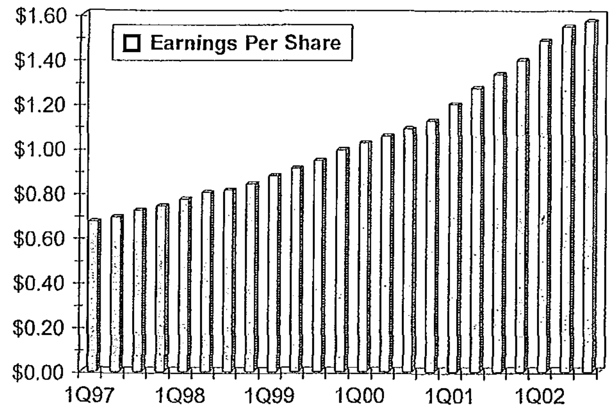
SO—Sector Outperformer.

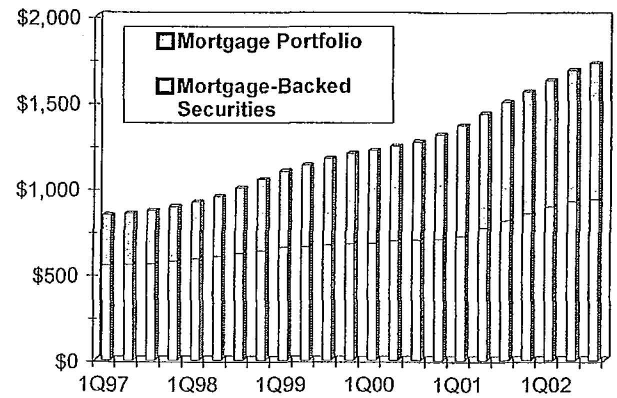
- Growth in the total book of business should be strong to drive the total to over 1.7 trillion as low mortgage rates fuel robust gains in total mortgage debt outstanding.
- Although the robust refinancing activity has resulted in duration gap widening recently, active rebalancing efforts should leave the net interest margin largely unchanged at roughly 1.10%-1.15%.
- Fee income growth should remain healthy as the guaranty fee rate holds firm at 18 bps because of robust MBS new issuance.
- Total operating expenses could rise modestly because of the elevated mortgage activity during the quarter. Although the loan loss provision should remain flat, rising foreclosures may lift related property expenses. Moreover, hedging costs may rise as FNM moves aggressively to minimize the duration gap.
- Credit quality should remain manageable, although modest erosion could occur given the tumultuous economy. Continued reserve building should further ensure manageable credit trends.

Investment Risk: Public scrutiny of the government sponsored enterprise (GSE) status and the wider duration gap continues to pressure valuation, but a strong lobbying presence should protect the company's government charter.

Fundamental Trend Performance

(Dollars in billions, except where noted)

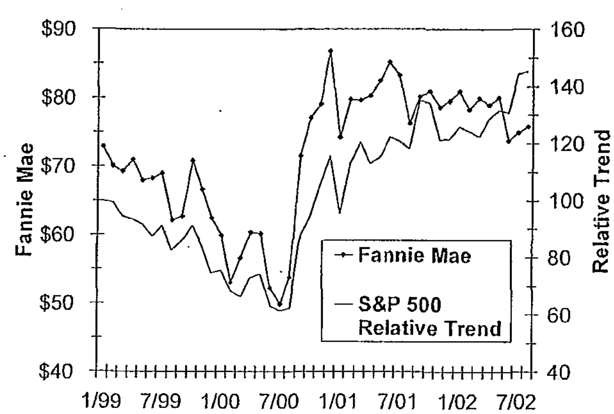




Source: Company reports and CIBC World Markets Corp.

Relative Monthly Stock Performance

(Relative to S&P 500: 1/99=100.0)



Source: FactSet and CIBC World Markets Corp.

Exhibit 11. Fannie Mae Income Statement Projections
(Dollars in millions, except where noted)

	2001		2002E				Full Year		
	3Q	4Q	1QA	2QA	3Q	4Q	2001	2002E	2003E
Net interest income	$2,079.1	$2,404.3	$2,430.4	$2,532.1	$2,536.7	$2,538.2	$8,090.1	$10,037.4	$10,474.9
Guaranty fee income	383.9	398.3	407.6	423.5	429.7	440.1	1,482.4	1,700.9	1,866.3
Fee and other income	49.0	50.2	3.6	41.6	9.6	9.9	151.0	64.8	42.8
Total revenue	**2,512.0**	**2,852.8**	**2,841.6**	**2,997.2**	**2,976.0**	**2,988.2**	**9,723.5**	**11,803.0**	**12,383.9**
Provision for losses	30.0	30.0	30.0	30.0	30.0	30.0	115.0	120.0	110.0
Foreclosed property expenses	(45.1)	(45.8)	(51.7)	(54.2)	(55.8)	(56.6)	(192.7)	(218.4)	(236.9)
Administrative expenses	(272.4)	(251.3)	(290.1)	(301.3)	(316.2)	(323.5)	(1,017.6)	(1,231.1)	(1,360.2)
Special contribution	—	(300.0)	—	—	—	—	(300.0)	—	—
Total expenses	**(317.5)**	**(597.1)**	**(341.8)**	**(355.5)**	**(372.1)**	**(380.1)**	**(1,510.3)**	**(1,449.5)**	**(1,597.1)**
Purchased options income (expense)	(413.1)	577.9	(787.2)	(498.2)	(475.0)	(450.0)	(37.4)	(2,210.4)	(1,675.0)
Pretax income	**1,604.7**	**2,772.4**	**1,570.9**	**1,948.8**	**1,999.0**	**2,038.1**	**7,766.9**	**7,556.8**	**8,921.8**
Income taxes	(375.2)	(803.6)	(362.3)	(485.1)	(497.6)	(507.3)	(2,040.7)	(1,852.3)	(2,220.8)
Net income before extra. items	**1,229.5**	**1,968.8**	**1,208.6**	**1,463.7**	**1,501.4**	**1,530.8**	**5,726.2**	**5,704.4**	**6,701.0**
Extraordinary gain (loss)	—	—	—	—	—	—	—	—	—
Effect of accounting change	—	—	—	—	—	—	167.9	—	—
Net income	**1,229.5**	**1,968.8**	**1,208.6**	**1,463.7**	**1,501.4**	**1,530.8**	**5,894.1**	**5,704.4**	**6,701.0**
Preferred stock dividends	(35.0)	(35.0)	(32.8)	(24.1)	(24.1)	(24.1)	(138.0)	(105.1)	(96.4)
Net income to common	1,194.5	1,933.8	1,175.8	1,439.6	1,477.3	1,506.7	5,756.1	5,599.3	6,604.6
Operating net income calculation									
Net Income	1,229.5	1,968.8	1,208.6	1,463.7	1,501.4	1,530.8	5,894.1	5,704.4	6,701.0
Purchased options income (expense)	413.1	(577.9)	787.2	498.2	475.0	450.0	37.4	2,210.4	1,675.0
Purchased options amort. expense	(186.9)	(239.0)	(310.2)	(330.4)	(285.0)	(270.0)	(590.1)	(1,195.6)	(920.0)
Net purchased options adjustment	**226.2**	**(816.9)**	**477.0**	**167.8**	**190.0**	**180.0**	**(552.7)**	**1,014.8**	**755.0**
Income taxes on purchased options	(79.2)	285.9	(166.9)	(58.8)	(95.0)	(90.0)	193.4	(410.7)	(335.0)
Effect of accounting change	—	—	—	—	—	—	(167.9)	—	—
Operating net income	**1,376.5**	**1,437.8**	**1,518.7**	**1,572.7**	**1,596.4**	**1,620.8**	**5,366.9**	**6,308.5**	**7,121.0**
Preferred stock dividends	(35.0)	(35.0)	(32.8)	(24.1)	(24.1)	(24.1)	(138.0)	(105.1)	(96.4)
Average diluted shares outstanding	1,006.9	1,005.2	1,001.7	1,000.4	1,000.4	1,000.4	1,006.3	1,000.7	1,000.4
Earnings per diluted share	**$1.19**	**$1.92**	**$1.17**	**$1.44**	**$1.48**	**$1.51**	**$5.72**	**$5.60**	**$6.60**
Cumulative	3.80	5.72	1.17	2.61	4.09	5.60			
Operating EPS per diluted share	**$1.33**	**$1.40**	**$1.48**	**$1.55**	**$1.57**	**$1.60**	**$5.20**	**$6.20**	**$7.02**
Cumulative	3.80	5.20	1.48	3.03	4.60	6.20			
Cash dividends per share	$0.30	$0.30	$0.33	$0.33	$0.33	$0.33	$1.20	$1.32	$1.40
Cumulative	0.90	1.20	0.33	0.66	0.99	1.32			
Net interest margin calculation									
Average balances—									
Net mortgage investment	673,170	689,354	715,604	732,796	755,402	782,537	658,195	759,345	855,976
Liquid investments	57,586	65,173	65,165	69,187	72,245	74,077	58,811	64,921	77,894
Total net investment	**730,756**	**754,527**	**780,769**	**801,983**	**827,646**	**856,614**	**717,006**	**824,266**	**933,871**
Adjusted net interest income	$1,892.2	$2,165.3	$2,120.2	$2,201.7	$2,251.7	$2,268.2	$7,500.0	$8,841.8	$9,554.9
Taxable-equivalent adjustment	119.7	125.6	123.2	125.9	127.8	130.3	469.7	507.2	548.0
Net interest margin, tax-equivalent	1.10%	1.21%	1.15%	1.16%	1.15%	1.12%	1.11%	1.13%	1.08%
Fee income/mortgage portfolio	0.029%	0.028%	0.002%	0.022%	0.005%	0.005%	0.021%	0.008%	0.005%
Profitabiilty analysis									
Pretax margin	63.9%	97.2%	55.3%	65.0%	67.2%	68.2%	79.9%	64.0%	72.0%
Net margin	48.9%	69.0%	42.5%	48.8%	50.4%	51.2%	58.9%	48.3%	54.1%
Effective tax rate	23.4%	29.0%	23.1%	24.9%	24.9%	24.9%	26.3%	24.5%	24.9%
Effective tax rate on pur. options	19.2%	49.5%	21.2%	11.8%	20.0%	20.0%	-517.1%	18.6%	20.0%

Source: Company reports and CIBC World Markets Corp.

Freddie Mac (FRE—$59.00—SO)

Expected Reporting Date—Week of October 21
12-18 Month Price Target—$76

Fiscal Year: Dec.	CIBC Earnings Estimates 1Q	2Q	3QE	4Q	Year
2001	$0.96	$1.03	$1.08	$1.14	$4.21
2002E	1.19	1.22	1.26	1.30	5.03
2003E	1.36	1.40	1.47	1.50	5.73

	Consensus EPS Estimate
3Q02E	$1.27
2002E	5.03
2003E	5.69

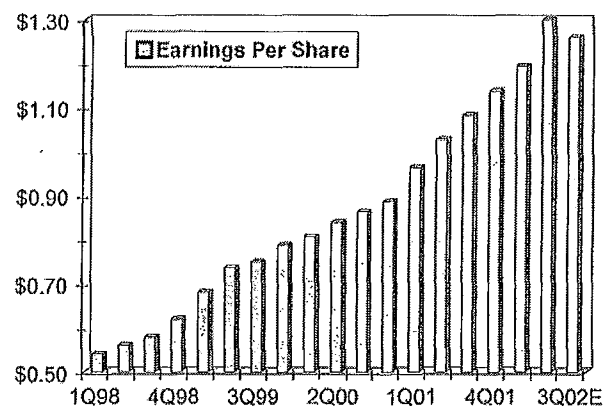
SO—Sector Outperformer.

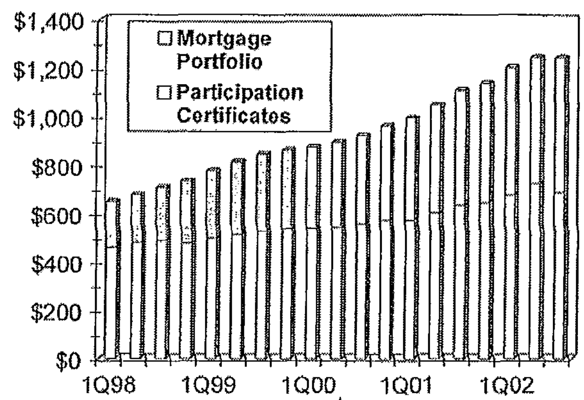
- The total mortgage portfolio should approach $1.3 trillion as housing market strength supports robust growth in mortgage debt outstanding.
- Active interest rate risk management, which led to a zero duration gap in August, should insulate the operating net interest margin from volatility and remain in a range of 0.80%-0.85%.
- The steady guarantee fee rate of 18.5 bps, coupled with total PCs exceeding $1 trillion, should result in solid fee income growth for the quarter.
- Operating efficiency should remain strong and leave total non-interest expense nearly unchanged. A modest up-tick in hedging expense could occur, however, given the heavy refinancing activity.
- Standardized underwriting, credit-risk sharing and active servicer monitoring should all support steady credit quality trends.

Investment Risk: Public scrutiny of the government sponsored enterprise (GSE) status continues to pressure valuation, but a strong lobbying presence should protect the company's government charter.

Fundamental Trend Performance

(Dollars in billions, except where noted)

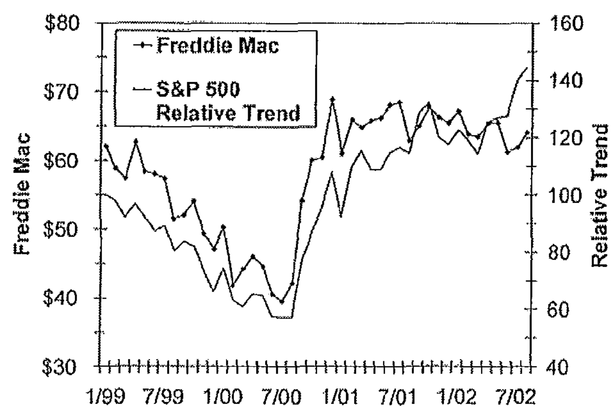




Source: Company reports and CIBC World Markets Corp.

Relative Monthly Stock Performance

(Relative to S&P 500: 1/99=100.0)



Source: FactSet and CIBC World Markets Corp.

Exhibit 12. Freddie Mac Income Statement Projections

(Dollars in millions, except where noted)

	2001		2002E				Full Year		
	3Q	4Q	1QA	2QA	3Q	4Q	2001	2002E	2003E
Operating earnings calculation									
Net interest income	$1,015	$1,194	$1,294	$1,292	$1,339	$1,351	$3,932	$5,276	$5,746
Guarantee fees	416	433	453	478	479	477	1,639	1,886	1,986
Total other income	(32)	(110)	(200)	(156)	(195)	(179)	(83)	(730)	(564)
Total operating revenue	**1,399**	**1,517**	**1,547**	**1,614**	**1,623**	**1,649**	**5,488**	**6,432**	**7,167**
Non-interest expense	(253)	(322)	(294)	(245)	(290)	(300)	(1,065)	(1,129)	(1,159)
Pretax operating income	**1,146**	**1,195**	**1,253**	**1,369**	**1,332**	**1,349**	**4,423**	**5,303**	**6,008**
Income taxes	(333)	(342)	(360)	(401)	(393)	(398)	(1,269)	(1,552)	(1,772)
Operating income before extra. items	**813**	**853**	**893**	**968**	**939**	**951**	**3,154**	**3,751**	**4,236**
Extraordinary gain (loss)	—	—	—	—	—	—	—	—	—
Operating income	**813**	**853**	**893**	**968**	**939**	**951**	**3,154**	**3,751**	**4,236**
Preferred stock dividends	(58)	(59)	(60)	(59)	(59)	(59)	(217)	(237)	(236)
Operating income for common	**755**	**794**	**833**	**909**	**880**	**892**	**2,937**	**3,514**	**4,000**
Operating earnings per diluted share	**$1.08**	**$1.14**	**$1.19**	**$1.30**	**$1.26**	**$1.28**	**$4.21**	**$5.03**	**$5.73**
Cumulative	$3.08	$4.21	$1.19	$2.50	$3.76	$5.03			
Dividends per share	$0.20	$0.20	$0.22	$0.22	$0.22	$0.22	$0.80	$0.88	$0.96
Cumulative	$0.60	$0.80	$0.22	$0.44	$0.66	$0.88			
Operating net interest margin calculation									
Operating net interest inc. on earning assets	1,015	1,194	1,294	1,292	1,339	1,351	3,932	5,276	5,746
Taxable-equivalent adjustment	55	51	62	59	62	65	229	248	294
Operating net interest inc., tax-equiv. basis	1,070	1,245	1,356	1,351	1,401	1,416	4,161	5,524	6,040
Average retained portfolio	459,613	483,239	512,673	518,939	539,279	554,828	445,478	540,550	585,148
Average investments	81,885	91,678	95,338	99,408	101,006	103,783	80,016	76,372	93,034
Total average interest-earnings assets	**541,498**	**574,917**	**608,011**	**618,347**	**640,284**	**658,611**	**525,494**	**616,922**	**678,182**
Operating net interest margin, tax equiv.	**0.80%**	**0.87%**	**0.89%**	**0.88%**	**0.88%**	**0.86%**	**0.80%**	**0.90%**	**0.89%**
Profitability analysis—operating basis									
Pretax margin	81.9%	78.8%	81.0%	84.8%	82.1%	81.8%	80.6%	82.4%	83.8%
Net margin	58.1%	56.2%	57.7%	60.0%	57.9%	57.7%	57.5%	58.3%	59.1%
Effective tax rate	29.1%	28.6%	28.7%	29.3%	29.5%	29.5%	28.7%	29.3%	29.5%
Reported Earnings									
Net interest income	$1,438	$1,876	$1,723	$1,560	$1,729	$1,778	$5,480	$6,790	$7,165
Management & guarantee income	416	433	453	478	479	477	1,639	1,886	1,986
Fair value gains (losses)	(85)	105	240	(115)	(50)	(50)	(27)	25	(200)
Other income	68	92	(70)	(90)	(95)	(99)	219	(354)	(449)
Total revenue	**1,837**	**2,506**	**2,346**	**1,833**	**2,063**	**2,106**	**7,311**	**8,348**	**8,502**
Total non-interest expense	(253)	(322)	(294)	(245)	(290)	(300)	(1,065)	(1,129)	(1,159)
Pretax income	**1,584**	**2,184**	**2,052**	**1,588**	**1,772**	**1,806**	**6,246**	**7,218**	**7,343**
Income taxes	(487)	(689)	(639)	(478)	(534)	(544)	(1,908)	(2,194)	(2,210)
Net income	**1,032**	**1,364**	**1,413**	**1,110**	**1,239**	**1,262**	**4,142**	**5,024**	**5,133**
Average diluted shares outstanding	697.2	697.7	697.6	698.4	698.4	698.4	696.9	698.2	698.4
Earnings per diluted common share	**$1.40**	**$1.87**	**$1.94**	**$1.50**	**$1.69**	**$1.72**	**$5.63**	**$6.86**	**$7.01**
Cumulative	$3.77	$5.64	$1.94	$3.44	$5.13	$6.86			
Profitability analysis—reported basis									
Pretax margin	86.2%	87.2%	87.5%	86.6%	85.9%	85.8%	85.4%	86.5%	86.4%
Net margin	59.7%	59.7%	60.2%	60.6%	60.1%	59.9%	59.3%	60.2%	60.4%
Effective tax rate	30.7%	31.5%	31.1%	30.1%	30.1%	30.1%	30.5%	30.4%	30.1%

Source: Company reports and CIBC World Markets Corp.

IMPAC Mortgage Holdings (IMH—$10.99—SO)

Expected Reporting Date—Week of October 21
12-18 Month Price Target—$12

Fiscal Year: Dec.	CIBC Earnings Estimates 1Q	2Q	3QE	4Q	Year
2001	$0.20	$0.36	$0.31	$0.37	$1.25
2002E	0.43	0.44	0.40	0.40	1.67
2003E	0.40	0.44	0.46	0.45	1.75

	Consensus EPS Estimate
3Q02E	$0.42
2002E	1.71
2003E	1.76

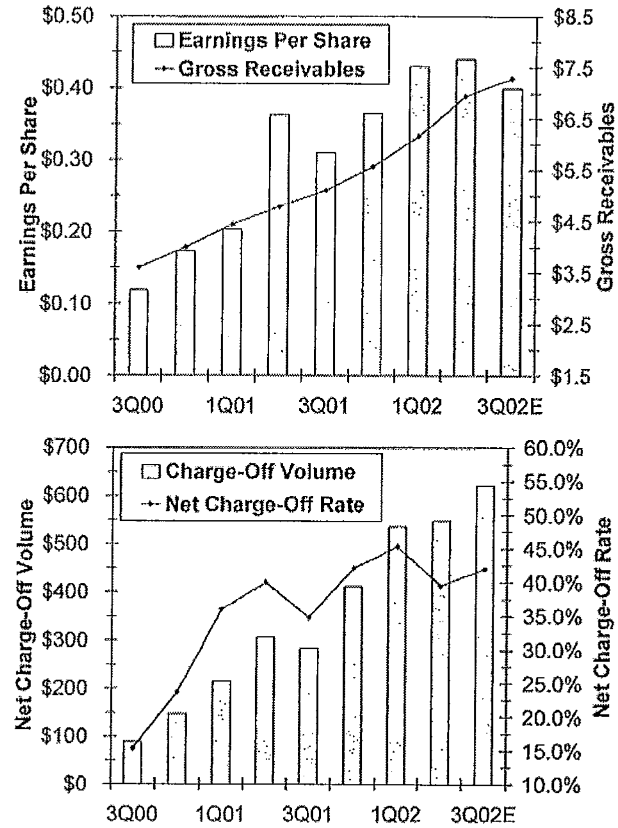
SO—Sector Outperformer.

- Robust mortgage activity, particularly for refinancing purposes, should drive healthy origination volume approaching $1.5 billion.
- Although the attractiveness of adjustable-rate mortgages relative to fixed-rate product has waned in recent weeks, the popularity of ARMs has grown as the yield curve has steepened. IMPAC's ARMs have been the primary contributor to total volume for the quarter and should equal nearly 70%.
- The net interest margin could remain largely unchanged despite the low funding costs, as mortgage yields have steadily declined.
- Non-interest expense could rise modestly in tandem with the growth in production activity. Despite the expense rise, productivity should remain strong owing to the company's robust IDASL electronic underwriting platform.
- Delinquency rates may increase given the sluggish economy, but aggressive collections activity and adequate reserve levels should limit loss exposure.

Investment Risk: Rising interest rates could dampen origination growth, but a focus on purchase activity should minimize exposure.

Fundamental Trend Performance

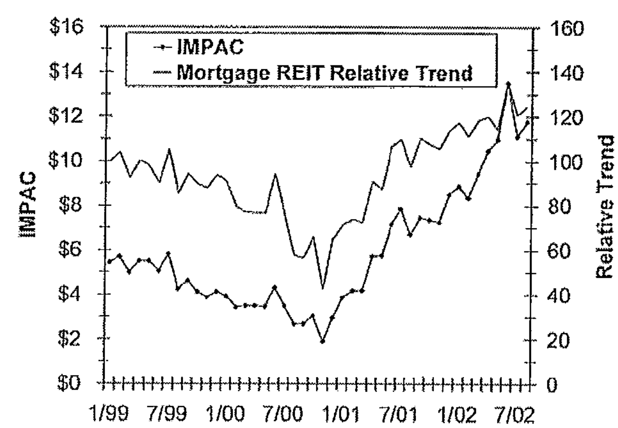
(Charge-off volume in millions and receivables in billions)



Source: Company reports and CIBC World Markets Corp.

Relative Monthly Stock Performance

(Relative Trend: 1/99=100.0)



Source: FactSet and CIBC World Markets Corp.

Exhibit 13. IMPAC Mortgage Holdings Income Statement Projections
(Dollars in millions, except where noted)

	2001		2002E				Full Year		
	3Q	4Q	1QA	2QA	3Q	4Q	2001	2002E	2003E
Interest Income									
Mortgage Assets	$38.4	$39.8	$42.4	$48.3	$46.7	$47.1	$154.0	$184.5	$219.9
Other Interest Income	0.6	0.8	0.6	1.0	1.0	1.1	2.7	3.7	5.6
Total Interest Income	**39.0**	**40.6**	**43.1**	**49.2**	**47.7**	**48.2**	**156.6**	**188.2**	**225.5**
Interest Expense									
CMO Borrowings	19.2	20.8	22.4	25.5	29.2	30.5	77.8	107.7	138.9
Reverse Repurchase Agreements	7.7	7.9	4.3	5.3	3.5	3.7	33.4	16.8	18.4
Other Borrowings	—	—	0.7	0.8	0.4	0.4	0.8	2.4	2.1
Total Interest Expense	**27.6**	**26.8**	**27.4**	**31.7**	**33.1**	**34.7**	**112.0**	**126.9**	**159.4**
Net Interest Income	**11.4**	**13.8**	**15.6**	**17.6**	**14.6**	**13.5**	**44.6**	**61.3**	**66.1**
Provision For Loan Losses	2.6	6.3	3.7	4.2	3.9	3.4	16.8	15.2	14.9
Net Interest Income After Provision	**8.8**	**7.5**	**11.9**	**13.3**	**10.7**	**10.2**	**27.8**	**46.1**	**51.3**
Non-Interest Income									
Equity In Net Earnings (Loss) Of Impac Funding Corp.	3.0	3.1	4.6	5.5	6.6	7.1	10.9	23.7	28.3
Loan Servicing Fees	0.2	(0.1)	0.1	0.1	0.1	0.1	0.8	0.2	0.3
Other Income	1.1	3.1	1.0	0.9	0.9	1.0	5.7	3.8	4.4
Total Non-Interest Income	**4.4**	**6.1**	**5.7**	**6.4**	**7.6**	**8.1**	**17.4**	**27.7**	**33.0**
Non-Interest Expense									
Mark-To-Market Loss (FAS 133)	2.3	0.1	—	—	—	—	3.8	0.0	0.0
G&A And Other Expense	0.4	0.4	0.1	0.5	0.5	0.5	2.3	1.6	2.0
Professional Services	0.6	1.0	0.9	1.1	1.2	1.2	2.7	4.3	5.4
Personnel Expense	0.3	0.3	0.4	0.4	0.4	0.5	1.2	1.7	1.9
Write-Down On Investment Securities Available-For Sale	1.8	0.3	1.0	—	—	—	2.2	—	—
(Gain) Loss On Disposition Of Other Real Estate Owned	(0.6)	(0.3)	(0.4)	0.0	0.1	0.1	(1.9)	(0.2)	1.1
Total Non-Interest Expense	**4.8**	**1.8**	**1.9**	**2.0**	**2.2**	**2.3**	**10.4**	**7.4**	**10.4**
Average Shares Outstanding									
Basic	22.7	30.5	35.9	39.5	39.5	39.5	23.5	38.6	41.5
Diluted Shares Outstanding	27.2	30.9	36.4	40.2	40.2	40.2	28.0	39.3	42.2
Earnings Per Share—Basic									
EPS Before One-Time Items	$0.37	$0.37	$0.44	$0.45	$0.41	$0.40	$1.41	$1.69	$1.78
Cumulative	$1.04	$1.41	$0.44	$0.88	$1.29	$1.69			
Earnings Per Share—Diluted									
EPS Before One-Time Items	**$0.31**	**$0.37**	**$0.43**	**$0.44**	**$0.40**	**$0.40**	**$1.25**	**$1.67**	**$1.75**
Cumulative	$0.88	$1.25	$0.43	$0.87	$1.27	$1.67			
Dividends Per Share	$0.25	$0.44	$0.40	$0.43	$0.41	$0.40	$0.69	$1.65	$1.72
Dividend Payout	80.6%	120.5%	93.0%	97.6%	96.0%	97.0%	55.2%	93.0%	93.9%

Source: Company reports and CIBC World Markets Corp.

Commercial Finance

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Allied Capital (ALD—$20.47—SP)

Expected Reporting Date— Tuesday, October 22
12-18 Month Price Target—N/A

Fiscal Year: Dec.	CIBC Earnings Estimates 1Q	2Q	3QE	4Q	Year
2001	$0.60	$0.51	$0.63	$0.43	$2.17
2002E	0.55	0.71	0.52	0.50	2.28
2003E	0.58	0.59	0.61	0.67	2.45

	Consensus EPS Estimate
3Q02E	$0.52
2002E	2.29
2003E	2.43

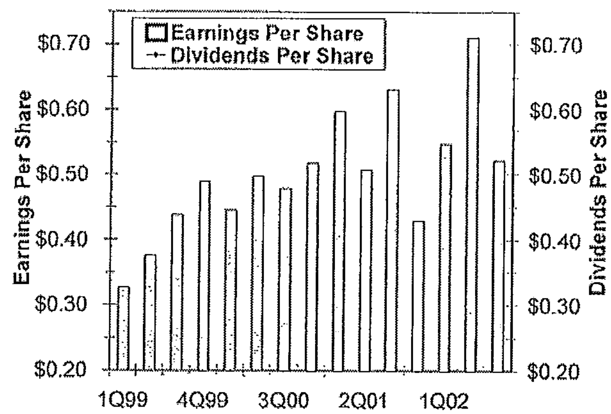
SP—Sector Performer.

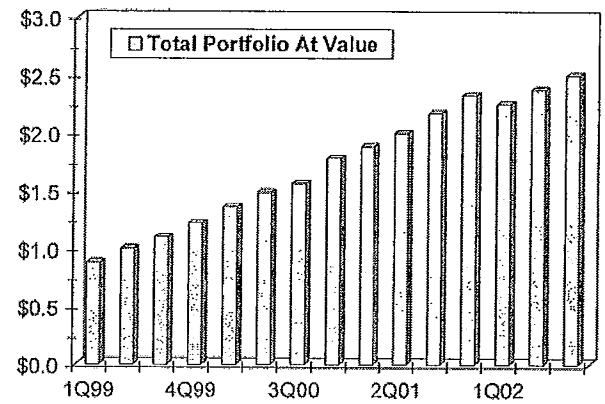
- The sale of $129.8 million face amount of CMBS with a cost basis of $82.7 million should add roughly $7 million to third quarter earnings.
- Investment activity accelerated during the quarter, particularly within the private finance portfolio, which should drive the total portfolio at value modestly higher to exceed $2.5 billion.
- Cost controls should keep operating expense growth at bay and support modest net operating income gains over the prior quarter. Administrative costs related to recent short-selling activity, however, could remain elevated.
- Realized and unrealized gains should be a smaller contributor to earnings than a quarter ago, resulting in slower EPS growth. The dividend, however, remains on track for 10% annualized growth in 2002.
- Credit quality could erode modestly given the weak operating environment, but active monitoring of the portfolio by management should stem the deterioration.

Investment Risk: Ongoing criticism related to portfolio valuation could continue to pressure price performance. The ability to time the market for new equity issuance also represents a risk, but regular issuance and historical experience should minimize exposure.

Fundamental Trend Performance

(Dollars in billions, except where noted)

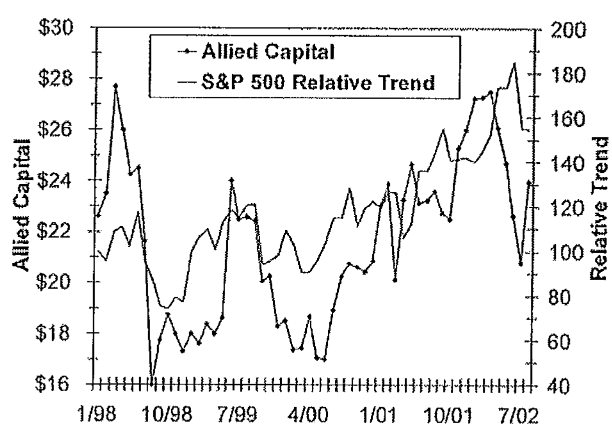




Source: Company reports and CIBC World Markets Corp.

Relative Monthly Stock Performance

(Relative to S&P 500: 1/98=100.0)



Source: FactSet and CIBC World Markets Corp.

Exhibit 14. Allied Capital Corp. Income Statement Projections

(Dollars in millions, except where noted)

	2001		2002E				Full Year		
	3Q	4Q	1QA	2QA	3Q	4Q	2001	2002E	2003E
Interest & Related Portfolio Income									
Interest & Dividends	$60.0	$66.7	$65.0	$62.7	$63.8	$64.7	$240.5	$256.1	$287.9
Premiums From Loan Disp.	0.3	0.4	1.6	0.0	0.2	0.2	2.5	2.0	1.7
Advisory Fees & Other Income	12.3	15.5	15.8	10.5	11.1	11.3	46.1	48.6	58.0
Total Int. & Related Income	**72.6**	**82.7**	**82.4**	**73.2**	**75.1**	**76.1**	**289.1**	**306.7**	**347.6**
Operating Expenses									
Interest	16.1	17.1	17.5	17.5	17.6	17.9	65.1	70.5	73.1
Employee	8.2	7.4	8.0	8.3	7.5	7.0	29.6	30.8	31.7
Administrative	4.1	5.1	3.0	4.8	3.7	3.7	15.3	15.2	16.9
Total Operating Expenses	**28.4**	**29.7**	**28.5**	**30.6**	**28.7**	**28.6**	**110.0**	**116.5**	**121.7**
Net Operating Income Before Realized & Unrealized Gains	**44.2**	**53.0**	**53.9**	**42.6**	**46.4**	**47.5**	**179.1**	**190.3**	**226.0**
Net Realized Gains	3.3	(7.7)	9.6	(0.8)	67.5	4.6	0.7	80.9	29.9
Net Unrealized Gains	12.2	(2.9)	(7.5)	31.6	(59.3)	1.3	20.6	(33.9)	13.4
Realized & Unrealized Gains	**15.5**	**(10.5)**	**2.1**	**30.9**	**8.1**	**5.9**	**21.3**	**47.0**	**43.3**
Pretax Income	**59.7**	**42.5**	**56.0**	**73.5**	**54.5**	**53.4**	**200.3**	**237.3**	**269.2**
Income Tax Expense (Benefit)	—	(0.4)	—	—	—	—	(0.4)	—	—
Net Income	**59.7**	**42.9**	**56.0**	**73.5**	**54.5**	**53.4**	**200.7**	**237.3**	**269.2**
Diluted Avg. Shares Outstanding	94.6	100.1	102.3	103.4	104.2	105.8	93.0	103.9	109.8
Diluted Earnings Per Share	**$0.63**	**$0.43**	**$0.55**	**$0.71**	**$0.52**	**$0.50**	**$2.16**	**$2.28**	**$2.45**
Cumulative	$1.74	$2.16	$0.55	$1.26	$1.78	$2.28			
Dividend	$0.51	$0.51	$0.53	$0.55	$0.56	$0.58	$2.01	$2.22	$2.43
Dividend Payout	81%	119%	97%	77%	107%	115%	93%	97%	99%
Portfolio At Value									
Private Finance	$1,539	$1,595	$1,605	$1,635	$1,721	$1,803	$1,595	$1,803	$2,055
Commercial RE Finance	635	735	649	746	782	820	735	820	923
Total Portfolio At Value	2,174	2,330	2,254	2,381	2,503	2,623	2,330	2,623	2,978
As A Percent Of Total Portfolio									
Private Finance	70.8%	68.5%	71.2%	68.7%	68.8%	68.8%	68.5%	68.8%	69.0%
Commercial RE Finance	29.2%	31.5%	28.8%	31.3%	31.3%	31.3%	31.5%	31.3%	31.0%
Small Business Finance	—	—	—	—	—	—	—	—	—
Portfolio Analysis (% Of Portfolio At Value)									
Interest & Related Income	13.4%	14.2%	14.6%	12.3%	12.0%	11.6%	12.4%	11.7%	11.7%
Net Realized Gains	0.6%	-1.3%	1.7%	-0.1%	1.1%	0.7%	0.0%	3.1%	1.0%
Net Unrealized Gains	2.2%	-0.5%	-1.3%	5.3%	0.2%	0.2%	0.9%	-1.3%	0.4%
Operating Expenses	5.2%	5.1%	5.1%	5.1%	4.6%	4.4%	4.7%	4.4%	4.1%
Balance Sheet Data									
Total Assets	**2,267**	**2,461**	**2,399**	**2,569**	**2,697**	**2,827**	**2,461**	**2,827**	**3,237**
Notes Payable & Debentures	717	876	876	869	984	1,018	876	1,018	1,117
Revolving Credit Facilities	207	145	57	140	81	85	145	85	87
Total Liabilities	**960**	**1,102**	**1,011**	**1,127**	**1,152**	**1,196**	**1,102**	**1,196**	**1,301**
Shareholders' Equity	**1,300**	**1,352**	**1,381**	**1,434**	**1,538**	**1,624**	**1,352**	**1,624**	**1,929**

Source: Company reports and CIBC World Markets Corp.

CIT Group Inc. (CIT—$17.22—SO)

Expected Reporting Date—Week of October 21
12-18 Month Price Target—$24

Fiscal Year: Sept.	CIBC Earnings Estimates 1Q	2Q	3Q	4QE	Year
2001*	—	—	—	—	$2.53
2002E	0.72	0.85	0.79	0.80	3.16
2003E	0.89	0.91	0.92	0.95	3.67

	Consensus EPS Estimate
4Q02E	$0.80
2002E	3.16
2003E	3.67

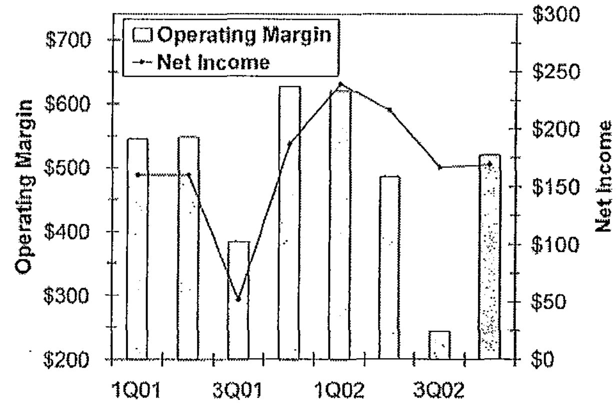
* 9-Months ended September 2001. CIBC estimates assume assume exercise of 20M share over-allotment related to IPO on July 2, 2002. SO—Sector Outperformer.

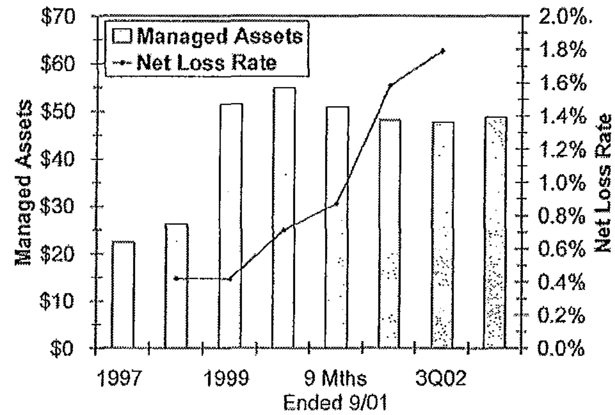
- Debt rating upgrades by the S&P and Fitch, plus re-entrance to the commercial paper market should provide a substantial boost to the net finance margin.
- Lower loan loss provisioning is expected following the prior quarter's spike related to additional reserves taken against telecommunications and Argentinean exposures. The lower provision should drive the operating margin higher.
- Cost controls should continue to drive relatively flat operating expense growth. The efficiency ratio should move into the 33%-35% range over the next several quarters, down from 38.3% in June.
- Reduced product demand related to weak corporate spending activity should result in light asset growth, leaving total managed assets nearly unchanged at $48 billion.
- Core net credit losses could begin to stabilize given the delinquency rate improvement reported a quarter earlier. Prior reserve-building should be sufficient to absorb losses, however, should erosion persist.

Investment Risk: Although fundamentals have improved execution risk remains, particularly if the economy continues to languish. Economic improvement and lower funding costs should position CIT for stronger growth in 2003.

Fundamental Trend Performance

(Dollars in billions, except where noted)

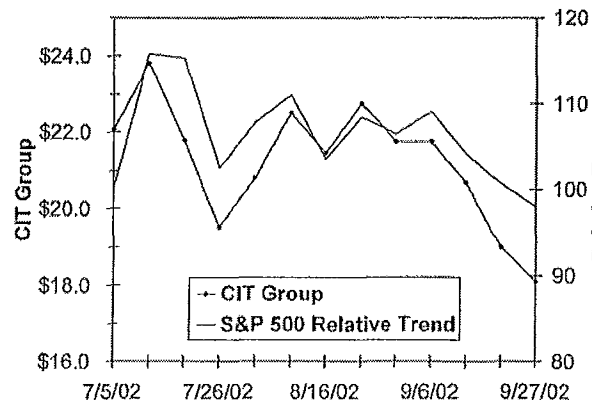




Source: Company reports and CIBC World Markets Corp.

Relative Monthly Stock Performance

(Relative to S&P 500: 7/5/02=100.0)



Source: FactSet and CIBC World Markets Corp.

Exhibit 15. CIT Group Income Statement Projections
(Dollars in millions, except where noted)

	2002E				9 Months Ended	Full Year	
	1QA	2QA	3QA	4Q	9/01	2002E	2003E
Finance Income	$1,199.0	$1,106.7	$1,021.9	$1,066.3	3,975.3	$4,393.9	$4,435.6
Interest Expense	373.0	348.3	370.2	341.9	1,619.8	1,433.4	1,373.7
Net Finance Income	**826.0**	**758.4**	**651.7**	**724.4**	**2,355.5**	**2,960.5**	**3,061.9**
Depreciation On Oper. Lease Equip.	338.5	310.2	295.7	297.8	1,036.7	1,242.2	1,230.0
Net Finance Margin	**487.5**	**448.2**	**356.0**	**426.5**	**1,318.8**	**1,718.2**	**1,831.9**
Provision For Credit Losses	112.9	195.0	357.7	145.4	332.5	811.0	547.0
Net Finance Margin After Provision	**374.6**	**253.2**	**(1.7)**	**281.1**	**986.3**	**907.2**	**1,284.9**
Other Revenue	245.1	232.1	246.1	237.9	572.6	961.2	892.2
Operating Margin	**619.7**	**485.3**	**244.4**	**519.0**	**1,558.9**	**1,868.4**	**2,177.1**
SG&A. Expenses	230.5	226.9	230.4	241.9	784.9	929.7	906.3
Goodwill Amortization	—	—	—	—	—	—	—
Goodwill Impairment	—	4,512.7	1,999.0	—	—	6,511.7	—
Operating Expenses	**230.5**	**4,739.6**	**2,229.4**	**241.9**	**784.9**	**7,441.4**	**906.3**
Pretax Income	**389.2**	**(4,254.3)**	**(1,985.0)**	**277.2**	**774.0**	**(5,572.9)**	**1,270.8**
Income Taxes	147.9	98.4	5.8	105.3	—	357.4	482.9
Minority Interest	(2.3)	(2.7)	(2.7)	(2.7)	—	(10.4)	(10.8)
Net Income	**239.0**	**(4,355.4)**	**(1,993.5)**	**169.1**	**333.8**	**(5,940.8)**	**777.1**
Shares Outstanding							
Diluted Shares Outstanding	—	—	211.5	211.5	211.5	211.5	211.5
Earnings Per Share							
Diluted Excluding Charges	**$0.72**	**$0.85**	**$0.79**	**$0.80**	—	**$3.16**	**$3.67**
Profitability Analysis							
Net Finance Margin (As % Of AEA)	—	4.98%	4.11%	4.84%	—	32.1%	34.4%
Operating Margin	42.9%	36.2%	19.3%	39.8%	—	34.9%	40.9%
Pretax Margin	27.0%	26.5%	21.6%	21.3%	—	-104.1%	23.9%
Net Margin	16.6%	16.1%	13.1%	13.0%	—	-110.9%	14.6%
Efficiency Ratio	31.5%	33.4%	38.3%	36.4%	44.1%	34.7%	33.3%
Return On Managed Assets	—	1.8%	1.4%	1.4%	0.7%	1.7%	1.5%
Return On Tangible Equity	—	21.1%	16.1%	16.1%	8.3%	18.9%	17.5%
Return On Capital	—	2.1%	1.8%	1.8%	0.7%	2.1%	1.9%
Return On Tangible Capital	—	2.3%	1.8%	1.8%	0.8%	2.1%	2.0%
Balance Sheet							
Net Finance Receivables	—	25,743	27,117	27,523	31,387	27,523	29,097
Operating Lease Equipment, Net	—	6,604	6,690	6,790	6,403	6,790	7,178
Interest In Trade Receivables, Net	—	2,511	—	—	—	—	—
Cash And Cash Equivalents	—	2,258	2,081	2,112	808	2,112	2,233
Goodwill And Intangible Assets, Net	—	2,383	384	390	6,570	390	412
Total Assets	—	**44,384**	**41,337**	**41,957**	**51,090**	**41,957**	**44,355**
Commercial Paper	—	710	34	35	8,869	35	36
Variable-Rate Bank Credit Facilities	—	8,518	8,534	8,662	—	8,662	9,157
Variable-Rate Senior Notes	—	8,701	7,173	7,280	9,615	7,280	7,697
Fixed-Rate Senior Notes	—	15,806	16,882	17,135	17,114	17,135	18,115
Total Debt	—	**33,735**	**32,623**	**33,112**	**35,698**	**33,112**	**35,005**
Total Liabilities	—	37,625	36,564	37,113	40,232	37,113	39,234
Shareholders' Equity	—	**6,500**	**4,514**	**4,586**	**10,598**	**4,586**	**4,863**
Tangible Equity	—	4,097	4,130	4,196	4,029	4,196	4,450
Total Managed Assets	—	**48,088**	**47,676**	**48,630**	**50,877**	**47,676**	**50,354**

Source: Company reports and CIBC World Markets Corp.

DVI, Inc. (DVI—$4.48—SP)
Expected Reporting Date—Week of November 4
12-18 Month Price Target—$9

Fiscal Year: June	CIBC Earnings Estimates				
	1Q	2Q	3Q	4Q	Year
2001	$0.42	$0.31	$0.33	$0.38	$1.44
2002	0.40	0.41	0.42	0.42	1.59
2003E	0.43	0.45	0.47	0.50	1.72

	Consensus EPS Estimate
4Q02E	$0.43
2002E	1.66
2003E	1.85

SP—Sector Performer.

- Building demand for healthcare financing on imaging equipment should support domestic equipment origination volume. International originations should become a increasingly larger component of total production. Growth in business credit commitments, however, may remain sluggish.

- Limited competition in international markets should sustain healthy yields, but the net interest margin could erode owing to higher funding costs following the Fitch ratings downgrade and weaker ABS pricing. Robust securitization activity, however, should drive solid gain on sale revenue growth.

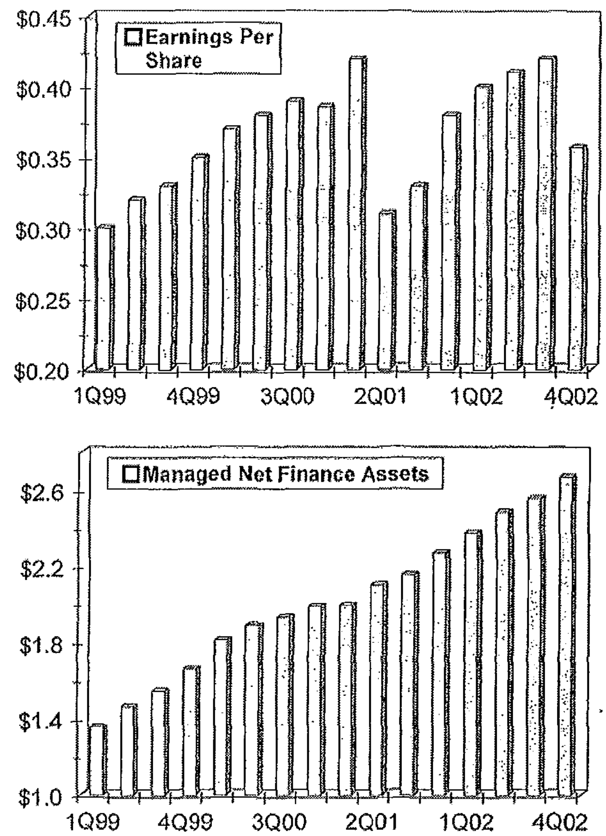
- Operating expense growth should return to more normalized levels the company emphasizes operating efficiency improvements following restructuring and de-emphasis of non-core business.

- Credit quality erosion is likely, in our opinion, given the weak economy and portfolio seasoning. Aggressive reserve building could insulate the company from any further earnings impact.

- Exposure to the Brazilian market remains a risk. With roughly $133 million of receivables at the end of June 2002. Recent reserve addition of $4 million dedicated to Brazilian portfolio offset some of the exposure.

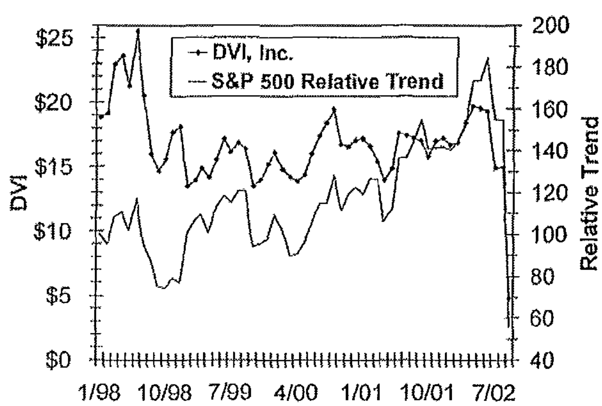
Investment Risk: Productivity levels could continue to be depressed as restructuring continues to be the primary focus. As recent additions to sales season, however, momentum should improve. The tumultuous global economy and foreign market exposure could result in additional credit quality deterioration and adversely impact earnings growth.

Fundamental Trend Performance
(Dollars in billions, except where noted)



Source: Company reports and CIBC World Markets Corp.

Relative Monthly Stock Performance
(Relative to S&P 500: 1/98=100.0)



Source: FactSet and CIBC World Markets Corp.

Exhibit 16. DVI, Inc. Income Statement Projections
(Dollars in millions, except where noted)

	2001		2002E				Full Year			
	3Q	4Q	1QA	2QA	3QA	4QP	2001	2002P	2003E	2004E
Finance & Other Income										
Amortization Of Finance Income	$29.8	$30.0	$27.8	$29.0	$27.9	$24.3	$119.3	$109.0	$120.9	$132.8
Other Income	3.5	3.0	3.5	4.4	5.8	10.5	16.1	24.1	25.0	27.4
Total Finance & Other Inc.	**33.3**	**33.1**	**31.3**	**33.4**	**33.7**	**34.7**	**139.6**	**133.1**	**145.8**	**160.2**
Interest Expense	24.0	22.6	22.1	21.1	20.7	21.8	94.7	85.7	93.2	106.9
Net Interest & Other Income	**9.3**	**10.5**	**9.2**	**12.3**	**13.1**	**12.9**	**45.0**	**47.5**	**52.6**	**53.3**
Provision For Losses	0.7	3.0	2.6	1.8	2.6	4.9	8.7	11.9	14.9	10.8
Provision For Medical Receivables	—	—	—	—	—	4.9	—	4.9	—	—
Provision For Argentinean Losses	—	—	—	—	13.7	0.0	—	13.8	—	—
Provision For Brazilian Losses	—	—	—	—	—	4.0	—	4.0	—	—
Total Provision For Losses	0.7	3.0	2.6	1.8	16.4	13.8	8.7	34.5	14.9	10.8
Net Int. & Other Inc. After Provisior	**8.6**	**7.4**	**6.6**	**10.5**	**(3.3)**	**(0.9)**	**36.2**	**12.9**	**37.7**	**42.5**
Net Gain On Sale Revenue	10.3	12.4	14.9	12.7	11.8	14.8	37.1	54.2	56.2	63.7
Gain (Loss) On Corvis Revaluation	—	—	—	—	(16.6)	—	2.0	(16.6)	—	—
Net Operating Income	**18.9**	**19.8**	**21.5**	**23.2**	**(8.1)**	**13.9**	**75.3**	**50.6**	**93.8**	**106.1**
Selling, General & Administrative	9.7	10.2	10.6	12.8	11.5	22.0	42.3	57.0	53.4	61.4
Pretax Income	**9.2**	**9.6**	**10.9**	**10.4**	**(19.6)**	**(8.1)**	**33.1**	**(6.4)**	**40.4**	**44.8**
Minority Interest	0.2	(0.6)	0.3	(0.4)	3.5	0.2	0.4	3.6	0.8	0.8
Equity (Net Loss) In Investors	(0.0)	0.1	0.0	0.0	(0.0)	(0.0)	0.1	0.0	—	—
Income Tax Expense	4.5	3.3	5.0	3.7	(6.8)	(0.6)	15.1	1.3	14.0	15.4
Net Income	**5.0**	**5.8**	**6.2**	**6.3**	**(9.2)**	**(7.3)**	**18.4**	**(4.1)**	**27.3**	**30.1**
Diluted Shares Outstanding	15.8	15.7	15.8	15.9	14.4	14.6	15.4	15.2	15.9	15.9
Net Loss	—	—	—	—	—	(7.3)	—	—	—	—
Consolidation-Related Charges	—	—	—	—	—	(2.1)	—	—	—	—
Merchant Funding Charges	—	—	—	—	—	(4.6)	—	—	—	—
Net De-Emphasized Bus. Chgs.	—	—	—	—	—	**(6.7)**	—	—	—	—
Provision For Brazil	—	—	—	—	—	(2.6)	—	—	—	—
Provision For Med. Receivables	—	—	—	—	—	(3.2)	—	—	—	—
Total Provision For Losses	—	—	—	—	—	**(5.8)**	—	—	—	—
Total Net Operating Income	—	—	—	—	—	5.2	—	—	—	—
Operating Earnings Per share	—	—	—	—	—	**$0.36**	—	—	—	—
Diluted EPS—Reported	—	—	—	—	($0.64)	($0.50)	**$1.35**	**($0.33)**	—	—
Diluted EPS Inc. Corvis Adjustment	—	—	—	—	(0.34)	—	0.09	(0.34)	—	—
Inv. Impariment From Argentina	—	—	—	—	(0.74)	—	—	(0.74)	—	—
De-Emphasized Bus. Charges	—	—	—	—	—	(0.46)	—	—	—	—
Additional Reserves	—	—	—	—	—	(0.40)	—	—	—	—
Diluted EPS—Adjusted	**$0.33**	**$0.38**	**$0.40**	**$0.41**	**$0.42**	**$0.36**	**$1.44**	**$1.59**	**$1.72**	**$1.90**
Cumulative	$1.06	$1.44	$0.40	$0.81	$1.23	$1.59				
Profitability Analysis (As % Of Gross Revenue)										
Pretax Margin, Ex. Corvis	21.1%	21.1%	23.6%	22.4%	23.7%	-16.3%	15.5%	-3.4%	20.0%	20.0%
Net Margin, Ex. Corvis Impact	11.4%	12.7%	13.3%	13.6%	14.2%	-14.7%	12.9%	-2.2%	13.5%	13.5%
Effective Tax Rate	48.5%	34.6%	46.0%	35.8%	34.6%	7.3%	45.6%	-20.9%	34.5%	34.5%
Loan Orig. & Commitments	**239.2**	**272.0**	**269.5**	**267.0**	**274.3**	**281.2**	**911.8**	**1,092.0**	**1,266.7**	**1,529.4**
Business Credit Commitments	31.8	70.2	58.7	41.4	56.3	30.5	159.0	186.9	139.2	171.7
Total Orig. & Commitments	**271.0**	**342.2**	**328.2**	**308.4**	**330.6**	**311.7**	**1,070.8**	**1,278.9**	**1,405.9**	**1,701.1**
Managed Net Financed Assets	**2,157.8**	**2,273.2**	**2,376.0**	**2,487.1**	**2,556.9**	**2,668.2**	**2,273.2**	**2,668.2**	**3,008.8**	**3,369.8**

Source: Company reports and CIBC World Markets Corp.

Financial Federal (FIF—$32.36—SP)

Expected Reporting Date—Week of November 11
12-18 Month Price Target—$35

Fiscal Year: July	CIBC Earnings Estimates 1QE	2Q	3Q	4Q	Year
2002	$0.48	$0.50	$0.50	$0.51	$1.99
2003E	0.53	0.54	0.57	0.59	2.23
2004E	0.60	0.61	0.63	0.64	2.48

	Consensus EPS Estimate
1Q03E	$0.53
2003E	2.31
2004E	2.48

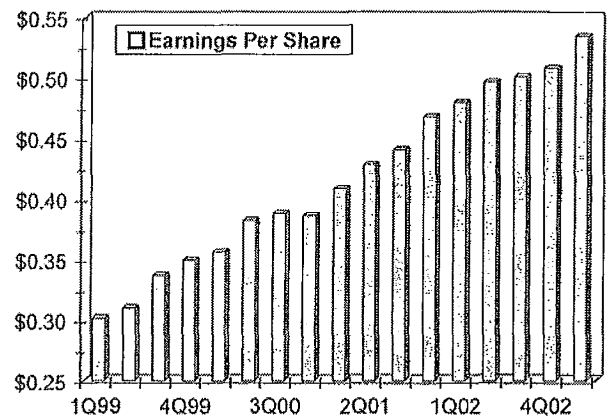
SP—Sector Performer.

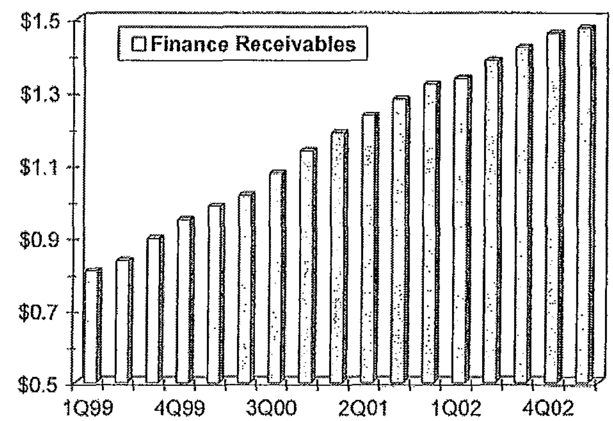
- New business growth could remain under pressure for the next few quarters as the lingering effects of the recession continue to weigh on the middle-market sector.
- Net receivables should remain relatively flat at $1.3 billion at the end of first quarter of fiscal 2003 as sluggish demand curbs growth, particularly within the construction and trucking sector.
- Although funding costs remain low, pricing pressure could result in modest margin compression in the near term. Operating expenses should remain elevated during the quarter before stabilizing in fiscal 2003 as productivity from recent new sales hires remains low given the limited product demand.
- Credit quality should remain manageable and well below the industry average, even as ongoing portfolio seasoning pushes losses up modestly. Although the trucking market continues to be weak, credit trends appear to have stabilized, which should support stable credit quality for the entire portfolio.
- As fiscal 2003 unfolds, we believe Financial Federal should begin to realize greater product demand, which could support building earnings growth momentum, particularly in the second half of the fiscal year.

Investment Risk: Weak trucking and construction loan demand could continue to negatively affect production levels and credit trends.

Fundamental Trend Performance

(Dollars in billions, except where noted)

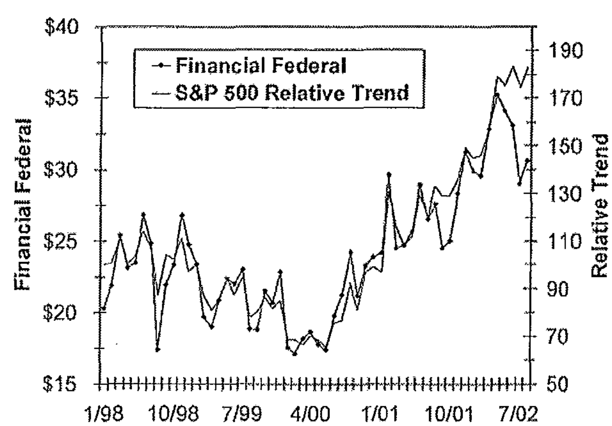




Source: Company reports and CIBC World Markets Corp.

Relative Monthly Stock Performance

(Relative to S&P 500: 1/99=100.0)



Source: FactSet and CIBC World Markets Corp.

Exhibit 17. Financial Federal Income Statement Projections

(Dollars in millions, except where noted)

	2001		2002E				Full Year			
	3Q	4Q	1QA	2QA	3QA	4QP	2001	2002P	2003E	2004E
Finance Income	$34.8	$35.6	$34.6	$34.6	$34.2	$35.4	$138.3	$138.8	$141.4	$154.2
Interest Expense	15.9	15.4	14.2	12.5	11.9	12.5	64.4	51.0	49.8	54.5
Net Finance Income	**18.9**	**20.2**	**20.5**	**22.1**	**22.3**	**22.8**	**73.9**	**87.8**	**91.6**	**99.7**
Provision For Losses	1.3	1.4	1.0	1.6	1.4	1.6	5.0	5.6	6.6	6.2
Net Finance Inc. After Prov.	**17.6**	**18.8**	**19.5**	**20.5**	**20.9**	**21.3**	**68.9**	**82.2**	**85.0**	**93.4**
Salaries & Other Expenses	4.5	4.7	4.9	5.3	5.4	5.4	17.1	21.0	22.1	23.0
Pretax Income	**13.1**	**14.1**	**14.6**	**15.2**	**15.5**	**15.9**	**51.8**	**61.1**	**62.9**	**70.4**
Income Tax Provision	5.1	5.5	5.7	6.0	6.1	6.2	20.2	24.1	24.8	27.8
Net Income	**8.0**	**8.6**	**8.8**	**9.2**	**9.4**	**9.6**	**31.6**	**37.1**	**38.1**	**42.7**
Diluted Shares Outstanding	19.8	19.9	19.9	20.0	20.2	20.3	19.8	20.1	18.3	18.3
Earnings Per Share—Diluted	**$0.44**	**$0.47**	**$0.48**	**$0.50**	**$0.50**	**$0.51**	**$1.75**	**$1.99**	**$2.23**	**$2.48**
Cumulative	$1.28	$1.75	$0.48	$0.98	$1.48	$1.99				
Revenue Analysis										
Finance Income Growth	0.2%	2.2%	-2.7%	-0.1%	-1.2%	3.4%	24.0%	0.4%	2.2%	11.1%
Net Finance Margin	5.92%	6.11%	6.13%	6.39%	6.29%	6.26%	5.59%	6.01%	5.80%	5.86%
As A Percent of Finance Income										
Interest Expense	45.6%	43.3%	40.9%	36.1%	34.7%	35.4%	46.6%	36.8%	35.2%	35.4%
Provision For Losses	3.7%	4.0%	3.0%	4.6%	4.1%	4.5%	3.6%	4.0%	4.7%	4.0%
Salaries & Other Expenses	13.0%	13.1%	14.1%	15.3%	15.8%	15.3%	12.4%	15.2%	15.6%	14.9%
Profitability Analysis										
Pretax Margin	37.7%	39.6%	42.0%	44.0%	45.4%	44.8%	37.4%	44.1%	44.5%	45.7%
Net Margin	23.0%	24.2%	25.5%	26.7%	27.5%	27.2%	22.9%	26.7%	26.9%	27.7%
Effective Tax Rate	39.0%	39.0%	39.3%	39.4%	39.4%	39.4%	38.9%	39.4%	39.4%	39.4%
Balance Sheet Data										
Cash & Equivalents	$10.6	$10.3	$10.1	$7.1	$9.2	$7.1	$10.3	$7.1	$7.9	$8.6
Gross Finance Receivables	1,279.2	1,321.2	1,336.8	1,384.3	1,421.2	1,460.3	1,321.2	1,460.3	1,578.9	1,700.6
Allowance For Losses	21.2	21.9	22.2	23.0	23.6	24.2	21.9	24.2	26.4	27.7
Net Finance Receivables	1,258.1	1,299.3	1,314.6	1,361.3	1,397.6	1,436.1	1,299.3	1,436.1	1,552.5	1,672.9
Total Assets	**1,272.5**	**1,313.7**	**1,328.7**	**1,372.2**	**1,410.8**	**1,447.8**	**1,313.7**	**1,447.8**	**1,582.5**	**1,714.5**
Total Debt	1,007.8	1,025.1	1,031.4	1,062.1	1,095.6	1,123.9	1,025.1	1,119.6	1,226.4	1,328.7
Total Liabilities	1,075.4	1,107.3	1,113.0	1,146.1	1,173.9	1,199.3	1,107.3	1,195.0	1,321.3	1,431.6
Shareholders' Equity	**197.1**	**206.4**	**215.7**	**226.1**	**236.9**	**248.6**	**206.4**	**252.9**	**261.1**	**282.9**
New Business Originated	**190.0**	**202.0**	**182.0**	**215.0**	**208.0**	**200.0**	**736.0**	**805.0**	**883.7**	**975.0**
Sequential Growth	11.1%	6.3%	-9.9%	18.1%	-3.3%	-3.8%	2.4%	9.4%	9.8%	10.3%
Finance Yield	10.89%	10.78%	10.36%	9.99%	9.62%	9.69%	10.47%	9.50%	8.95%	9.07%
Gross Rec. Sequential Growth	3.6%	3.3%	1.2%	3.6%	2.7%	2.8%	16.2%	10.5%	19.5%	16.5%
Salaries & Other Exp/Gross Rec	1.41%	1.41%	1.46%	1.53%	1.52%	1.48%	1.30%	1.44%	1.40%	1.35%
Credit Quality										
Net Charge-Off Rate	0.19%	0.20%	0.22%	0.24%	0.24%	0.27%	0.17%	0.24%	0.28%	0.29%
NPAs/Gross Receivables	2.25%	2.60%	3.13%	3.34%	3.48%	3.64%	2.60%	3.64%	3.70%	3.82%
Delinquency Rate	2.30%	1.90%	2.57%	3.02%	2.97%	2.20%	1.88%	2.20%	2.95%	2.92%
Allowance For Losses	**21.18**	**21.94**	**22.23**	**23.02**	**23.58**	**24.17**	**21.94**	**24.17**	**26.39**	**27.73**
Allowance/Gross Receivables	1.7%	1.7%	1.7%	1.7%	1.7%	1.7%	1.7%	1.7%	1.7%	1.6%

Source: Company reports and CIBC World Markets Corp.

MicroFinancial (MFI—$4.43—SU)

Expected Reporting Date—Week of October 21
12-18 Month Price Target—N/A

Fiscal Year: Dec.	CIBC Earnings Estimates 1Q	2Q	3QE	4Q	Year
2001	$0.42	$0.40	$0.28	$0.16	$1.26
2002E	0.25	0.13	0.13	0.14	0.67
2003E	0.14	0.16	0.18	0.20	0.68

	Consensus EPS Estimate
3Q02E	$0.13
2002E	0.66
2003E	0.68

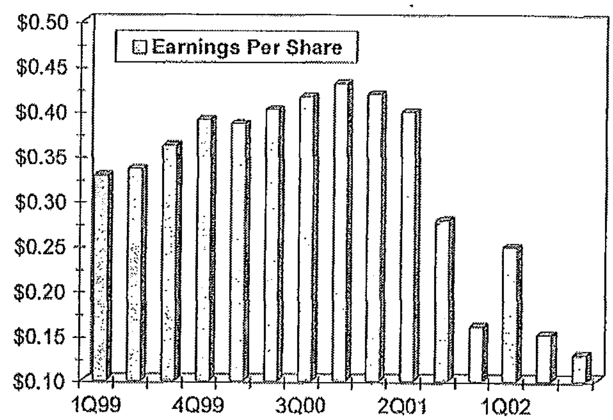
SU—Sector Underperformer.

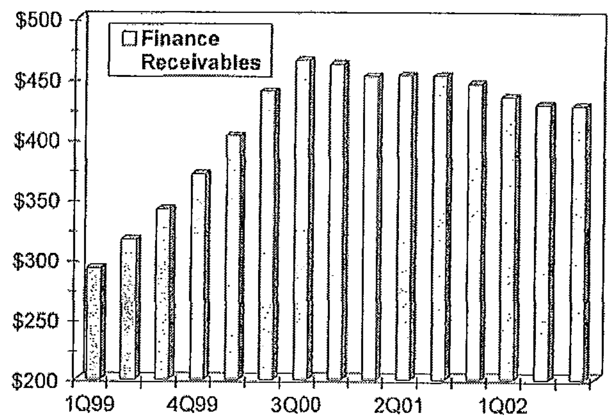
- The managed portfolio could be flat to down slightly in the $425-$428 million range as the asset quality mix shift continues and only partially offsets the portfolio run-off in originations as it moves up the credit spectrum.
- The limited origination volume and portfolio growth could dampen revenue for the quarter. Further, given the portfolio mix shift toward higher quality assets should continue to pressure the net finance margin could come under pressure as the finance yield declines.
- Elevated legal expenses related to recent regulatory investigations and rising credit losses could continue to drag down the operating margin.
- Credit quality erosion may continue as the portfolio seasons, but the economic recovery could stem loss severity over the next several quarters.
- Investigations into the company's marketing and lending practices continue among several state Attorneys General, which could hamper price performance for the foreseeable future.

Investment Risk: The ongoing legal investigations represent an unquantifiable risk; provisions have been taken, however, to cover incremental legal costs.

Fundamental Trend Performance

(Dollars in millions, except where noted)

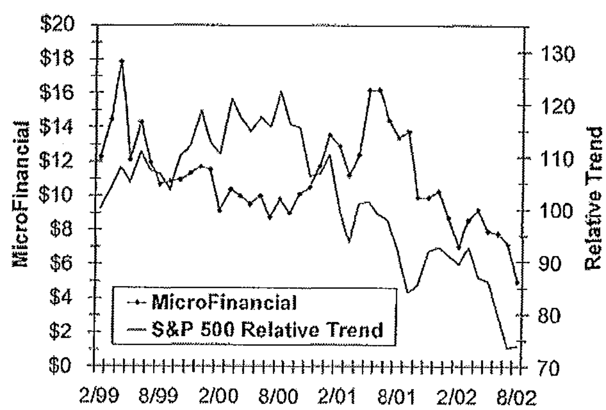




Source: Company reports and CIBC World Markets Corp.

Relative Monthly Stock Performance

(Relative to S&P 500: 2/99=100.0)



Source: FactSet and CIBC World Markets Corp.

Exhibit 18. MicroFinancial Income Statement Projections

(Dollars in millions, except where noted)

	2001		2002E				Full Year		
	3Q	4Q	1QA	2QA	3Q	4Q	2001	2002E	2003E
Finance Income	$18.1	$16.0	$15.2	$13.8	$13.8	$13.7	$70.9	$56.5	$55.2
Service Contract Income	2.2	2.2	2.4	2.5	2.4	2.4	8.7	9.7	10.0
Rental Income	9.7	9.5	9.9	9.2	9.1	9.2	37.7	37.4	37.3
Loss & Damage Waiver Fees	2.8	1.6	1.5	1.5	1.5	1.5	7.5	6.1	6.0
Service Fees	3.3	7.5	6.3	6.0	5.7	5.8	26.1	23.7	24.7
Total Revenue	**36.1**	**36.9**	**35.3**	**33.0**	**32.6**	**32.6**	**150.9**	**133.4**	**133.1**
Selling, General & Admin.	7.9	11.4	12.6	11.4	11.3	11.3	41.9	46.7	44.9
Provision For Credit Losses	15.1	16.9	11.0	10.8	10.8	10.7	54.1	43.3	42.5
Depreciation & Amortization	3.6	3.7	3.6	4.9	5.2	5.2	14.4	18.9	21.1
Interest	3.3	3.0	2.7	2.6	2.5	2.5	14.1	10.3	10.0
Total Expenses	**29.8**	**35.1**	**29.9**	**29.7**	**29.8**	**29.7**	**124.4**	**119.1**	**118.5**
Pretax Income	**6.3**	**1.8**	**5.4**	**3.3**	**2.8**	**2.9**	**26.5**	**14.3**	**14.6**
Provision For Income Taxes	2.6	(0.2)	2.1	1.3	1.1	1.2	10.1	5.7	5.8
Net Income	**3.6**	**2.1**	**3.2**	**2.0**	**1.7**	**1.8**	**16.4**	**8.6**	**8.8**
Diluted Shares Outstanding	13.1	13.0	12.9	12.9	12.9	12.9	13.0	12.9	12.9
Earnings Per Share—Diluted	**$0.28**	**$0.16**	**$0.25**	**$0.15**	**$0.13**	**$0.14**	**$1.26**	**$0.67**	**$0.68**
Cumulative	$1.10	$1.26	$0.25	$0.40	$0.53	$0.67			
Dividends Per Share	$0.05	$0.05	$0.05	$0.05	$0.06	$0.06	$0.20	$0.21	$0.24
Dividend Payout	18.0%	31.2%	20.1%	33.0%	42.7%	40.3%	15.5%	31.6%	34.6%
Profitability Analysis									
Pretax Margin	17.4%	5.0%	15.2%	9.9%	8.5%	9.0%	17.5%	10.7%	11.0%
Net Margin	10.1%	5.6%	9.1%	5.9%	5.1%	5.4%	10.8%	6.4%	6.6%
Effective Tax Rate	42.1%	-13.3%	40.0%	40.0%	40.0%	40.0%	38.2%	40.0%	40.0%
Gross Investment In Leases & Loans									
Receivables Due In Installment	$401.9	$399.4	$389.8	$383.5	$383.1	$382.7	$399.4	$382.7	$385.1
Estimated Residual Value	38.4	37.1	36.2	36.6	36.4	36.3	37.1	36.3	37.5
Initial Direct Costs	7.8	7.1	6.8	6.6	6.4	6.4	7.1	6.4	6.0
Loans Receivable	4.3	2.2	2.2	2.0	2.1	2.1	2.2	2.1	2.2
Total Gross Investment In Leases/Loans	**452.5**	**445.8**	**435.0**	**428.7**	**428.0**	**427.6**	**445.8**	**427.6**	**430.7**
Credit Quality									
Total Delinquency Rate	18.4%	16.9%	17.4%	17.0%	17.7%	17.8%	16.9%	17.8%	17.7%
Net Charge-Off Rate	10.4%	8.7%	10.4%	13.7%	10.5%	14.0%	11.2%	12.2%	11.6%
Balance Sheet Data									
Net Inv. In Leases & Loans	$298.9	$296.0	$293.5	$293.1	$292.5	$292.3	$296.0	$296.7	$294.0
Cash & Cash Equivalents	21.6	20.6	22.0	21.5	21.4	21.4	20.6	21.4	21.5
Total Assets	**367.5**	**361.7**	**361.2**	**359.1**	**357.3**	**356.9**	**361.7**	**361.4**	**358.4**
Notes Payable	208.3	203.1	198.1	196.0	194.7	194.5	203.1	194.5	196.0
Subordinated Notes Payable	3.2	3.3	3.3	3.3	3.3	3.3	3.3	3.3	3.3
Total Liabilities	258.2	251.2	248.0	244.6	242.9	243.4	251.2	243.4	245.8
Shareholders' Equity	**109.3**	**110.6**	**113.1**	**114.5**	**114.4**	**113.5**	**110.6**	**118.0**	**112.6**

Source: Company reports and CIBC World Markets Corp.

Financial Technology

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Alliance Data Systems (ADS—$16.00—SP)

Expected Reporting Date—Wednesday, October 16
Target Price—$20

Fiscal Year: Dec.	CIBC Earnings Estimates 1Q	2Q	3QE	4Q	Year
2001	$0.16	$0.13	$0.11	$0.12	$0.52
2002E	0.13	0.14	0.16	0.19	0.62
2003E	0.15	0.16	0.19	0.23	0.73

	CIBC Revenue Estimates 1Q	2Q	3QE	4Q	Year
2001	$181	$184	$202	$211	$777
2002E	210	206	220	229	865
2003E	231	234	244	257	966

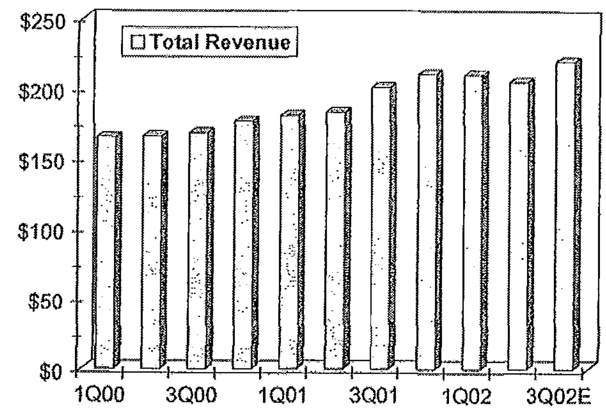
	Consensus Estimates Earnings	Revenue
3Q02E	$0.16	$218
2002E	0.61	866
2003E	0.73	969

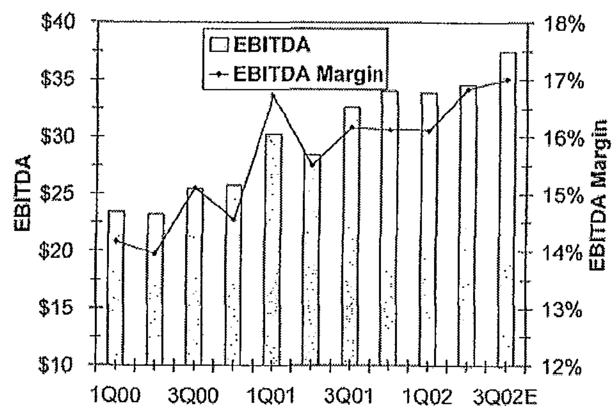
SP—Sector Performer

- Although revenue growth may be modest, the Transaction Services unit should realize improved operating margins as the company continues to prune its portfolio of inactive and low margin accounts, thereby reducing the associated servicing costs.
- The Transaction Services business unit could further benefit from growth in statements processed in third quarter. The acquisition of Enlogix, a billing and service provider for the utilities industry, should add roughly $10 million annually from its core customer base.
- Credit Services revenue and EBITDA should increase as the company adds new accounts and seasonal spending accelerates, driving higher card usage and portfolio gains. Greater use of third-party providers in the private label card market should also contribute to growth.
- Solid growth in AirMiles issued and redeemed that is fueled by the expanding line of reward offerings and an expanded sponsor base should drive growth in Marketing Services revenue.
- Credit quality trends should hold steady, with the total net charge off rate remaining in the 7%-8% range as the private label portfolio rises modestly to nearly $2.35 billion.

Investment Risk: If credit quality deteriorates greater than anticipated, further loan loss provisioning could elevate operating expenses. Given the budding recovery, we believe the credit quality trend should remain stable.

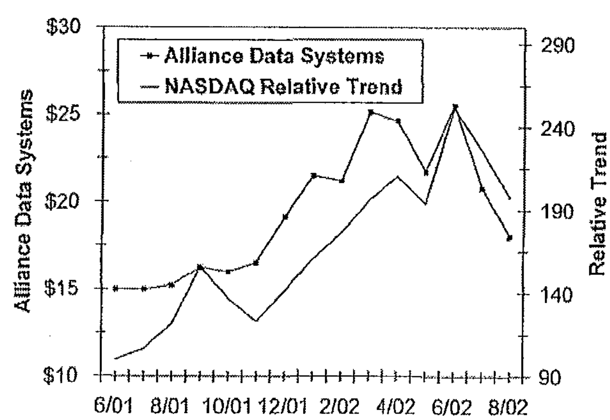
Fundamental Trend Performance
(Dollars in millions, except where noted)





Source: Company reports and CIBC World Markets Corp.

Relative Monthly Stock Performance
(Relative to NASDAQ: 6/01=100.0)



Source: FactSet and CIBC World Markets Corp.

Exhibit 19. Alliance Data Systems Income Statement Projections
(Dollars in millions, except where noted)

	2001		2002E				Full Year		
	3Q	4Q	1QA	2QA	3Q	4Q	2001	2002E	2003E
Segment Revenue									
Transaction Services	$131.6	$136.9	$132.2	$129.9	$135.0	$136.3	$503.2	$533.4	$568.1
Credit Services	69.1	77.1	82.1	77.3	82.2	86.4	284.1	328.0	359.9
Marketing Services	53.4	51.7	54.6	58.1	61.6	65.5	201.7	239.8	277.9
Intersegment	(53.9)	(57.1)	(58.6)	(59.8)	(58.5)	(59.1)	(217.0)	(236.0)	(240.0)
Total Revenue	**201.7**	**210.8**	**210.3**	**205.5**	**220.2**	**229.1**	**777.3**	**865.2**	**965.8**
As A Percent Of Total Revenue									
Transaction Services	65.3%	64.9%	62.9%	63.2%	61.3%	59.5%	64.7%	61.7%	58.8%
Credit Services	34.3%	36.6%	39.0%	37.6%	37.3%	37.7%	36.5%	37.9%	37.3%
Marketing Services	26.5%	24.5%	26.0%	28.3%	28.0%	28.6%	25.9%	27.7%	28.8%
Intersegment	-26.7%	-27.1%	-27.9%	-29.1%	-21.0%	-20.5%	-27.9%	-27.3%	-24.9%
Segment EBITDA									
Transaction Services	$19.6	$18.6	$16.9	$20.2	$20.9	$20.7	$71.0	$78.7	$88.2
Credit Services	5.5	7.5	9.9	4.3	6.6	7.3	24.4	28.1	33.1
Marketing Services	7.5	7.9	7.1	10.1	10.8	10.2	29.4	38.1	44.6
Total EBITDA	**32.6**	**34.0**	**33.9**	**34.6**	**38.3**	**38.2**	**130.1**	**145.0**	**166.0**
As A Percent Of Total EBITDA									
Transaction Services	60.1%	54.7%	49.9%	58.4%	54.7%	54.2%	54.6%	54.3%	53.2%
Credit Services	16.9%	22.1%	29.2%	12.4%	17.2%	19.2%	18.8%	19.4%	20.0%
Marketing Services	23.0%	23.2%	20.9%	29.2%	28.1%	26.6%	22.6%	26.3%	26.9%
EBITDA Margin									
Transaction Services	14.9%	13.6%	12.8%	15.6%	15.5%	15.2%	14.1%	14.8%	15.5%
Credit Services	8.0%	9.7%	12.1%	5.6%	8.0%	8.5%	8.6%	8.6%	9.2%
Marketing Services	14.0%	15.3%	13.0%	17.4%	17.5%	15.5%	14.6%	15.9%	16.0%
Total EBITDA Margin	**16.2%**	**16.1%**	**16.1%**	**16.8%**	**17.4%**	**16.7%**	**16.7%**	**16.8%**	**17.2%**
Diluted Average Shares Out.	75.0	75.5	76.6	76.8	76.8	76.8	68.2	76.8	76.8
Cash Earnings, After-Tax	**8.5**	**9.2**	**10.0**	**10.7**	**12.6**	**14.5**	**35.6**	**54.5**	**56.2**
Cash Earnings Per Share	**$0.11**	**$0.12**	**$0.13**	**$0.14**	**$0.16**	**$0.19**	**$0.52**	**$0.62**	**$0.73**
Operating EBITDA Calculation									
EBITDA	$34.1	$36.2	$30.9	$34.6	$35.7	$38.7	$124.8	$139.9	$153.2
Cash Flow Adj. From Loyalty Prograrr	3.3	2.9	5.0	5.0	5.0	5.0	24.3	20.0	24.0
Operating EBITDA	**37.4**	**39.1**	**35.9**	**39.6**	**40.7**	**43.7**	**149.1**	**159.9**	**177.2**
Capital Expenditures	10.0	14.4	10.7	10.5	11.2	11.7	—	44.1	48.8
Taxes And Interest	13.6	10.4	10.7	8.6	11.0	12.1	—	42.4	48.1
Free Cash Flow	**13.8**	**14.3**	**14.5**	**20.6**	**18.5**	**19.9**	**—**	**73.4**	**80.3**
Free Cash Flow Per Share	**$0.18**	**$0.19**	**$0.19**	**$0.27**	**$0.24**	**$0.26**	**—**	**$0.96**	**$1.05**
Operating Data									
Transactions Processed	715.5	708.6	698.3	757.4	765.0	757.3	2,754.1	2,978.0	3,026.1
Statements Generated	33.4	35.5	34.4	32.2	33.5	34.7	131.3	134.7	142.1
Average Core Portfolio	$2,062	$2,181	$2,272	$2,280	$2,349	$2,383	$2,096	$2,383	$2,563
Air Miles Reward Miles Issued	535.1	580.1	522.5	575.0	609.5	655.2	2,153.4	2,362.2	2,646.3
Air Miles Reward Miles Redeemed	258.0	273.2	308.3	298.7	292.6	309.9	984.8	1,209.5	1,266.5

Source: Company reports and CIBC World Markets Corp.

Bottomline Technologies (EPAY—$4.93—SU)

Expected Reporting Date—Week of October 14
Target Price—NA

Fiscal Year: June	CIBC Earnings Estimates 1QE	2Q	3Q	4Q	Year
2002	(0.13)	(0.05)	(0.04)	(0.10)	(0.32)
2003E	(0.17)	(0.07)	0.00	0.06	(0.18)
2004E	0.01	0.03	0.05	0.06	0.15

	CIBC Revenue Estimates 1QE	2Q	3Q	4Q	Year
2002	18	20	18	17	74
2003E	17	17	19	21	74
2004E	20	20	22	23	85

Consensus Estimates	Earnings	Revenue
1Q03E	($0.17)	$16
2003E	(0.17)	75
2004E	0.16	84

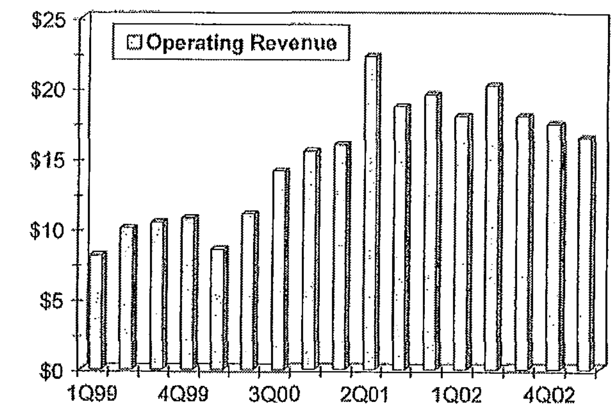
SU—Sector Underperformer.

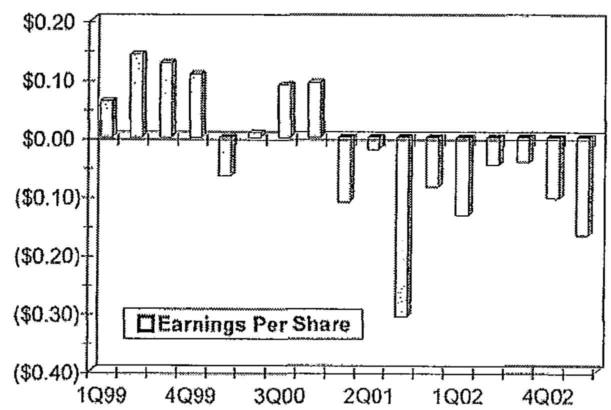
- Weak technology spending should continue to dampen revenue growth despite a building backlog, and may result in a sequential decline in total revenue to $16.5 million.
- The gross margin could contract as high-margin software license sales continue to be sluggish. The blended margin, however, should remain above 50%.
- Further cost-reduction efforts should result in flat operating expense growth and may partially offset the weaker revenue.
- Headcount reductions completed during the quarter should result in a one-time severance charge to be recorded in the fiscal first quarter of 2003.
- Implementation of FAS 142 will eliminate amortization of intangible assets and should result in an additional one-time charge of roughly $15-$20 million.

Investment Risk: If the sales cycle remains extended indefinitely, revenue trends may be permanently affected and cash outflows could continue.

Fundamental Trend Performance

(Dollars in millions, except where noted)

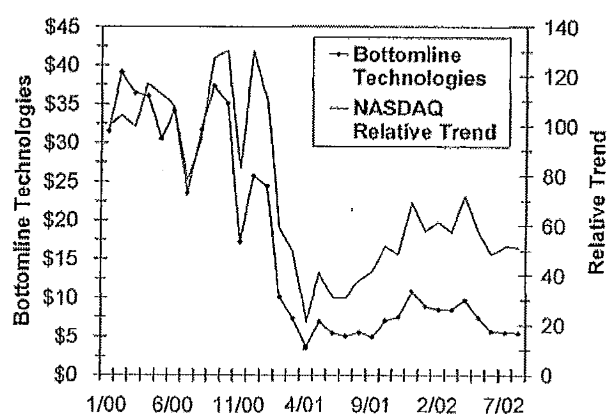




Source: Company reports and CIBC World Markets Corp.

Relative Monthly Stock Performance

(Relative to NASDAQ: 1/00=100.0)



Source: FactSet and CIBC World Markets Corp.

Exhibit 20. Bottomline Technologies, Inc. Income Statement Projections
(Dollars in millions, except where noted)

	2002E				2003E				Full Year		
	1QA	2QA	3QA	4QP	1Q	2Q	3Q	4Q	2002P	2003E	2004E
Software Licenses	$3.8	$4.5	$4.3	$3.5	$3.3	$3.5	$4.0	$4.5	$16.0	$15.3	$18.6
Service & Maintenance	9.3	10.0	9.1	9.4	8.9	9.2	10.2	11.2	38.2	39.6	46.0
Equipment & Supplies	4.9	5.7	4.7	4.5	4.3	4.3	4.8	5.2	19.8	18.6	20.6
Total Operating Revenue	**18.0**	**20.2**	**18.0**	**17.5**	**16.5**	**17.0**	**19.0**	**21.0**	**74.0**	**73.5**	**85.2**
Cost Of Revenue											
Software Licenses	0.4	0.3	0.3	0.5	0.6	0.5	0.6	0.7	1.5	2.4	2.7
Service & Maintenance	4.4	5.2	4.1	4.5	4.4	4.3	4.8	5.3	18.5	18.7	21.7
Equipment & Supplies	3.5	4.2	3.4	3.4	3.3	3.3	3.6	3.9	14.5	14.0	15.5
Total Cost Of Revenue	**8.3**	**9.6**	**7.8**	**8.4**	**8.2**	**8.1**	**9.0**	**9.8**	**34.4**	**35.1**	**39.9**
Gross Profit	**9.8**	**10.6**	**10.2**	**9.1**	**8.3**	**8.9**	**10.1**	**11.1**	**39.6**	**38.4**	**45.4**
Gross Margin	54.2%	52.3%	56.5%	51.9%	50.2%	52.3%	53.0%	53.0%	53.5%	52.2%	53.2%
Operating Expenses											
Sales & Marketing	4.6	4.9	4.7	5.3	5.4	4.8	4.8	4.9	19.5	19.9	21.0
Product Dev. & Engineering											
Dev. & Engineering	3.5	3.7	3.3	3.4	3.5	3.2	3.4	3.4	13.8	13.5	14.3
Stock Comp. Expense	0.1	0.1	0.1	0.1	—	—	—	—	0.4	—	—
Total Dev. & Engineering	*3.6*	*3.8*	*3.4*	*3.5*	*3.5*	*3.2*	*3.4*	*3.4*	*14.2*	*13.5*	*14.3*
General & Administrative											
General & Administrative	3.2	2.7	2.8	2.4	2.3	2.2	2.2	2.2	11.0	8.9	8.8
Amort. Of Intang. Assets	8.4	8.4	8.3	8.6	8.6	8.5	8.6	8.7	33.6	34.4	35.0
Total G & A	*11.5*	*11.0*	*11.1*	*11.0*	*10.9*	*10.7*	*10.8*	*10.8*	*44.7*	*43.2*	*43.8*
Total Operating Expenses	**19.7**	**19.7**	**19.2**	**19.8**	**19.8**	**18.7**	**19.0**	**19.1**	**78.4**	**76.7**	**79.0**
Operating Income (Loss)	**(9.9)**	**(9.2)**	**(9.0)**	**(10.8)**	**(11.5)**	**(9.8)**	**(8.9)**	**(8.0)**	**(38.8)**	**(38.3)**	**(33.7)**
Interest & Other Income, Net	(0.3)	0.1	0.0	0.3	0.3	0.3	0.3	0.3	0.1	1.1	1.3
Pretax Income (Loss)	**(10.2)**	**(9.1)**	**(8.9)**	**(10.5)**	**(11.2)**	**(9.6)**	**(8.6)**	**(7.7)**	**(38.7)**	**(37.2)**	**(32.4)**
Benefit For Income Taxes	0.1	0.0	0.1	(0.1)	—	—	—	—	0.1	—	—
Net Income (Loss)	**(10.3)**	**(9.1)**	**(9.1)**	**(10.3)**	**(11.2)**	**(9.6)**	**(8.6)**	**(7.7)**	**(38.8)**	**(37.2)**	**(32.4)**
Avg. Diluted Shares Out.	13.8	13.8	15.5	15.7	15.8	16.0	17.2	17.4	14.7	16.1	17.5
Net Income Excluding Stock Comp. Expense & Amort.											
Net Income (Loss)	(1.8)	(0.6)	(0.7)	(1.6)	(2.6)	(1.1)	0.0	1.0	(4.7)	(2.8)	2.7
Earnings Per Share											
Ex. Stock Expense & Amort.	**($0.13)**	**($0.05)**	**($0.04)**	**($0.10)**	**($0.17)**	**($0.07)**	**$0.00**	**$0.06**	**($0.32)**	**($0.18)**	**$0.15**
Cumulative	($0.13)	($0.18)	($0.22)	($0.32)	($0.17)	($0.24)	($0.24)	($0.18)			
Reported EPS	($0.75)	($0.66)	($0.59)	($0.66)	($0.71)	($0.60)	($0.50)	($0.44)	($2.65)	($2.25)	($1.85)
Cumulative	($0.75)	($1.41)	($1.99)	($2.65)	($0.71)	($1.31)	($1.81)	($2.25)			
EBITDA	(1.4)	(0.7)	(0.6)	(2.0)	(2.9)	(1.4)	(0.3)	0.6	(4.7)	(3.9)	1.4
EBITDA Per Share	($0.10)	($0.05)	($0.04)	($0.13)	($0.18)	($0.09)	($0.02)	$0.04	($0.32)	($0.24)	$0.08
Cumulative	($0.10)	($0.15)	($0.19)	($0.32)	($0.18)	($0.27)	($0.28)	($0.25)			

Source: Company reports and CIBC World Markets Corp.

CheckFree Corporation (CKFR—$11.78—SP)

Expected Reporting Date—Tuesday, October 22
Target Price—$15

Fiscal Year: June	CIBC Earnings Estimates				
	1QE	2Q	3Q	4Q	Year
2002	(0.02)	0.00	0.05	0.13	0.19
2003E	0.12	0.14	0.16	0.18	0.60
2004E	0.18	0.19	0.21	0.22	0.80

	CIBC Revenue Estimates				
	1QE	2Q	3Q	4Q	Year
2002	117	121	125	131	493
2003E	126	131	135	139	530
2004E	140	146	151	156	593

	Consensus Estimates	
	Earnings	Revenue
1Q03E	$0.12	$127
2003E	0.59	536
2004E	0.76	595

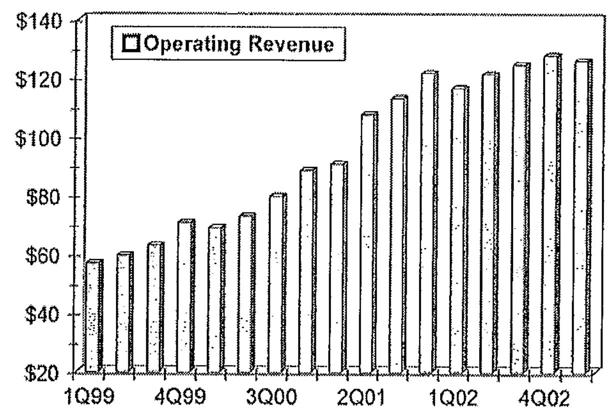
SP—Sector Performer.

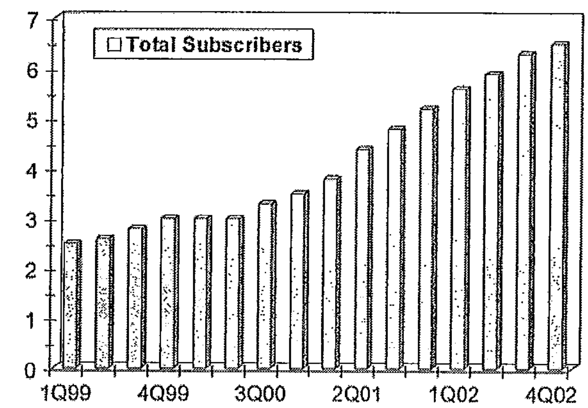
- The Electronic Commerce division should remain the primary earnings driver, as the total subscriber base increases to roughly 6.8 million while monthly transaction volume climbs to 30 million.
- Although revenue per subscriber could decline, the increasing use of electronic bill payment and building infrastructure leverage continue to support operating margin improvement and should be a leading growth driver.
- The Investment Services and Software business units could demonstrate more modest revenue growth owing to the volatile capital markets conditions and lower corporate IT spending.
- Operating expense growth should remain flat as the company continues to rein-in G&A and R&D costs following the completion of the platform integration.
- While the merger of Medavante and Spectrum could create a more challenging competitive landscape, their growing presence should boost creditability of EBPP as a viable payment alternative.

Investment Risk: Reduced pricing power as competition intensifies could erode the gross margin. The volume generated by recent marketing efforts and growing consumer acceptance, however, should offset any revenue impact.

Fundamental Trend Performance

(Dollars and subscribers in millions)

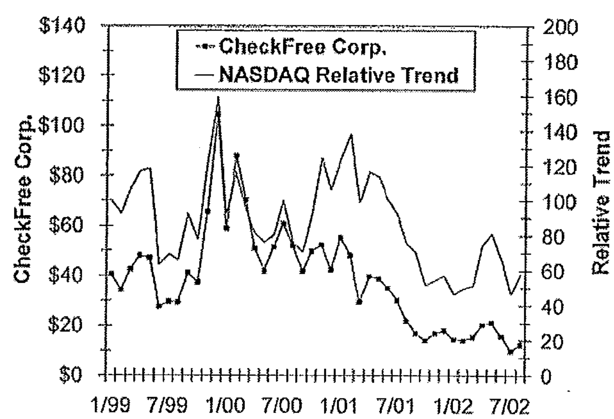




Source: Company reports and CIBC World Markets Corp.

Relative Monthly Stock Performance

(Relative to NASDAQ: 1/99=100.0)



Source: FactSet and CIBC World Markets Corp.

Exhibit 21. CheckFree Corp. Income Statement Projections

(Dollars in millions, except where noted; Fiscal Year June)

	2002E				2003E				Full Year		
	1QA	2QA	3QA	4QP	1Q	2Q	3Q	4Q	2002P	2003E	2004E
ProForma Results											
Processing & Servicing	$100.9	$103.5	$108.6	$111.9	$107.8	$111.6	$115.0	$118.8	$425.0	$453.2	$507.0
License Fees	4.1	7.8	7.1	6.1	6.0	6.1	6.5	6.7	25.1	25.3	28.5
Maintenance Fees	6.1	6.1	5.6	6.5	6.4	6.8	7.0	7.4	24.3	27.6	31.4
Other	5.6	4.0	3.3	6.1	5.8	6.0	6.1	6.1	18.9	24.0	26.1
Total Operating Revenue	**116.7**	**121.4**	**124.6**	**130.6**	**126.0**	**130.5**	**134.6**	**138.9**	**493.3**	**530.0**	**593.0**
Proc., Svcg. & Support	68.2	67.7	67.0	59.3	59.2	59.4	60.6	61.1	262.1	240.3	258.4
Gross Profit	**48.5**	**53.7**	**57.6**	**71.3**	**66.8**	**71.1**	**74.0**	**77.8**	**231.2**	**289.7**	**334.6**
Gross Margin	41.6%	44.2%	46.3%	54.6%	53.0%	54.5%	55.0%	56.0%	46.9%	54.7%	56.4%
Operating Expenses											
Research & Development	14.7	15.4	13.5	11.6	11.5	11.9	12.1	12.4	55.2	47.9	52.9
Sales & Marketing	15.0	15.3	13.1	14.6	14.3	14.6	15.1	15.4	58.0	59.4	65.8
General & Administrative	11.6	11.4	9.7	11.0	10.6	11.0	11.3	11.7	43.7	44.6	50.0
Depreciation & Amort.	9.6	10.0	10.5	11.4	11.2	11.0	10.7	10.3	41.6	43.2	41.9
Total Operating Expenses	**51.0**	**52.0**	**46.8**	**48.7**	**47.6**	**48.5**	**49.2**	**49.8**	**198.4**	**195.1**	**210.5**
Operating Income	**(2.5)**	**1.7**	**10.8**	**22.6**	**19.2**	**22.7**	**24.8**	**28.0**	**32.7**	**94.7**	**124.0**
Interest Income, Net	(0.5)	(1.2)	(1.3)	(1.3)	(1.3)	(1.3)	(1.3)	(1.3)	(4.3)	(5.2)	(5.2)
Pretax Income (Loss)	**(3.0)**	**0.5**	**9.6**	**21.3**	**17.8**	**21.4**	**23.5**	**26.7**	**28.4**	**89.4**	**118.8**
Income Tax (Benefit)	(1.1)	0.2	3.6	8.5	7.1	8.6	9.4	10.7	11.2	35.8	47.5
Net Income (Loss)	**(1.9)**	**0.3**	**5.9**	**12.8**	**10.7**	**12.8**	**14.1**	**16.0**	**17.2**	**53.6**	**71.3**
Average Shares Outstanding											
Basic	87.1	87.2	87.4	88.1	88.1	88.1	88.1	88.1	87.5	88.1	88.1
Diluted	87.1	88.1	87.9	89.0	89.0	89.0	89.0	89.0	88.0	89.0	89.0
Earnings Per Share	**($0.02)**	**$0.00**	**$0.07**	**$0.14**	**$0.12**	**$0.14**	**$0.16**	**$0.18**	**$0.19**	**$0.60**	**$0.80**
ProForma EBITDA	7.2	11.7	21.4	34.1	30.4	33.7	35.5	38.3	74.3	137.8	165.9
EBITDA Per Share	$0.08	$0.13	$0.24	$0.38	$0.34	$0.38	$0.40	$0.43	$0.84	$1.55	$1.86
Operating Data											
Total Subscribers	5.6	5.9	6.3	6.6	6.8	7.0	7.2	7.4	6.6	7.4	8.2
Quarterly Transaction Vol.	69	75	82	87	91	96	101	106	—	—	—
Portfolios Managed	1,200	1,200	1,200	1,260	1,323	1,389	1,459	1,532	1,260	1,532	1,862
Proforma Profitability Analysis											
Gross Margin	41.6%	44.2%	46.3%	54.6%	53.0%	54.5%	55.0%	56.0%	46.6%	54.7%	56.4%
Operating Margin	-2.1%	1.4%	8.7%	17.3%	-56.2%	-50.8%	-46.9%	-42.5%	-109.2%	-48.9%	-38.8%
Balance Sheet											
Cash & Cash Equivalents	$116.8	$110.8	$123.9	$206.0	$101.6	$97.6	$94.2	$91.3	$206.0	$91.3	$85.1
Short-Term Investments	66.1	78.3	92.2		78.2	75.1	72.4	70.3	0.0	70.3	65.5
Accounts Receivable, Net	85.5	84.5	74.1	88.0	62.6	60.0	57.9	56.2	88.0	56.2	52.4
Deferred Income Taxes	10.0	10.5	13.5	20.2	12.5	12.0	11.6	11.2	20.2	11.2	9.2
Total Current Assets	**287.2**	**292.6**	**311.6**	**314.2**	**262.7**	**252.2**	**243.4**	**236.1**	**314.2**	**236.1**	**218.7**
Intangible Assets, Net	1,421.3	1,229.4	1,152.3	1,146.5	1,063.4	1,020.8	985.1	955.6	1,146.5	955.6	890.3
Total Assets	**2,056.1**	**1,793.2**	**1,717.9**	**1,637.5**	**1,563.8**	**1,501.2**	**1,448.7**	**1,405.2**	**1,637.5**	**1,405.2**	**1,309.3**
Accounts Payable	16.5	10.1	16.5		9.4	9.0	8.7	8.4	0.0	8.4	7.9
Accrued Liabilities	50.1	50.7	63.5	70.0	46.9	45.0	43.5	42.2	70.0	42.2	39.3
Current Portion Of LT Debt	3.6	3.6	3.1		3.1	3.0	2.9	2.8	0.0	2.8	2.6
Deferred Revenue	41.8	44.0	40.1	42.4	34.4	33.0	31.9	30.9	42.4	30.9	28.8
Total Current Liabilities	**112.0**	**108.5**	**123.3**	**112.4**	**93.8**	**90.1**	**86.9**	**84.3**	**112.4**	**84.3**	**78.6**
Convertible Sub. Notes	172.5	172.5	172.5	172.5	172.5	172.5	172.5	172.5	172.5	172.5	172.5
Total Liablities	**406.7**	**358.3**	**356.2**	**331.8**	**320.0**	**314.2**	**309.3**	**305.2**	**331.8**	**305.2**	**296.1**
Shareholders' Equity	**1,649.4**	**1,434.8**	**1,361.7**	**1,305.7**	**1,243.8**	**1,187.0**	**1,139.4**	**1,100.1**	**1,305.7**	**1,100.1**	**1,013.2**

Source: Company reports and CIBC World Markets Corp.

Corillian Corporation (CORI—$1.30—SU)

Expected Reporting Date—Week of October 21
Target Price—NA

Fiscal Year: Dec.	CIBC Earnings Estimates				
	1Q	2Q	3QE	4Q	Year
2001	($0.21)	($0.16)	($0.10)	($0.17)	($0.65)
2002E	(0.11)	(0.13)	(0.12)	0.10	(0.46)
2003E	(0.09)	(0.09)	(0.08)	(0.08)	(0.34)

	CIBC Revenue Estimates				
	1Q	2Q	3QE	4Q	Year
2001	$14	$15	$15	$10	$54
2002E	10	9	9	9	38
2003E	10	10	10	11	40

	Consensus Estimates	
	Earnings	Revenue
3Q02E	($0.09)	$10
2002E	(0.40)	39
2003E	(0.15)	48

SU—Sector Underperformer.

- The extended sales cycle, coupled with implementation delays, should result in flat sequential revenue equaling $9 million. Corillian's strong technology platform, however, continues to drive a building backlog of new business.

- Increasing product visibility and consumer demand for online banking could drive total active end users above 7.7 million. The total number of Voyager Internet banking customers could equal 62 at quarter end.

- Additional headcount reductions should lower quarterly operating expense by roughly $1.5-$2.0 million, but with little additional room to reduce costs, achieving EBITDA breakeven by year-end could be a challenge.

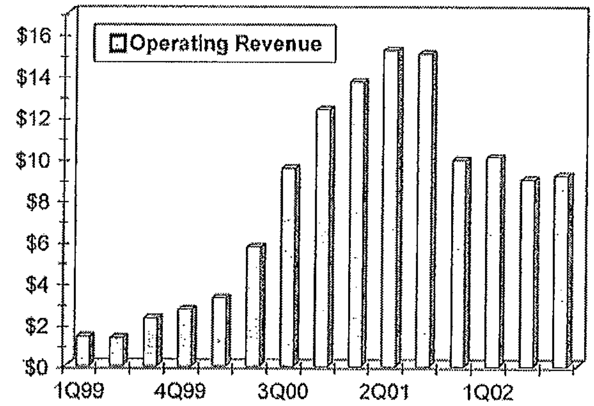
- The weak operating environment could jeopardize liquidity, but active cash management and improving DSOs may dilute the adverse balance-sheet impact.

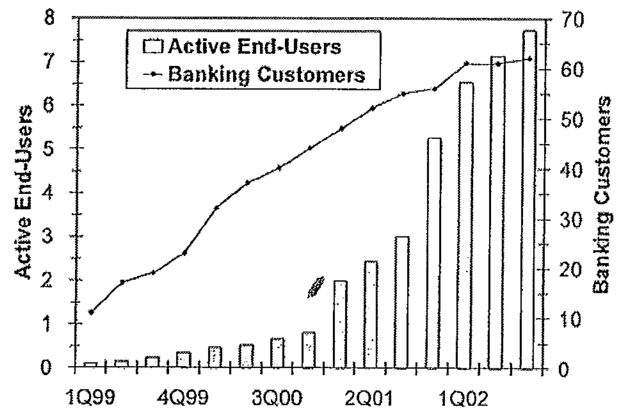
- Greater emphasis on sales of the Voyager SE product to medium-size institutions could provide a modest boost to revenue in early 2003. Bridging the gap until then, however, remains the primary objective.

Investment Risk: Should the sales cycle remain extended indefinitely, revenue trends could be permanently affected and cash outflows continue.

Fundamental Trend Performance

(Dollars and end users in millions)

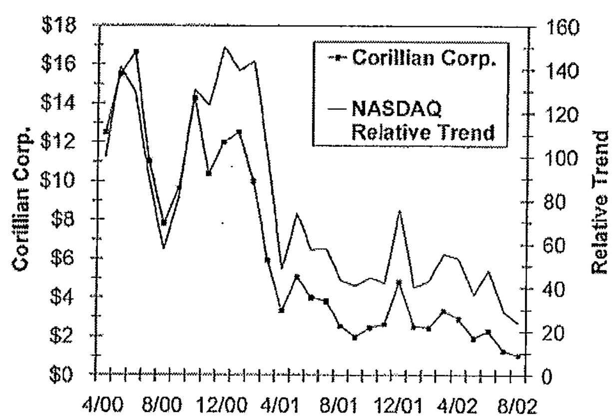




Source: Company reports and CIBC World Markets Corp.

Relative Monthly Stock Performance

(Relative to NASDAQ: 4/00=100.0)



Source: FactSet and CIBC World Markets Corp.

Exhibit 22. Corillian Corp. Income Statement Projections

(Dollars in millions, except where noted)

	2001		2002E				Full Year		
	3Q	4Q	1QA	2QA	3Q	4Q	2001	2002E	2003E
License & Professional Scs.	$13.57	$8.35	$8.14	$6.92	$7.05	$7.19	$49.24	$29.31	$30.78
Post-Contractual Support	1.06	1.15	1.46	1.63	1.65	1.68	3.37	6.42	7.20
Hosting	0.40	0.42	0.46	0.43	0.46	0.47	1.24	1.82	2.00
Total Revenue	**15.03**	**9.91**	**10.06**	**8.98**	**9.16**	**9.34**	**53.85**	**37.55**	**39.98**
Cost Of Revenue	7.80	5.75	5.32	5.09	5.18	5.23	30.36	20.82	21.73
Gross Profit	**7.23**	**4.17**	**4.74**	**3.89**	**3.98**	**4.11**	**23.49**	**16.72**	**18.24**
Gross Margin	48.1%	42.1%	47.1%	43.3%	43.5%	44.0%	43.6%	44.5%	45.6%
Operating Expenses									
Sales & Marketing	5.69	4.06	3.28	3.19	2.89	2.77	20.10	12.13	10.95
Res. & Development	1.98	2.36	1.86	2.46	2.19	1.97	11.72	8.48	7.55
General & Admin.	3.00	3.46	3.03	2.60	2.63	2.65	13.95	10.90	10.61
Amort. Of Intangibles	2.04	—	—	—	—	—	6.12	—	—
Amort. Of Deferred Comp.	0.61	0.47	0.33	0.23	0.23	0.23	2.51	1.02	0.80
Total Op. Expenses	**13.32**	**28.45**	**8.50**	**9.16**	**7.94**	**7.62**	**72.49**	**33.22**	**29.92**
Op. Income (Loss)	**(6.09)**	**(24.28)**	**(3.76)**	**(5.27)**	**(3.96)**	**(3.51)**	**(49.00)**	**(16.49)**	**(11.67)**
Other Income, Net	(0.17)	(0.40)	(0.28)	(0.39)	(0.39)	(0.40)	(0.30)	(1.46)	(1.15)
Pretax Income (Loss)	**(6.26)**	**(24.68)**	**(4.03)**	**(5.66)**	**(4.35)**	**(3.91)**	**(49.30)**	**(17.95)**	**(12.83)**
Net Loss To Common	**(6.26)**	**(24.68)**	**(4.03)**	**(5.66)**	**(4.35)**	**(3.91)**	**(49.30)**	**(17.95)**	**(12.83)**
Avg. Shares Out.	34.78	34.93	35.18	35.26	35.26	35.26	34.64	35.24	35.26
Earnings Per Share	**($0.18)**	**($0.71)**	**($0.11)**	**($0.16)**	**($0.12)**	**($0.11)**	**($1.42)**	**($0.51)**	**($0.36)**
Cumulative	($0.71)	($1.42)	($0.11)	($0.28)	($0.40)	($0.51)			
Net Loss Ex. Amort. & Charges	(3.62)	(6.11)	(3.71)	(4.75)	(4.12)	(3.68)	(40.68)	(16.25)	(12.02)
Per Share	**($0.10)**	**($0.17)**	**($0.11)**	**($0.13)**	**($0.12)**	**($0.10)**	**($0.65)**	**($0.46)**	**($0.34)**
Cumulative	($0.47)	($0.65)	($0.11)	($0.24)	($0.36)	($0.46)			
Operating Data									
Active End Users (000s)	3,015	5,279	6,545	7,159	7,732	8,273	5,279	8,273	10,152
Total Voyager Internet Banking Customers	55	56	61	61	62	64	56	64	70
Live Net Banking Customers	37	43	45	49	50	51	43	51	56
Balance Sheet									
Cash & Cash Equivalents	$17.48	$15.80	$16.36	$13.21	$13.85	$13.45	$15.80	$13.45	$12.65
Accounts Receivable, Net	9.19	9.43	8.04	8.97	8.11	8.07	9.43	8.07	7.67
Revenue In Excess Of Billings	12.20	6.41	6.65	4.34	4.16	4.08	6.41	4.08	3.83
Other Current Assets	2.58	1.43	1.40	1.93	1.87	1.83	1.43	1.83	1.72
Total Current Assets	**41.45**	**34.97**	**33.55**	**29.55**	**28.74**	**28.16**	**34.97**	**28.16**	**25.87**
Property & Equipment, Net	14.24	13.00	11.99	11.06	10.81	10.60	13.00	10.60	9.97
Intangible Assets, Net	16.76	—	—	—	—	—	—	—	—
Investment In Joint Venture	2.19	1.99	1.83	1.53	1.66	1.63	1.99	1.63	1.53
Other Assets	0.33	0.29	0.28	0.52	0.37	0.37	0.29	0.37	0.38
Total Assets	**74.97**	**50.24**	**47.65**	**42.66**	**41.59**	**40.76**	**50.24**	**40.76**	**37.75**
Accounts Payable & Accrued Liab.	9.15	5.13	4.63	5.56	4.99	4.89	5.13	4.89	4.60
Deferred Revenue	5.61	8.88	10.66	11.12	10.81	10.60	8.88	10.60	9.97
Current Portion Of Notes Payable & Capital Lease Obligations	0.42	0.41	0.45	0.45	0.42	0.41	0.41	0.41	0.38
Current Portion Of LT Debt	2.12	2.19	2.46	2.32	2.29	2.24	1.99	2.05	—
Other Current Liabilities	0.22	0.60	0.69	0.83	0.79	0.82	0.60	0.82	0.77
Total Current Liabilities	**17.53**	**17.21**	**18.89**	**20.28**	**19.30**	**18.95**	**17.02**	**18.77**	**15.72**
Capital Lease Obligations & Long-Term Debt	4.22	3.73	2.90	2.42	2.41	2.36	3.73	2.36	2.22
Other Liabilities	1.22	1.20	1.17	1.14	1.12	1.10	1.20	1.10	1.07
Total Liablities	**22.98**	**22.14**	**22.95**	**23.84**	**22.83**	**22.42**	**21.95**	**22.23**	**19.01**
Shareholders' Equity	**51.99**	**28.10**	**24.69**	**18.82**	**18.76**	**18.34**	**28.30**	**18.53**	**18.74**

Source: Company reports and CIBC World Markets Corp.

Digital Insight Corp. (DGIN—$16.15—SO)

Expected Reporting Date—Thursday, October 24
Target Price—$20

Fiscal Year: Dec.	CIBC Earnings Estimates				
	1Q	2Q	3QE	4Q	Year
2001	($0.19)	($0.10)	($0.02)	$0.04	($0.28)
2002E	0.04	0.06	0.10	0.15	0.35
2003E	0.16	0.18	0.21	0.25	0.80
	CIBC Revenue Estimates				
	1Q	2Q	3QE	4Q	Year
2001	$20	$23	$25	$27	$95
2002E	30	32	34	38	134
2003E	40	42	46	50	179

	Consensus Estimates	
	Earnings	Revenue
3Q02E	$0.10	$34
2002E	0.34	134
2003E	0.77	173

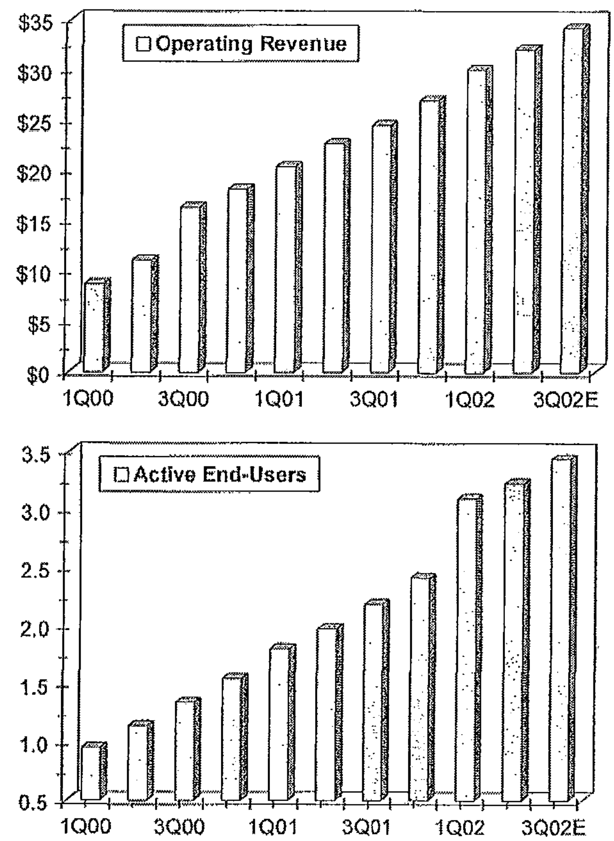
SO—Sector Outperformer.

- Increasing penetration and expanded client relationships could enable Digital Insight to achieve GAAP profitability in the third quarter.
- Solid financial footing and the lower-cost ASP product offering should support healthy growth in total Internet banking customers and greater infrastructure leverage. Improving adoption rates could drive total active end-users to roughly 3.4 million.
- Augmented infrastructure leverage should support healthy gross margin expansion to 47%-48% and facilitate GAAP breakeven.
- Active cost controls should result in flat operating expense growth. Efficiency improvements should become increasingly visible following the completion of the ViFi platform migration.
- Lending Services should continue to gain momentum owing to increasing customer adoption and robust consumer lending activity, particularly for real estate.

Investment Risk: Greater market penetration remains a key to leveraging existing infrastructure and accelerating growth. Focused cross-selling efforts could overcome this challenge.

Fundamental Trend Performance

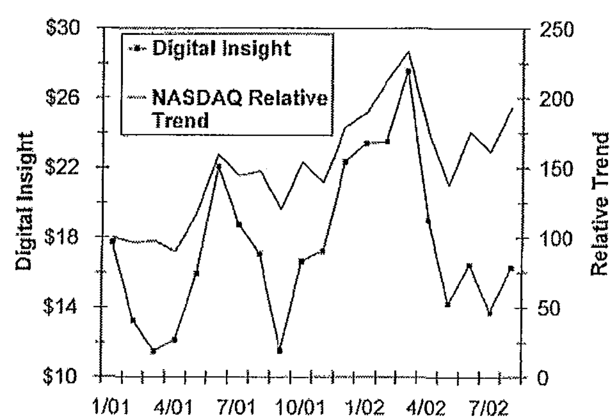
(Dollars and end users in millions)



Source: Company reports and CIBC World Markets Corp.

Relative Monthly Stock Performance

(Relative to NASDAQ: 1/01=100.0)



Source: FactSet and CIBC World Markets Corp.

Exhibit 23. Digital Insight Income Statement Projections

(Dollars in millions, except where noted)

	2001		2002E				Full Year		
	3Q	4Q	1QA	2QA	3Q	4Q	2001	2002E	2003E
Internet Banking	$20.4	$22.9	$26.5	$28.0	$29.8	$32.7	$79.0	$117.1	$154.4
Lending Service	4.1	4.1	3.6	4.0	4.3	4.9	15.6	16.9	24.2
Total Revenue	**24.5**	**27.0**	**30.1**	**32.1**	**34.2**	**37.6**	**94.6**	**134.0**	**178.5**
Cost Of Revenue	13.6	14.5	15.8	17.0	18.0	19.3	54.6	70.2	90.7
Gross Profit	**10.9**	**12.5**	**14.3**	**15.1**	**16.2**	**18.2**	**40.0**	**63.8**	**87.8**
Gross Margin	44.4%	46.3%	47.4%	47.0%	47.5%	48.5%	42.3%	47.6%	49.2%
Sales, General & Admin.	7.0	7.1	8.8	8.4	8.4	8.5	29.6	34.1	39.4
Research & Development	4.9	4.5	4.5	4.9	4.8	4.9	20.5	19.1	22.4
Stock-Based Comp. Amort.	0.5	0.5	0.5	0.8	0.4	0.3	4.8	1.8	0.5
Goodwill & Intang. Amort.	8.8	9.4	1.4	1.5	1.5	1.5	35.7	5.9	5.6
Total Operating Expenses	**21.2**	**21.5**	**20.2**	**15.5**	**15.0**	**15.2**	**94.0**	**60.8**	**67.9**
Operating Income (Loss)	**(10.3)**	**(9.0)**	**(5.9)**	**(0.4)**	**1.2**	**3.1**	**(53.9)**	**3.0**	**19.9**
Interest & Other Inc., Net	0.4	0.3	0.2	0.1	0.3	0.2	2.0	0.8	0.8
Pretax Income (Loss)	**(9.9)**	**(8.7)**	**(5.7)**	**(0.3)**	**1.5**	**3.2**	**(51.9)**	**3.8**	**20.7**
Pretax Income (Loss) Inc. Acctg.	(9.9)	(8.7)	(34.7)	(0.3)	1.5	3.2	(51.9)	(25.2)	20.7
Avg. Shares Outstanding	29.4	30.9	32.8	32.1	33.5	33.5	29.6	33.0	33.5
Reported EPS, Inc. Acctg.	($0.34)	($0.28)	($1.11)	($0.01)	$0.05	$0.10			
Reported EPS, Ex. Acctg.	($0.34)	($0.28)	($0.18)	($0.01)	$0.05	$0.10	($1.75)	$0.11	$0.62
ProForma Net Income (Loss)	**(0.6)**	**1.2**	**1.2**	**2.0**	**3.4**	**5.0**	**(8.1)**	**11.5**	**26.8**
ProForma Per Share	**($0.02)**	**$0.04**	**$0.04**	**$0.06**	**$0.10**	**$0.15**	**($0.28)**	**$0.35**	**$0.80**
Operating Data									
Internet Banking									
Active End Users (Mils)	2.190	2.420	3.101	3.232	3.438	3.679	2.420	3.679	4.680
Penetration At Live Sites	8.8%	9.5%	10.4%	10.4%	10.5%	10.7%	9.5%	10.7%	11.2%
Cash Mgmt. End Users	13,874	16,062	18,292	20,301	22,331	24,564	16,062	24,564	35,964
Lending Svcs. Contracts	162	154	159	158	163	168	154	168	189
Balance Sheet									
Cash & Cash Equivalents	$21.5	$15.3	$10.4	$10.1	$10.1	$10.2	$15.3	$10.2	$10.4
Short-Term Investments	39.0	38.3	43.8	46.8	46.6	46.5	38.3	46.5	49.6
Net Accounts Receivable	18.6	19.1	21.6	20.5	20.2	21.1	19.1	21.1	23.0
Total Current Assets	**87.2**	**80.6**	**84.7**	**85.3**	**84.8**	**86.0**	**80.6**	**86.0**	**91.6**
Goodwill & Intangible Assets, Net	107.8	98.4	125.3	123.8	123.0	122.6	98.4	122.6	118.8
Total Assets	**245.2**	**236.6**	**260.3**	**254.3**	**253.1**	**254.3**	**236.6**	**254.3**	**261.0**
Current Portion Of Notes Payable & Capital Lease Obligations	1.6	1.2	0.9	0.7	0.8	0.8	1.2	0.8	0.8
Current Portion Of LT Debt	3.0	3.5	7.3	6.3	6.3	6.3	3.5	6.3	6.5
Total Current Liabilities	**27.9**	**26.2**	**39.2**	**33.1**	**31.1**	**30.5**	**26.2**	**30.5**	**25.6**
Long-Term Debt	4.8	5.9	5.0	4.1	5.1	5.1	5.9	5.1	5.2
Total Liablities	41.1	39.7	52.2	44.7	44.0	43.5	39.7	43.5	38.9
Shareholders' Equity	**204.1**	**196.9**	**208.2**	**209.7**	**209.0**	**210.9**	**196.9**	**210.9**	**222.1**

Source: Company reports and CIBC World Markets Corp.

Fair, Isaac & Company (FIC—$32.59—SO)

Expected Reporting Date—Wednesday, October 30
Target Price—$40

Fiscal Year: Sept.	CIBC Earnings Estimates 1Q	2Q	3Q	4QE	Year
2001	$0.27	$0.31	$0.35	$0.40	$1.33
2002E	0.38	0.39	0.42	0.43	1.62
2003E	0.43	0.46	0.50	0.53	1.92

	CIBC Revenue Estimates 1Q	2Q	3Q	4QE	Year
2001	$77	$81	$84	$86	$329
2002E	85	87	91	95	359
2003E	148	155	159	165	627

	Consensus Estimates Earnings	Revenue
4Q02E	$0.43	$108
2002E	1.62	386
2003E	1.90	629

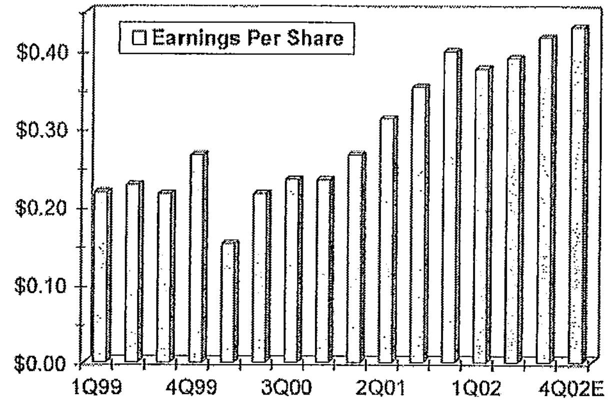
SO—Sector Outperformer.

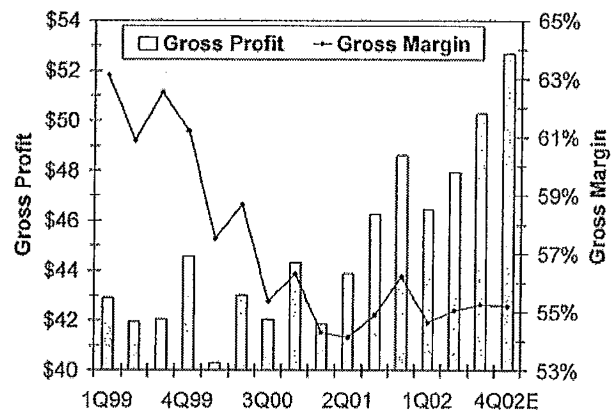
- Completion of the HNC Software acquisition during the quarter should generate roughly $35 million of cost savings and be mildly accretive to fiscal 2003 earnings.
- Although the long-term revenue impact from the combination should be positive because of the enhanced cross-selling opportunities and a broader product line, revenue growth could be modest in the near term as integration issues are resolved.
- Healthy product demand should continue to drive solid revenue growth within the Strategy Machines unit, which should be a leading contributor to total revenue.
- The gross margin could expand into the mid-to-upper 50%-range as higher-margin products are emphasized and greater economies of scale are realized.
- The Scoring unit should benefit from higher direct mail solicitation volume over the past few months in front of the seasonally strong calendar fourth quarter. Greater use of FICO scores by issuers such as Providian could result owing to the implementation of the FFIEC guidelines, which define sub-prime account in terms of FICO scores.

Investment Risk: Operating margin pressure may occur as the company increases its marketing investment in order to promote newer products. Recent cost reduction efforts and synergies realized from the HNC merger, however, could offset the impact on profitability.

Fundamental Trend Performance

(Dollars in millions, except where noted)

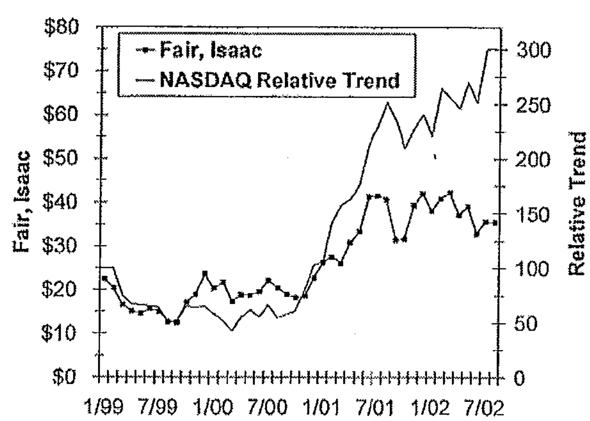




Source: Company reports and CIBC World Markets Corp.

Relative Monthly Stock Performance

(Relative to NASDAQ: 1/99=100.0)



Source: FactSet and CIBC World Markets Corp.

Exhibit 24. Fair, Isaac & Company Income Statement Projections
(Dollars in millions, except where noted)

	2001		2002E				Full Year		
	3Q	4Q	1QA	2QA	3QA	4Q	2001	2002E	2003E
Consulting	$9.2	$11.0	$12.7	$15.0	$14.4	$14.9	$38.8	$57.0	$90.0
Scoring	30.7	35.3	30.1	29.7	33.3	34.5	122.1	127.6	131.0
Strategy Machines	36.8	34.1	34.3	33.0	35.0	38.0	135.5	140.3	369.5
License Software & Maintenance	7.5	6.1	7.9	9.3	8.3	8.1	32.6	33.7	36.7
Total Operating Revenue	**84.2**	**86.5**	**85.1**	**87.1**	**91.0**	**95.4**	**329.1**	**358.6**	**627.3**
Cost Of Revenue	38.0	37.8	38.6	39.1	40.7	40.6	148.3	159.0	274.6
Gross Profit	**46.2**	**48.6**	**46.5**	**47.9**	**50.3**	**54.9**	**180.9**	**199.6**	**352.7**
Operating Expenses									
Research & Development	7.0	6.7	7.5	7.3	6.9	5.8	28.3	27.4	38.0
Sales, General & Administrative	19.3	19.7	17.9	18.7	19.8	18.3	78.1	74.7	126.2
Amortization of Intangibles	0.5	0.5	0.5	0.6	0.6	0.6	2.1	2.3	12.0
Restructuring Charge	—	—	—	—	—	—	—	—	—
Total Operating Expenses	**26.8**	**26.9**	**25.9**	**26.6**	**27.3**	**24.6**	**108.5**	**104.5**	**176.2**
Operating Income	**19.5**	**21.7**	**20.5**	**21.3**	**23.0**	**30.2**	**72.4**	**95.1**	**176.5**
Other Income, Net	1.1	1.4	1.9	2.0	0.6	0.8	4.7	5.2	5.9
Pretax Income	**20.6**	**23.1**	**22.4**	**23.3**	**23.6**	**31.0**	**77.1**	**100.3**	**182.3**
Provision For Income Taxes	8.2	8.8	8.8	9.1	8.9	11.7	30.7	38.6	71.1
Net Income	**12.4**	**14.3**	**13.5**	**14.2**	**14.7**	**19.3**	**46.4**	**61.7**	**111.2**
Average Diluted Shares Out.	35.0	35.8	35.9	36.3	35.2	45.2	34.6	38.2	58.0
Reported EPS—Diluted	**$0.35**	**$0.40**	**$0.38**	**$0.39**	**$0.42**	**$0.43**	**$1.33**	**$1.62**	**$1.92**
Reported EBITDA, Ex. Charge	25.6	28.7	27.2	28.2	29.9	37.3	97.5	122.6	217.3
Reported EBITDA Per Share	**$0.73**	**$0.80**	**$0.76**	**$0.78**	**$0.85**	**$0.82**	**$2.82**	**$3.21**	**$3.75**
Operating Revenue Analysis—% Of Total									
Consulting	10.9%	12.8%	14.9%	17.3%	15.8%	15.6%	11.8%	15.9%	14.4%
Scoring	36.5%	40.8%	35.4%	34.1%	36.6%	36.1%	37.1%	35.6%	20.9%
Strategy Machines	43.7%	39.4%	40.4%	37.9%	38.4%	39.8%	41.2%	39.1%	58.9%
License Software & Maintenance	8.9%	7.1%	9.3%	10.7%	9.2%	8.5%	9.9%	9.4%	5.9%
Operating Expense Analysis—% Of Total									
Research & Development	8.2%	7.6%	8.6%	8.2%	7.5%	6.0%	8.5%	7.5%	6.0%
Sales, General & Administrative	22.6%	22.5%	20.6%	21.0%	21.6%	19.0%	23.4%	20.5%	19.9%
Amortization of Intangibles	0.6%	0.6%	0.6%	0.7%	0.7%	0.6%	0.6%	0.6%	1.9%
Total Operating Expenses	**31.4%**	**30.6%**	**29.8%**	**29.9%**	**29.8%**	**25.6%**	**32.5%**	**28.7%**	**27.8%**
Profitability Analysis									
Gross Margin	54.9%	56.2%	54.6%	55.1%	55.3%	57.5%	55.0%	55.7%	56.2%
Operating Margin	23.1%	25.1%	24.1%	24.5%	25.3%	31.7%	22.0%	26.5%	28.1%
Pretax Margin	24.1%	26.3%	25.8%	26.1%	25.8%	32.2%	23.1%	27.6%	28.8%
Net Margin	14.5%	16.3%	15.6%	15.9%	16.0%	20.1%	13.9%	17.0%	17.6%
Effective Tax Rate	40.0%	38.1%	39.5%	39.0%	37.8%	37.8%	39.8%	38.5%	39.0%

Source: Company reports and CIBC World Markets Corp.

Hypercom Corp. (HYC—$2.95—SO)

Expected Reporting Date—Thursday, October 24
Target Price—$8

Fiscal Year: Dec.	CIBC Earnings Estimates 1Q	2Q	3QE	4Q	Year
2001	($0.39)	($0.17)	($0.06)	$0.04	($0.54)
2002E	(0.02)	0.01	0.06	0.10	0.15
2003E	0.06	0.08	0.09	0.10	0.33

	CIBC Revenue Estimates 1Q	2Q	3QE	4Q	Year
2001	$64	$68	$64	$67	$292
2002E	77	75	80	85	317
2003E	77	79	82	86	324

	Consensus Estimates Earnings	Revenue
3Q02E	$0.07	$80
2002E	0.17	319
2003E	0.35	340

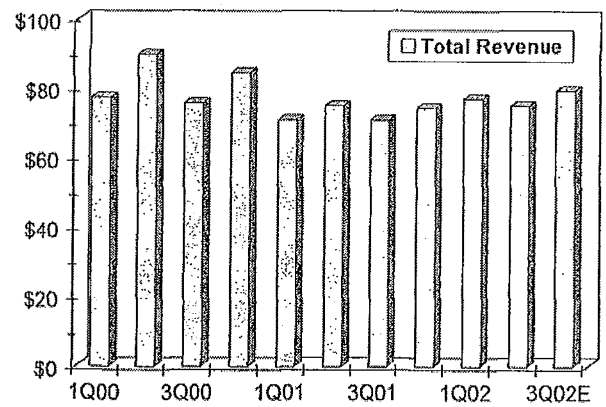
SO—Sector Outperformer.

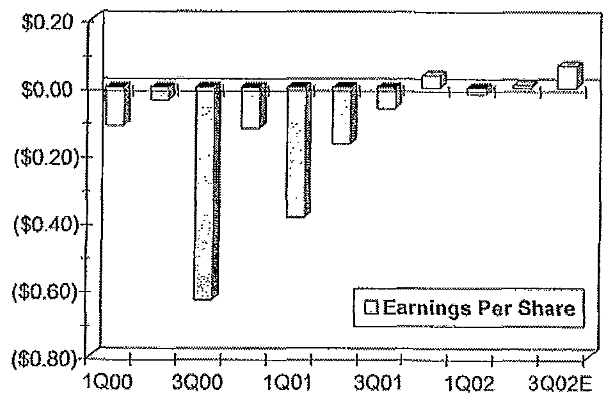
- Delayed product deliveries because of the challenging economic environment could continue to pressure revenue growth within the core business. Holdovers from last quarter, however, should generate modest gains to drive total revenue to over $72 million.
- The gross margin should rise as business continues to be generated by higher margin legacy product sales. Further, controlled expense growth should enhance operating income.
- Expense volatility should be minimized following management's resumption of regular foreign currency hedging activities.
- International markets should remain a leading contributor to growth, as more than 50% of total revenue is derived from foreign clients.
- Credit quality improvement should continue at the Golden Eagle leasing unit, which should translate into improved profitability within the segment.

Investment Risk: Although extensive international operations expose the company to foreign exchange risk, active hedging practices should minimize exposure.

Fundamental Trend Performance

(Dollars in millions, except where noted)

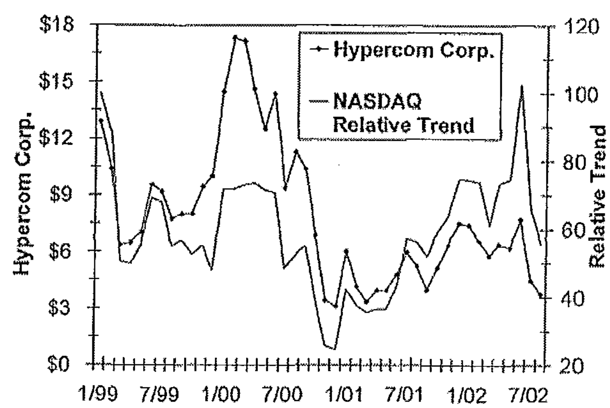




Source: Company reports and CIBC World Markets Corp.

Relative Monthly Stock Performance

(Relative to NASDAQ: 1/99=100.0)



Source: FactSet and CIBC World Markets Corp.

Exhibit 25. Hypercom Corp. Income Statement Projections

(Dollars in millions, except where noted)

	2001		2002E				Full Year		
	3Q	4Q	1QA	2QA	3Q	4Q	2001	2002E	2003E
Core Business									
Net Revenue	$64.17	$67.33	$70.20	$68.43	$72.53	$77.61	$263.14	$288.76	$294.81
Cost Of Revenue	40.46	41.95	44.97	43.64	44.97	47.73	168.68	181.31	184.90
Gross Profit	**23.71**	**25.38**	**25.23**	**24.79**	**27.56**	**29.88**	**94.46**	**107.45**	**109.91**
Gross Margin	36.9%	37.7%	35.9%	36.2%	38.0%	38.5%	35.9%	37.2%	37.3%
Research & Development	7.03	6.80	6.40	6.46	6.24	6.36	29.11	25.46	24.04
Selling, General & Administrative	16.56	15.98	16.40	15.30	15.59	15.68	68.92	62.97	58.05
Total Operating Expenses	**64.06**	**64.74**	**67.77**	**65.40**	**66.80**	**69.77**	**266.71**	**269.74**	**266.99**
Operating Income (Loss)	**0.12**	**2.59**	**2.43**	**3.02**	**5.73**	**7.84**	**(3.57)**	**19.02**	**27.82**
Interest Income	0.06	0.06	0.02	0.03	0.05	0.05	0.57	0.16	0.19
Interest Expense	(2.89)	(2.43)	(2.00)	(0.74)	(0.83)	(0.83)	(9.67)	(4.40)	(3.28)
Other Expense	(0.51)	(0.09)	(0.05)	(0.05)	(0.05)	(0.05)	(2.40)	(0.20)	(0.20)
Foreign Currency Gain (Loss)	0.14	1.64	(1.58)	(2.01)	(1.00)	(1.00)	0.50	(5.59)	(4.00)
Pretax Income (Loss)	**(3.09)**	**1.77**	**(1.18)**	**0.26**	**3.90**	**6.01**	**(14.58)**	**9.00**	**20.54**
Provision (Benefit) For Income Taxes	(0.57)	0.35	(0.24)	0.03	0.87	1.36	(2.32)	2.02	4.68
Net Income (Loss)	**(2.52)**	**1.42**	**(0.94)**	**0.24**	**3.03**	**4.65**	**(12.26)**	**6.98**	**15.86**
Avg. Shares Outstanding	38.0	42.4	40.6	51.2	51.2	51.2	36.6	48.6	51.2
EPS Inc. Extraordinary Items	($0.06)	$0.04	($0.07)	$0.01	$0.06	$0.10	($0.54)	$0.10	$0.33
Extraordinary Items	—	—	($0.05)	—	—	—	—	($0.05)	—
Consolidated EPS	**($0.06)**	**$0.04**	**($0.02)**	**$0.01**	**$0.06**	**$0.10**	**($0.54)**	**$0.15**	**$0.33**
Cumulative	(0.60)	(0.54)	(0.02)	(0.01)	0.05	0.15			
Consolidated Revenue Analysis									
Revenue Seq. Growth	-5.4%	4.9%	3.4%	-2.5%	5.9%	6.9%	-10.9%	8.6%	2.3%
Total Expense/Revenue	99.7%	96.4%	96.6%	95.7%	92.3%	90.2%	103.8%	93.6%	90.8%
Con. R&D/Con. Revenue	9.9%	9.1%	8.3%	8.6%	7.8%	7.5%	10.0%	8.0%	7.4%
Con. SG&A/Con. Revenue	26.9%	24.9%	23.7%	23.0%	22.1%	20.8%	27.4%	22.3%	20.4%
Consolidated Profitability Analysis									
Gross Margin	37.1%	37.6%	35.4%	35.9%	37.6%	38.1%	36.1%	36.8%	37.0%
Operating Margin	0.3%	3.6%	3.4%	4.3%	7.7%	9.8%	-3.8%	6.4%	9.2%
EBITDA Margin	6.6%	9.9%	8.9%	10.2%	12.7%	14.4%	2.1%	11.7%	13.9%
Pretax Margin	-4.2%	2.5%	-1.3%	0.7%	5.4%	7.7%	-8.5%	3.3%	7.0%
Net Margin	-3.4%	2.0%	-1.1%	0.5%	4.1%	5.8%	-6.8%	2.5%	5.3%
Effective Tax Rate	20.0%	20.0%	20.0%	24.0%	24.0%	24.0%	20.0%	24.4%	24.4%
Balance Sheet									
Cash & Cash Equivalents	$8.84	$13.40	$15.75	$13.91	$14.26	$14.29	$13.40	$14.29	$14.43
Restricted Cash	5.02	6.37	6.83	6.89	6.97	6.98	6.37	6.98	7.05
Accounts Receivable, Net	83.71	70.86	79.02	78.85	79.20	79.36	70.86	79.36	80.16
Inventories, Net	56.62	62.41	59.91	61.58	61.78	61.90	62.41	61.90	62.52
Total Current Assets	**210.68**	**212.70**	**221.10**	**221.39**	**222.40**	**222.85**	**212.70**	**222.85**	**225.08**
Goodwill, Net	30.63	21.71	21.71	—	—	—	21.71	—	—
Intangible Assets, Net	6.17	13.60	12.48	13.13	12.67	12.70	13.60	12.70	12.83
Total Assets	**341.76**	**337.69**	**339.06**	**316.18**	**316.81**	**317.44**	**337.69**	**317.44**	**320.63**
Accts. Payable & Accrued Liab.	57.30	54.51	52.49	53.96	53.86	53.97	54.51	53.97	54.51
Current Portion Of LT Oblig.	18.93	20.72	14.55	15.99	15.84	15.87	20.72	15.87	16.03
Total Current Liabilities	**78.57**	**78.90**	**70.46**	**73.93**	**73.82**	**73.96**	**78.90**	**73.96**	**74.71**
Long-Term Debt	53.12	47.43	22.17	16.84	15.21	15.24	47.43	15.24	14.43
Total Liablities	**131.85**	**126.33**	**92.63**	**90.77**	**89.02**	**89.20**	**126.33**	**89.20**	**89.14**
Shareholders' Equity	**209.91**	**211.37**	**246.43**	**225.41**	**227.79**	**228.24**	**211.37**	**228.24**	**231.50**

Source: Company reports and CIBC World Markets Corp.

Companies Mentioned In This Report

Stock Prices as of 10/3/02:

Alliance Data Systems Corp. (11)(ADS-NYSE $15.40 Sector Performer)
American Express (11)(AXP-NYSE $31.85 Sector Performer)
Capital One Financial (11, 2, 4)(COF-NYSE $34.67 Sector Outperformer)
CIT Group (11, 2, 3)(CIT-NYSE $18.75 Sector Outperformer)
Countrywide Credit (11, 4)(CCR-NYSE $48.10 Sector Outperformer)
DVI, Inc. (11)(DVI-NYSE $12.17 Sector Performer)
Fannie Mae (FNM-NYSE $66.55 Sector Outperformer)
Freddie Mac (FRE-NYSE $59.90 Sector Outperformer)
Hypercom Corp. (11, 2, 3)(HYC-NYSE $3.90 Sector Outperformer)
MBNA Corp. (KRB-NYSE $18.75 Sector Outperformer)
MicroFinancial, Inc. (MFI-NYSE $5.04 Sector Underperformer)
Providian Financial Corp. (4)(PVN-NYSE $4.84 Sector Underperformer)
Allied Capital (11)(ALD-NYSE $20.73 Sector Performer)
Bottomline Technologies (1, 11)(EPAY-OTC $5.02 Sector Underperformer)
CheckFree Corp. (1, 11, 4)(CKFR-OTC $11.82 Sector Performer)
Corillian Corporation (1, 11)(CORI-OTC $1.66 Sector Underperformer)
Digital Insight (1, 11)(DGIN-OTC $17.60 Sector Outperformer)
Fair, Isaac & Company (11)(FIC-NYSE $34.05 Sector Outperformer)
Financial Federal Corporation (11, 4)(FIF-OTC $32.62 Sector Performer)
Household International (11, 4)(HI-NYSE $28.15 Sector Performer)
IMPAC Mortgage Holdings, Inc. (2, 3)(IMH-AMEX $10.99 Sector Outperformer)
Metris Companies (11)(MXT-NYSE $2.36 Sector Underperformer)
NextCard Inc. (NXCD-OTC $0.01 Not Rated)

Key to Footnotes:

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CIBCWM Price Chart

For price and performance charts please visit us on the web at http://www.cibcwm.com/research/sec2711/ .

CIBCWM Stock Rating System

Abbreviation	Rating	Description
Company Ratings		
SO	Sector Outperformer	Stock is expected to outperform the sector during the next 12-18 months.
SP	Sector Performer	Stock is expected to perform in line with the sector during the next 12-18 months.
SU	Sector Underperformer	Stock is expected to underperform the sector during the next 12-18 months.
S	Suspended	Stock coverage is temporarily halted.
DR	Dropped	Stock coverage is discontinued.
NR	Not Rated	Stock is not covered by CIBCWM.
Company Ratings Prior To August 26th 2002		
SB	Strong Buy	Expected total return over 12 months of at least 25%.
B	Buy	Expected total return over 12 months of at least 15%.
H	Hold	Expected total return over 12 months of at least 0%-15%.
UP	Underperform	Expected negative total return over 12 months.
Sector Weightings**		
O	Overweight	Sector is expected to outperform the broader market averages.
M	Market Weight	Sector is expected to equal the performance of the broader market averages.
U	Underweight	Sector is expected to underperform the broader market averages.
NA	None	Sector rating is not applicable.

**Broader market averages refer to the S&P 500 in the U.S. and TSX 300 in Canada.
"-S" indicates Speculative. An investment in this security involves a high amount of risk due to volatility and/or liquidity issues.
"CC" indicates Commencement of Coverage. The analyst named started covering the security on the date specified.

Ratings Distribution: CIBC World Markets Corp. Coverage Universe (as of 03 Oct 2002)	Count	Percent	Inv. Banking Relationships	Count	Percent
Sector Outperformer (Buy)	267	36.0%	Sector Outperformer (Buy)	136	50.9%
Sector Performer (Hold/Neutral)	302	40.8%	Sector Performer (Hold/Neutral)	88	29.1%
Sector Underperformer (Sell)	172	23.2%	Sector Underperformer (Sell)	34	19.8%

Ratings Distribution: Specialty Finance Coverage Universe (as of 03 Oct 2002)	Count	Percent	Inv. Banking Relationships	Count	Percent
Sector Outperformer (Buy)	10	45.5%	Sector Outperformer (Buy)	6	60.0%
Sector Performer (Hold/Neutral)	7	31.8%	Sector Performer (Hold/Neutral)	4	57.1%
Sector Underperformer (Sell)	5	22.7%	Sector Underperformer (Sell)	1	20.0%

Specialty Finance Sector includes the following tickers: ADS, ALD, AXP, CCR, CIT, CKFR, COF, CORI, DGIN, DVI, EPAY, FIC, FIF, FNIS, FNM, FRE, HI, HYC, IMH, KRB, MFI, MXT, PVN.

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EXHIBIT 15

A.G. Edwards

Specialty Finance Quarterly
Fourth Quarter 2001

JANUARY 2, 2002

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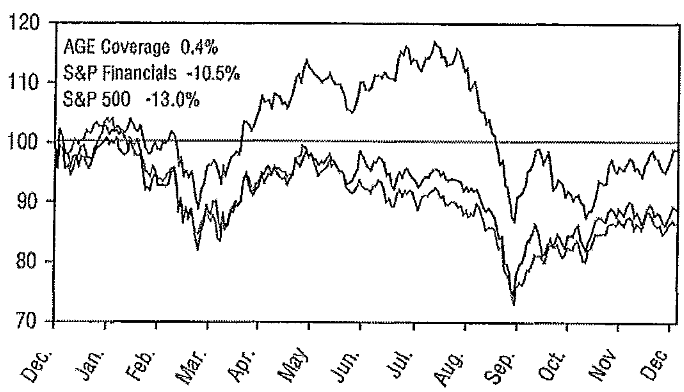
FINANCIAL

After a Challenging 2001, We Anticipate Improved Returns in 2002

- AGE Specialty Finance Universe generates total return of 4.8% in 2001, led by TMA (139.4%), RWT (50.9%), ALD (34.2%), ACAS (21.7%), ACF (15.8%), and HI (6.9%).
- Cyclically high consumer debt burden and weak consumer sentiment likely to act as constraints on GDP growth through at least the first half of 2002.
- We maintain our defensive orientation—our top picks include ACAS, CCR, COF, and RWT.
- Fourth quarter earnings preview—We project EPS growth of 19% for our universe, led by TMA (129%), ACF (58%), IFIN (43%), and COF (31%).

12-Month Stock Price Performance
AGE Specialty Finance Coverage Universe Versus S&P Financials and S&P 500



Contents

Note: All ratings and prices in this report are as of 12/31/01 unless otherwise specified.

EXHIBIT 12
Deponent FERRELL
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Investment Thesis

2001 Performance Review

For the first time since 1973-1974, the S&P 500 Index posted consecutive years of double-digit negative returns (2000 and 2001). It would be natural for investors to blame the poor performance of the market in 2001 on the terrorist attacks against the U.S. on September 11; however, at the end of 2001, the S&P 500 Index was 5.1% above the level prior to the terrorist attacks. After falling 11.6% the week after the market re-opened, the S&P 500 then rose 18.9% through December 31, 2001. Rather than use terrorists attacks as an excuse, we attribute the market's negative return in 2001 primarily to deteriorating fundamentals and, secondarily, to historically high valuations. With no clear evidence of a sharp economic recovery in 2002, and valuations still near historic highs (26X estimated 2001 earnings, 23X 2002 consensus estimates), the possibility exists for an unprecedented third consecutive double-digit percentage decline in the broad market in 2002.

In contrast, our Specialty Finance Universe again generated a positive return in 2001. Our universe, on average, exhibited a total return of 4.8% for 2001. Despite the strong performance relative to the S&P 500 and the S&P Financial Index, the performance of our universe was significantly worse than in 2000. In 2000, our universe of 14 companies exhibited a total return of 55.7% for investors. By far, the biggest disappointment in 2001 was Providian Financial (PVN), which had a total return of -93.7% in 2001. American Express (AXP), the only stock in our coverage to decline in 2000, exhibited a total return of -34.9% in 2001. American Express and Providian Financial each had multiple downward earnings revisions in 2001. American Express and Providian Financial were the only two companies in our universe to issue earnings warnings in 2001.

Excluding the two mortgage REITs (Redwood Trust and Thornburg Mortgage) of which we picked up coverage mid-year, the best performing stocks in our universe in 2001 were Allied Capital (ALD), American Capital Strategies (ACAS), AmeriCredit (ACF), and Household International (HI). The shares of these four companies all exhibited positive total returns in 2001. In 2001, ALD, ACAS, ACF, and HI shares exhibited total returns of 34.2%, 21.7%, 15.8%, and 6.9%, respectively. The continued performance of these four stocks in 2001 is all the more impressive considering the stellar total returns generated in 2000 (ALD up 23.9%, ACAS up 19.3%, ACF up 47.3%, and HI up 49.6%). Three companies that delivered record earnings for shareholders, but generated subpar investment returns, were Capital One (COF), off 17.9%, Countrywide Credit (CCR), off 17.7%, and Investors Financial (IFIN), off 22.9% in 2001.

2002 Outlook

Over the last 15 months, we have not deviated much from our defensive investment orientation. In limited instances in 2001, we opportunistically upgraded the stocks of select consumer finance companies, taking advantage of discounted valuations. Overall, our defensive orientation has been quite rewarding as the mortgage and BDC/RIC (Business Development Company/Registered Investment Company) sectors have clearly outperformed the broad market in 2001. In contrast, the credit card and consumer finance sectors have underperformed the broad market in 2001. While a defensive approach has paid dividends in 2001, we acknowledge the possibility of abandoning our defensive orientation at some point in 2002. Given that an economic recovery in 2002 is not a certainty, our investment approach still has a defensive tilt. Six of our eight positively rated stocks are in the mortgage or BDC/RIC sector. Five of our six Hold rated stocks have significant exposure to the consumer and, hence, the U.S. economy. For our outlook on individual stocks, please refer to our sector specific comments.

Clearly, consumer sentiment and consumer spending have rebounded from depressed levels following the September 11 terrorist attacks. However, consumer sentiment and consumer spending have not yet rebounded to levels that suggest even a modest economic recovery is in store for 2002. With consumer debt burden levels still near a cyclical high point, we believe a sharp economic recovery in 2002 is likely to prove fleeting. The reason is that high consumer leverage tends to act as a governor on gross domestic product (GDP) growth because consumer spending comprises two-thirds of GDP. A modest economic recovery in 2002 is a possibility only if consumer demand improves from current depressed levels. With consumer debt burdens at historically high levels, the U.S. consumer does not have much capacity to incur additional debt.

Moreover, because disposable personal income is declining and unlikely to rise while unemployment claims are increasing, we believe the U.S. consumer will remain in retrenchment mode through at least the first half of 2002. Hence, we are operating under the assumption that a modest economic recovery in 2002 is a best-case scenario.

From our perspective, we believe one of two economic backdrops is likely in 2002. The two economic scenarios most likely, in our opinion, are either continued sluggish GDP growth (-1% to +2%) with relatively low but stable interest rates or a modest recovery in GDP growth (+2% to +4%) accompanied by relatively low but steadily rising interest rates. In Figure 1 we outline, in order, our best relative picks under either scenario. For purposes of this discussion, we assign very low probabilities to two other possible economic scenarios: depression and stagflation. In the unlikely event either of these scenarios occur in 2002, we believe the stocks of all of our companies would generate meaningfully negative absolute returns for investors.

Specialty Finance Performance Review

In the fourth quarter, the AGE Specialty Finance Universe was up 1.7% compared with an increase of 7.0% in the S&P Financial Index and an increase of 10.3% in the S&P Composite. The AGE Specialty Finance Universe was up 0.4% in 2001, compared with the S&P Financials Index, down 10.5% and the S&P Composite, down 13.0%. For the two six-month periods in 2001, Figure 2 details the total return for each of the stocks in the AGE Specialty Finance Universe, the S&P Composite and the S&P Financials. Note that the total return for the indices was very similar in each half of 2001, while the total return for the AGE Specialty Finance Universe was quite different for each half of 2001. The stocks comprising the AGE Specialty Finance Universe returned 13.0% in the first half of the year but gave back a considerable portion of this gain in the second half, falling 7.8%.

The AGE Specialty Finance Universe consists of 14 companies, providing a wide range of financial services. Figure 3 segments monthly price and total return over the last 12 months into seven distinct subsectors within Specialty Finance: Credit Cards, Diversified, Auto, Government Sponsored Enterprises (GSEs), Mortgage, Commercial and Other. The "Other" category includes only Investors Financial Services (IFIN), a provider of asset administration services. As Figure 3 indicates, over the last 12 months the S&P Composite lost 13.0% while the S&P Financials index fell 10.5%. On a total return basis, the S&P Composite and S&P Financials lost 11.9% and 9.0% in 2001, respectively. The AGE Specialty Finance Universe performed favorably in 2001 relative to these two benchmarks, gaining 0.4%. On a total return basis, the AGE Specialty Finance Universe gained 4.8% during 2001.

Two of the three poorest performers over the last 12 months were in the credit card sector. Capital One and Providian were particularly weak in 2001, as investors priced in concerns with the overall state of the economy, decreasing consumer confidence and, in PVN's case, the viability of the business model. During 2001, the University of Michigan Consumer Confidence index fell to lows in the third quarter that have not been seen since 1993. For the last 12 months, Capital One and Providian were down 18.0% and 93.8%, respectively. Also falling over 20% in 2001 were American Express and Investors Financial, down

(continued on page 5)

FIGURE 1 Economic Scenarios

Economic Scenario	Status Quo	Modest Recovery
GDP Growth Rates	(-1% to +2%)	(+2% to +4%)
Interest Rates	Stable	Rising, but relatively low
	Countrywide Credit (CCR)	AmeriCredit (ACF)
	American Capital Strategies (ACAS)	Capital One (COF)
	Redwood Trust (RWT)	Investors Financial (IFIN)
	Thornburg Mortgage (TMA)	Household International (HI)
	Freddie Mac (FRE)	MBNA Corp. (KRB)
	Fannie Mae (FNM)	American Capital Strategies (ACAS)

FIGURE 2 Total Return—Six-Month Segments

	6 Months 12/29/00-06/29/01	6 Months 06/29/01-12/31/01	12 Months 12/29/00-12/31/01	
Capital One	-8.5%	-10.2%	-17.9%	Credit Cards -38.4%
MBNA	-10.2%	7.2%	-3.7%	
Providian	3.1%	-94.0%	-93.7%	
American Express	-29.2%	-8.0%	-34.9%	Diversified -14.0%
Household	22.0%	-12.5%	6.9%	
Americredit	90.6%	-39.3%	15.8%	Auto +15.8%
Fannie Mae	-1.2%	-5.9%	-7.0%	GSE's -5.4%
Freddie Mac	2.2%	-6.0%	-3.9%	
Countrywide	-8.3%	-10.3%	-17.7%	Mortgage +57.5%
Redwood Trust	34.1%	13.1%	50.9%	
Thornburg Mortgage	77.2%	36.4%	139.4%	
Allied Capital	15.6%	16.7%	34.2%	Commercial +27.9%
American Capital	15.7%	5.4%	21.7%	
Investors Financial	-21.6%	-1.7%	-22.9%	Other -22.9%
Spec.Fin.Coverage	13.0%	-7.8%	4.8%	
S&P 500	-6.7%	-5.6%	-11.9%	
S&P Financials	-2.5%	-6.7%	-9.0%	

FIGURE 3 Monthly Performance

	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	12 Month Price Return	Total Return
Credit Card														
Capital One	-4.2%	-12.3%	0.5%	13.3%	3.6%	-7.6%	6.8%	-13.5%	-17.2%	-10.3%	21.1%	7.8%	-18.0%	-17.9%
MBNA	-2.0%	-9.1%	0.7%	7.7%	1.2%	-8.5%	7.3%	-1.8%	-12.9%	-8.8%	16.8%	9.2%	-4.7%	-3.7%
Providian	1.5%	-14.3%	-1.9%	8.7%	6.5%	4.3%	-16.6%	-20.9%	-48.4%	-80.7%	-31.4%	33.0%	-93.8%	-93.7%
Diversified														
American Express	-14.3%	-6.8%	-5.9%	2.8%	-0.8%	-7.9%	3.9%	-9.7%	-20.2%	1.3%	11.8%	8.4%	-35.0%	-34.9%
Household Int'l	4.5%	0.8%	2.3%	8.1%	2.6%	1.6%	-0.6%	-10.8%	-4.6%	-7.2%	12.8%	-1.8%	5.3%	6.9%
Auto														
AmeriCredit	29.7%	-3.3%	-5.1%	43.0%	12.6%	-0.5%	18.4%	-24.9%	-31.5%	-51.0%	49.0%	36.6%	15.8%	15.8%
GSE's														
Fannie Mae	-14.5%	7.4%	-0.1%	0.8%	2.7%	3.3%	-2.2%	-8.5%	5.1%	1.1%	-2.9%	1.1%	-8.4%	-7.0%
Freddie Mac	-11.4%	8.0%	-1.5%	1.5%	0.6%	5.7%	-2.2%	-8.1%	3.4%	4.3%	-2.4%	-1.2%	-5.0%	-3.9%
Mortgage														
Countrywide	-4.1%	-8.3%	11.6%	-13.5%	-9.2%	18.5%	-5.6%	-4.2%	5.9%	-9.1%	6.4%	-3.6%	-18.5%	-17.7%
Redwood Trust	7.0%	0.9%	2.7%	8.9%	10.7%	-4.2%	2.1%	0.0%	3.7%	2.7%	0.8%	-2.8%	36.5%	50.9%
Thornburg	24.1%	0.5%	8.0%	13.8%	1.4%	10.0%	14.2%	-11.5%	5.7%	7.3%	-0.7%	11.6%	117%	139%
Commercial Fin.														
Allied Capital	10.5%	3.5%	-15.7%	15.6%	6.0%	-6.1%	0.4%	1.5%	-3.6%	-1.0%	12.3%	2.8%	24.6%	34.2%
American Capital	-0.2%	-0.5%	1.8%	4.2%	2.4%	3.4%	-2.7%	3.4%	-4.7%	-7.8%	12.2%	2.1%	12.6%	21.7%
Other														
Investors Finc'l	-5.6%	-3.1%	-25.5%	22.0%	-9.0%	3.5%	10.0%	-13.7%	-9.8%	-8.5%	24.8%	0.3%	-23.0%	-22.9%
AGE Spec. Fin.	1.5%	-2.6%	-2.0%	9.8%	2.2%	1.1%	2.4%	-8.8%	-9.2%	-12.0%	9.3%	7.4%	0.4%	4.8%
Indices														
S&P 500	3.5%	-9.2%	-6.4%	7.7%	0.5%	-2.5%	-1.1%	-6.4%	-8.2%	1.8%	7.5%	0.8%	-13.0%	-11.9%
S&P Financials	-0.4%	-6.7%	-3.1%	3.6%	3.8%	-0.1%	-1.8%	-6.2%	-6.1%	-1.9%	7.0%	2.0%	-10.5%	-9.0%
Russell 2000	5.1%	-6.7%	-5.0%	7.7%	2.3%	3.3%	-5.4%	-3.3%	-13.6%	5.8%	7.6%	6.0%	1.0%	2.3%
Nasdaq Comp.	12.2%	-22.4%	-14.5%	15.0%	-0.3%	2.4%	-6.2%	-10.9%	-17.0%	12.8%	14.2%	1.0%	-21.0%	-21.0%

(continued from page 3)

35.0% and 23.0%, respectively. American Express was particularly exposed to the events of September 11, literally and figuratively. American Express suffered physical damage to its New York headquarters as a result of the terrorist attacks on the nearby World Trade Center. In addition, the global slowdown in corporate travel, which immediately followed the attacks, compounded already existing weakness in American Express' Travel Business. Investors Financial was negatively affected by low asset valuations and general stock market weakness.

Figure 4 shows quarterly price appreciation since 1999 for the stocks in our universe. Note the volatility in individual stocks from quarter to quarter. While we believe many of the companies in our universe are solid core holdings for long-term investors, it can be beneficial to be selectively opportunistic on price weakness. Figure 5 gives annual total return and 36-month and 60-month annualized total returns for our universe and selected indices. It is noteworthy that the AGE Specialty Finance Universe significantly outperformed every major index over the last three-year and five-year periods. For the most part, we feel that the companies in our universe have good business models and management teams that are focused and can execute. Also, many of the companies in our universe have strong niches and tangible, sustainable competitive advantages, in our opinion.

Sector Analysis

Credit Card

The credit card sector has not been for the timid over the previous six months. High profile meltdowns at Providian Financial and NextCard (NXCD) have highlighted the risk potential of consumer lending models during a recession. However, we would argue that the problems at PVN and NXCD were not entirely recession related; the economic slowdown merely uncovered the shortcomings of management and their respective business models. The demise of PVN and NXCD as formidable competitors in the marketplace could help ease competition in the "subprime" marketplace, but we believe exposure to more than one credit segment

FIGURE 4 **Three-Year Quarterly Price Performance**

	1999				2000				2001			
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
Credit Card												
Capital One	31.3%	10.6%	-30.0%	23.6%	-0.5%	-6.9%	57.0%	-6.1%	-15.7%	8.4%	-23.5%	17.2%
MBNA	-3.8%	28.3%	-25.5%	19.5%	-6.4%	6.4%	41.9%	-4.1%	-10.4%	-0.3%	-8.2%	16.2%
Providian	46.7%	-15.2%	-15.1%	15.0%	-4.9%	3.9%	41.1%	-9.4%	-14.7%	20.7%	-66.0%	-82.4%
Diversified												
American Express	14.9%	10.5%	3.7%	23.1%	-10.4%	5.0%	16.5%	-9.6%	-24.8%	-6.1%	-25.1%	22.8%
Household Int'l	15.1%	3.8%	-15.3%	-7.2%	0.2%	11.4%	36.2%	-2.9%	7.7%	12.6%	-15.5%	2.8%
Auto												
AmeriCredit	-5.0%	21.9%	-6.6%	23.8%	-11.8%	4.2%	69.5%	-5.4%	19.0%	60.2%	-39.1%	-0.2%
GSE's												
Fannie Mae	-6.4%	-1.4%	-8.2%	-0.4%	-9.6%	-7.5%	37.0%	21.3%	-8.2%	7.0%	-6.0%	-0.7%
Freddie Mac	-11.1%	1.2%	-10.3%	-9.5%	-6.1%	-8.3%	33.5%	27.4%	-5.9%	8.0%	-7.1%	0.6%
Mortgage												
Countrywide	-25.3%	14.0%	-24.6%	-21.7%	7.9%	11.2%	24.5%	33.1%	-1.8%	-7.0%	-4.3%	-6.7%
Redwood Trust	14.3%	3.5%	-21.9%	-3.4%	18.5%	-5.5%	8.9%	16.4%	11.0%	15.5%	5.9%	0.5%
Thornburg	13.1%	15.9%	-11.9%	-6.4%	-10.6%	-2.5%	30.4%	-3.3%	34.7%	27.0%	6.8%	18.9%
Commercial Finance												
Allied Capital	6.1%	30.6%	-6.5%	-18.4%	-4.8%	-2.5%	22.1%	0.6%	-3.6%	15.0%	-1.7%	14.3%
American Capital	-0.7%	6.6%	1.4%	23.0%	11.5%	-5.9%	-0.8%	6.3%	1.0%	10.3%	-4.2%	5.5%
Other												
Investors Financial	-3.6%	39.1%	-14.1%	33.8%	28.0%	34.8%	59.1%	36.2%	-31.8%	15.0%	-14.3%	14.6%
AGE SPEC FIN UNIV	6.1%	12.1%	-13.2%	6.8%	0.1%	2.7%	34.1%	7.2%	-3.1%	13.3%	-14.4%	1.7%
Selected Indices												
S&P 500	4.6%	6.7%	-6.6%	14.5%	2.0%	-2.9%	-1.2%	-8.1%	-12.1%	5.5%	-15.0%	10.3%
S&P Financials	7.0%	4.6%	-15.6%	8.2%	1.8%	-3.2%	23.2%	2.0%	-10.0%	7.4%	-13.5%	7.0%
Russell 2000	-5.8%	15.1%	-6.6%	18.1%	6.8%	-4.1%	0.8%	-7.3%	-6.8%	13.8%	-21.0%	20.7%
Nasdaq Composite	12.3%	9.1%	2.2%	48.2%	12.4%	-13.3%	-7.4%	-32.7%	-25.5%	17.4%	-30.6%	30.2%

FIGURE 5 Annual Total Return

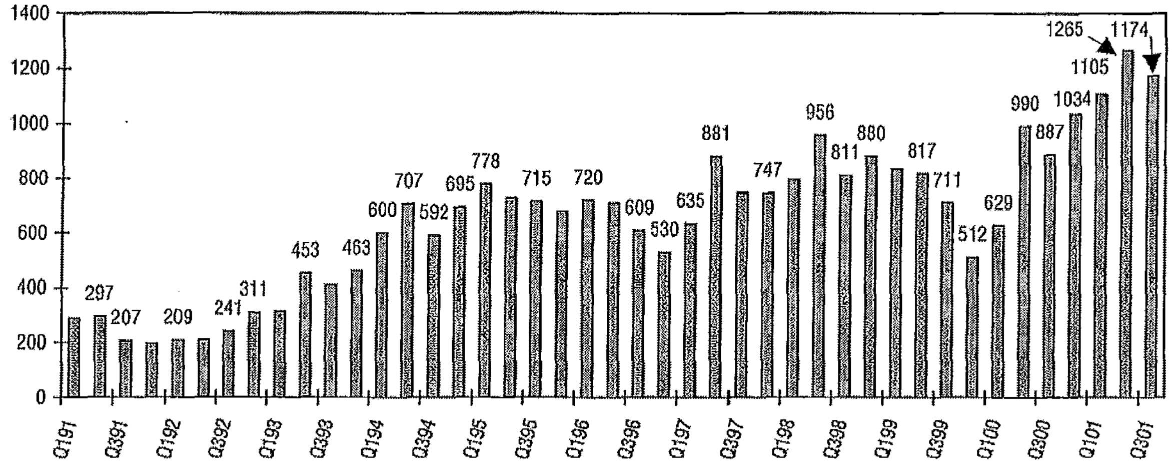
	1997	1998	1999	2000	2001	Annualized Total Return 36-Month (12/98-12/01)	60-Month (12/96-12/01)
Credit Card							
Capital One Financial	51.4%	112.8%	26.0%	36.8%	-17.9%	12.3%	35.3%
MBNA Corp.	49.3%	37.6%	10.9%	36.7%	-3.7%	13.4%	24.3%
Providian Financial	85.1%	149.5%	21.7%	26.5%	-93.7%	-53.2%	-12.9%
Diversified							
American Express	59.6%	15.9%	63.1%	-0.3%	-34.9%	2.1%	14.5%
Household International	40.1%	-5.5%	-4.3%	49.6%	6.9%	14.9%	14.8%
Auto							
AmeriCredit	35.1%	-0.2%	33.9%	47.3%	15.8%	31.7%	25.2%
GSE's							
Fannie Mae	53.9%	31.4%	-14.2%	40.7%	-7.0%	3.9%	17.6%
Freddie Mac	53.4%	54.8%	-26.0%	47.8%	-3.9%	1.5%	19.9%
Mortgage							
Countrywide Credit	50.9%	17.8%	-48.9%	100.6%	-17.7%	-5.7%	8.4%
Redwood Trust	-39.5%	-29.9%	-9.6%	54.9%	50.9%	26.8%	-3.6%
Thornburg Mortgage	-13.6%	-48.3%	20.3%	21.2%	139.4%	45.7%	4.3%
Commercial Finance							
Allied Capital	54.8%	-15.1%	15.2%	23.9%	34.2%	22.0%	17.7%
American Capital Strategies	na	2.6%	42.0%	19.3%	21.7%	25.8%	na
Other							
Investors Financial Services	66.1%	29.9%	54.6%	274.2%	-22.9%	64.5%	57.1%
AGE SPEC FIN UNIVERSE	42.0%	25.2%	13.2%	55.7%	4.8%	14.7%	17.1%
Selected Indicies							
S&P 500	33.1%	28.3%	20.9%	-9.0%	-11.9%	-0.9%	10.6%
S&P Financials	47.7%	11.3%	4.0%	25.7%	-9.0%	6.0%	14.2%
Russell 2000	23.2%	-1.9%	21.0%	-2.9%	2.3%	6.4%	7.6%
Nasdaq Composite	21.6%	39.6%	85.6%	-39.3%	-21.0%	-3.8%	8.6%

is key to the success of the credit card model. Capital One, in our opinion, has the model that will provide the most protection to investors through multiple economic conditions.

Fundamentals at COF and KRB did not falter as much as many expected during the economic deterioration in 2001. Through the third quarter of 2001, charge-offs actually decreased six basis points at COF and increased 103 basis points at KRB. The 30-day delinquency rate for COF decreased three basis points during 2001 while KRB's 30-day delinquencies decreased 71 basis points. In our opinion, if the economy stages a mid-year comeback, both of these names could provide significant upside. However, we believe COF is the best risk/reward investment in the credit card space. If the economy does recover in 2002, we believe COF's higher growth rate will allow it to outperform its peers in the credit card space. If the economy doesn't rebound in 2002, we believe COF's credit quality and earnings quality will provide support for the current multiple.

We believe the primary difference between COF and KRB is the flexibility provided by their respective business models. In our opinion, Capital One's information-based model enables it to quickly adapt to changing market conditions and customer risk profiles to effectively reprice its portfolio. This is what is commonly referred to as dynamic risk-based pricing. In a slowing economy, an information-based model is critical in determining the changing risk profile of credit card borrowers. MBNA, which does not utilize an information-based model, may have a more difficult time correctly assessing consumer risk and being adequately compensated, in our view. Meanwhile, the competitive environment remains intense. As evidenced in Figure 6, industry mail volume was 1.2 billion pieces in the third quarter of 2001. Through the first three quarters of 2001, mail volume had increased over 40% from the same period in 2000. Our expectation is that the fourth quarter will slow and 2001 mail volume will grow about 30% over the 2000 level. In 2000, industry mail volume increased 25% over 1999 levels. As industry response rates continue to decline, issuers have to send more and more solicitations just to retain market share. We believe only a handful of issuers will demonstrate organic growth in 2001.

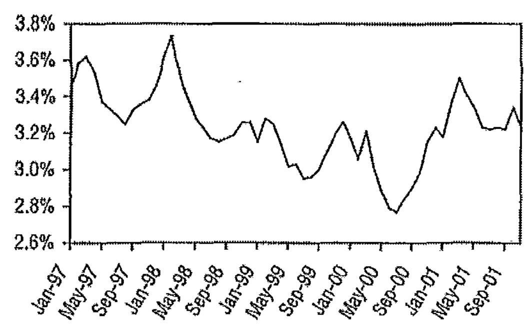
FIGURE 6 Quarterly Mail Volume
(In Millions)



Source: BAI Mail Monitor

The current slowing economy has, as expected, created an environment where industry charge-offs and delinquencies have increased. Figures 7 and 8 show a clear reversal in credit quality trends in the sector late in 2000 with respect to both delinquencies and credit losses. The delinquency index in Figure 7 increased dramatically in late 2000, but since May of 2001 has leveled off. Due to continued layoffs, bankruptcy filings and the end of the refinance boom, we believe delinquencies may move marginally higher in early 2002. The charge-off index in Figure 8 shows that charge-offs peaked in the spring and have been lower to flat since. Credit card charge-offs are highly correlated to personal bankruptcies. We estimate that 40%–50% of charge-offs are directly related to bankruptcy. We believe one of the more important indicators of consumer credit quality is the rate of bankruptcy filings. We monitor weekly personal bankruptcy filings collected by the Administration Office of the U.S. Courts. We use a four-week moving average, which serves to smooth calendar changes. As shown in Figure 9, the four-week moving average of personal bankruptcy filings reversed a positive trend in late 2000. Filings increased dramatically in early 2001, a trend we attribute largely to the proposal of new bankruptcy legislation. Filings decreased from their early 2001 highs and maintained a mid-teens year-over-year growth rate through much of late summer and fall. From mid-November to the end of December, however, the year-over-year filings increased to

FIGURE 7 Delinquency Index
January 1997—November 2001

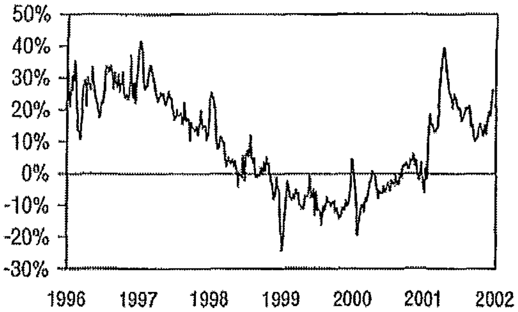


Source: Fitch IBCA

FIGURE 8 Charge-Off Index
January 1997—November 2001

Source: Fitch IBCA

FIGURE 9 **Weekly Personal Bankruptcy Filings**
(Year-Over-Year Growth of a 4-Week Moving Average)



Source: Administrative Office of the U.S. Courts

25% growth on average. We attribute the recent rise in the growth rate of personal bankruptcy filings to the steady rise in the U.S. unemployment rate. It is our belief that bankruptcy filings lag an increase in the unemployment rate. The current rise in personal bankruptcy filings is attributed to the rise in unemployment in late summer and early fall. Using the lagging assumption, we believe that filings will continue at elevated levels through at least the first half of 2002. We anticipate that filings may also experience a spike in 2002 when legislators again debate the adoption of a new bankruptcy law. While the short-term effect of increased filings may be a negative, we believe the legislation currently in discussion will be a positive for the credit card sector.

Consumer—American Express, AmeriCredit and Household International

Similar to the credit card sector described previously, we are cautious but optimistic regarding the consumer finance sector. Outside of the monoline credit card space, we follow three companies with high consumer exposure: American Express, AmeriCredit and Household International. We currently rate the shares of ACF, HI and AXP Hold. While ACF, HI and AXP are rated Hold, we do not have the same fundamental "comfort" in each stock. If we had more visibility on the near-term economic environment, we potentially would consider a more positive rating on the shares of HI and ACF. We believe HI and ACF both have strong operating fundamentals and competitive advantages in their respective businesses, while AXP is struggling to improve deteriorating fundamentals.

Due to valuation considerations, we recently downgraded the shares of ACF to Hold. Recall that we upgraded the shares of ACF in mid-November to take advantage of a valuation discount. We believe stable fundamentals and good growth potential still exist at ACF. However, at current valuations, we have chosen to stay on the sidelines until further validation of near-term fundamentals become available. With respect to HI, we have strong confidence in the ability of management and the underlying business fundamentals. However, due to current valuation and future growth rates, we cannot justify a positive rating at this time. In our opinion, the current situation at AXP is in sharp contrast to both ACF and HI. We believe a recovery for AXP fundamentals will lag an overall economic recovery because AXP's dependence on business expense and travel.

Government Sponsored Enterprises—Fannie Mae (FNM) and Freddie Mac (FRE)

We continue to believe the shares of FNM and FRE are core holdings in the financial sector. Current market volatility and the economic slowdown position the shares of FNM and FRE as wise, defensive holdings. The fundamentals at FNM and FRE should continue to lead the companies. Net interest margin has continued to expand in 2002 and even though we expect slight compression as Fed rate cuts near completion, the margin should still remain above previous expectations. Political issues have been muted most of 2001, and with our political leaders focused on more important national security issues, the political environment for FNM and FRE should remain quiet for some time. In our opinion, the current earnings estimates for the companies have the potential for further upside revisions, and when combining that with low political disruption in 2002, we believe the shares continue to have upside potential.

Commercial Sector—American Capital Strategies (ACAS) and Allied Capital (ALD)

The current "credit crunch" environment has both positive and negative implications for ACAS and ALD. The Federal Reserve has lowered short-term interest rates in an attempt to entice lenders to extend credit. In the current environment where lenders are not very active, this allows ACAS and ALD the opportunity to evaluate many more deals, as potential borrowers are looking for investment dollars, but also limits the type of transactions that are easily accomplished. In ACAS' case, the current market allows it to be more selective in the deals it does participate in. ACAS has used this opportunity not to do substantially more deals (it still funds only about 1% of all deals it sees) but, instead, it has chosen to upgrade the quality of its investments while still enjoying very favorable pricing. ACAS has made larger investments, in larger companies where the perceived stability of the portfolio company is greater than that of smaller companies.

ALD's structure is a little bit different and does not allow it to benefit as much from the current environment. ALD's typical transaction involves outside participation from a senior lender and ALD assumes a subordinated investment in the transaction. In the current environment, however, there is a lack of willing participants in the senior lender role and, as such, ALD has had reduced deal flow in 2001. While the senior position in transactions is not the "traditional" structure for ALD, we are comfortable with ALD's ability to successfully conduct this type of transaction. ALD has closed senior-led transactions and we view it as management's realization that the operating structure needed some modification to take advantage of opportunities in the current market environment. ALD also has exposure to the commercial mortgage backed securities (CMBS) market, which does not allow much transparency. The CMBS that ALD has invested in have performed very well over the years, but the lack of available information limits our comfort on those investments. In the current market environment we are less willing to accept unknown credit risk at any level. We currently rate the shares of ACAS Strong Buy and the shares of ALD Hold.

Other—Countrywide Credit and Investors Financial Services

Our June 2001 rating upgrade of **Countrywide Credit** to Strong Buy from Hold was due to strong operating fundamentals and valuation considerations. Moreover, we believe the probability of CCR generating positive EPS growth after post-refinance boom is much higher than previous refinance cycles. Finally, we believe the risk/reward ratio of owning CCR shares is significantly higher today relative to previous refinance peaks. CCR shares trade at 8.5X our calendar year 2002 EPS estimate of $4.80.

In our opinion, CCR is well positioned for the end of a refinance boom. Today, CCR's servicing portfolio, at $331 billion, is approximately 2.6X trailing 12-months loan production. This compares favorably with previous refinance cycles. At February 28, 1999, CCR's servicing portfolio was $215 billion, or 2.3X trailing 12-months production. At February 28, 1994, CCR's servicing portfolio was $85 billion, or only 1.6X trailing six-months production. In fiscal 1995, CCR's EPS were cut in half versus fiscal 1994. In fiscal 2000, CCR's EPS were essentially flat versus fiscal 1999. While progress was evident from cycle to cycle, we believe CCR is more likely to generate positive EPS growth when the current refinance cycle ends.

From an operating standpoint, we continue to believe the current environment is favorable for **Investors Financial.** Asset managers, like most other firms in this economy, are looking for ways to squeeze the margins and eliminate expenses and inefficiencies. IFIN offers its clients the highest quality service and the ability to improve their own efficiency ratios. The downturn in the equity markets is also not as important to IFIN fundamentals as many believed it would be. We estimate about 80% of IFIN revenues are fee based. IFIN's internal model suggests 35% sensitivity (on a linear basis) to asset values of its customers. Thus, a 10% decline in the asset value of its customers should lead to only a 3.5% decline in earnings. In reality, IFIN has found that its revenues have actually increased in market declines because of a pickup in transaction volume and a shift in mix toward cash, which has higher margin versus equities. IFIN's sensitivity analysis does not take into consideration a pickup in transactions or a shift to cash.

Mortgage REITs

In late September, we initiated coverage on **Redwood Trust** (RWT) with a Strong Buy rating and a 12-month price objective of $30 per share. Including an annualized dividend of $2.40, we believe RWT shares offer investors total return potential of 30%. RWT is a residential mortgage REIT with assets of $2.3 billion and equity capital of $253 million. RWT owns and credit-enhances high-quality jumbo residential mortgage loans in the U.S. Jumbo mortgage loans exceed the maximum loan amount that Fannie Mae and Freddie Mac can purchase/guarantee, which is currently $300,700. We believe RWT is fundamentally different than other mortgage REITs because it specializes in credit-enhancing mortgages, while other mortgage REITs primarily invest in mortgage-backed securities (MBS). Equally as important, RWT does not compete with

Fannie Mae and Freddie Mac, who are restricted to purchasing or guaranteeing mortgage loans under $300,700. We believe, over time, RWT should be able to deliver above-average returns to shareholders. We believe RWT's current portfolio is of high quality. At September 30, 2001, serious delinquencies were only 0.24% while annualized credit losses were 0.03%. Total credit protection (defined as external and internal reserves) was 0.50% of the total residential mortgage portfolio. With 50 basis points of reserve coverage, we believe RWT is well protected in the event of decline in real estate values. As support, we cite First Republic Bancorp's loss experience from 1991-1994. We cite First Republic's experience because it had 100% geographic concentration in California. We use California as a benchmark because it has historically been one of the most volatile real estate markets in the U.S. From 1991-1994, First Republic's cumulative net charge-offs amounted to 23 basis points of loans outstanding. Using First Republic's historic loss experience as a benchmark for a downside scenario, we find that RWT's reserve level of 50 basis points equates to 2.2X coverage relative to the California benchmark experience from 1991-1994.

In the third quarter we also initiated coverage on **Thornburg Mortgage** (TMA). We have a Strong Buy rating on TMA with a 12-month price objective of $22 per share. TMA is a mortgage and acquisition origination company that invests in adjustable-rate mortgage (ARM) assets. TMA has traditionally operated as a wholesaler, mainly acquiring mortgage-backed securities (MBS) and bulk loans for its portfolio. More recently, TMA has been acquiring loans from correspondent lenders and originating loans in its direct retail channel. If TMA can successfully execute its retail strategy, we believe TMA's ROE can improve from the low double digits (11%-12%) to mid-double digits (14%-15%) over the next three years. TMA's competitive advantages include a high-quality ARM portfolio, prudent interest rate risk management, low expenses/high operating efficiencies and a REIT tax structure. We have established 2002 diluted EPS estimates of $2.20. Our 2002 EPS estimate assumes no material change in the shape of the yield curve. Generally, if the yield curve becomes steeper from this point, we would expect some upward pressure on our 2002 estimate. Conversely, if the yield curve flattens, we would expect some downward pressure on our 2002 EPS estimate. While changes in the shape of the yield curve are important with respect to our earnings outlook, by far the biggest risk to our 2002 estimate is a rapid increase in short-term interest rates. We believe a gradual rise in short-term interest rates would likely be manageable for TMA, because it would allow TMA's ARM assets to reprice as its borrowing costs increase.

Macroeconomic Perspective

In the following section we identify a few of the important macroeconomic events that are directly affecting our universe. Pending bankruptcy legislation, refinance volume in the mortgage industry, consumer credit quality, Federal Reserve action and the financial state of the consumer are all topics that we monitor closely in our coverage of specialty finance.

Bankruptcy Legislation

We continue to monitor the status of bankruptcy legislation, but for obvious national security reasons the legislature in not likely to act on the legislation this year. We have included our analysis of the process the bill will likely take when the legislators decide to focus on the issue.

Bankruptcy legislation was passed in both the House and the Senate in 2001, and the two bills have moved into conference to reach a compromise on their differences. We have attempted to follow this legislation through the political process and initially believed it would be signed into law in 2001. Due, however, to partisan politics, the unforeseen power shift in the Senate, and the tragic events of September 11, the proposed legislation is now a 2002 event.

The primary sticking point between the House and Senate bills is the "Homestead Exemption". The Senate version calls for a $125,000 federal cap on the amount an individual can shield from the bankruptcy process for his primary residence. This federal cap would supersede all state laws. The House version of the bill is a bit more complicated. If an individual files for bankruptcy and has lived in the state for more than two years, he would be covered under that state's homestead exemption limit. If an individual has not lived in the state for at least two years, then the federal cap (also $125,000) would apply. Currently, there are five states that have an unlimited home exemption in the bankruptcy process. The five states are Florida, Texas, Iowa, Kansas and South Dakota. The two states of significant importance on that list are Florida and Texas. Both of these states have considerable political clout and the current occupant of the Oval Office is rumored to support the unlimited exemption.

The House version of the bankruptcy bill, which allows the states to retain their own homestead exemption, passed with wide bipartisan support. Renewed support will definitely be harder to gain, however, if Florida and Texas representatives lobby hard against a revised bill that establishes a federal cap. Any potential compromise on the legislation will need to gain support from senators, representatives and the President—not an easy task when the proposal involves Texas having to make a change.

Due to the unpredictability of Washington politics, we are reluctant to predict the eventual details of the bill or even the probability of it ever becoming law. Pressed for our opinion, we would give the bill an 80% chance that it will become law in 2002. Our best guess is that the final version will look closer to the House version, giving some leeway for individual state statute.

The current legislation will essentially make individuals that have the ability to repay a portion of their debt file Chapter 13 to set a repayment plan instead of Chapter 7, which would erase all past debts. The bill requires most debtors with an income above the state median (which should be a high percentage because the lowest earning citizens do not file bankruptcy as they have no assets to protect) and an ability to repay 25% of the debt over five years to file under Chapter 13. Currently, nearly two-thirds of filers file under Chapter 7, which allows them to absolve all credit card and other unsecured debt. The bill would also require debtors to go to credit counseling before they file for bankruptcy, and it will also increase the time period before filing a second bankruptcy to eight years. We view the bankruptcy legislation favorable for the credit card and consumer names in our coverage. Currently, approximately 40% to 50% of credit card charge-offs are directly related to a bankruptcy filing. The new legislation still only requires the debtor to repay 25% of his debts over time, so bankruptcy will still be a material issue in credit card charge-offs. In reality the legislation is not the "magic key" to unlock the relationship of credit card charge-offs to personal bankruptcy. The bill's recovery mechanism of 25% over five years is not substantially material to the bottom line. We believe that the major positive effect is that some individuals will choose not to file due to the responsibilities they will still have to creditors in the revised bankruptcy process. One potential "wild card" is that once the legislation gets signed into law, the new guidelines do not take effect for six months. We believe this would cause an additional spike in bankruptcy filings similar to the spring 2001 spike when the legislation originally passed in the Senate. Our model and valuation of the credit card companies do not assume any changes to credit quality based on the proposed legislation.

Refinance Activity

In our universe, we believe the mortgage companies offer investors a favorable risk-adjusted investment. In the current market environment, our outlook for mortgage-related equities has been mostly positive, with all five of our mortgage-related equities positively rated: Buy (FNM, FRE), Strong Buy (CCR, RWT and TMA). In our opinion the mortgage stocks have benefited greatly from the refinance boom, but our ratings are not based on the short-term benefits of the refinance market.

The decline of interest rates in early 2001 brought about a surge of mortgage refinancing activity. Mortgage rates then leveled off for much of the summer before declining below 7.00% for the time period from August through November. Since early December the 30-year fixed mortgage has increased rapidly and is now in the 7.10%-7.25% range. Due to the recent rise in long-term mortgage rates, the Mortgage Bankers Association Refinance Index has decreased in the last month. The index peaked in mid-November at more than 5,500; anything more than 1,000 indicates a "boom". At December 21 the refinance index was at 1,564.4. Figure 10 details the refinance volume, the long-term mortgage rate and refinance volume as a percentage of the total mortgage market during 2001. Refinance volume as a percentage of total volume has decreased to 49.2% from a high of 78% in mid-November. We anticipate refinance volume will continue to slow, as it appears the long-term rates will stay above 7.00%.

Federal Reserve—Lower Short-Term Rates

In 2001, the Federal Reserve cut interest rates 11 times, three times alone in the fourth quarter. In total, the Fed lowered the Federal Funds rate by 475 basis points from 6.50% to 1.75%. Prior to the terrorist attacks, we were cautiously optimistic the aggressive action by the Fed would allow the U.S.

FIGURE 10 Refinance Index

Week Ending	Refinance Index	30-Year Contract Rate	Refi Volume as a % Total Volume
Sep-29, 00	470.6	7.80%	20.7%
Oct-06, 00	475.0	7.87%	21.8%
Oct-13, 00	498.6	7.79%	22.1%
Oct-20, 00	587.2	7.58%	25.9%
Oct-27, 00	654.6	7.70%	27.8%
Nov-03, 00	651.2	7.76%	27.7%
Nov-10, 00	690.4	7.72%	28.5%
Nov-17, 00	602.7	7.61%	27.9%
Nov-24, 00	576.4	7.60%	27.9%
Dec-01, 00	663.9	7.47%	30.1%
Dec-08, 00	758.4	7.37%	33.1%
Dec-15, 00	777.2	7.18%	37.2%
Dec-22, 00	794.0	7.09%	39.8%
Dec-29, 00	761.5	7.07%	44.2%
Jan-05, 01	1,572.1	6.79%	54.6%
Jan-12, 01	2,800.6	7.04%	64.1%
Jan-19, 01	2,123.3	7.04%	56.0%
Jan-26, 01	1,992.1	7.03%	55.0%
Feb-02, 01	2,612.5	6.91%	59.5%
Feb-09, 01	2,647.7	6.90%	61.3%
Feb-16, 01	2,346.1	7.09%	57.7%
Feb-23, 01	2,140.4	7.04%	53.2%
Mar-02, 01	2,543.6	6.97%	54.6%
Mar-09, 01	2,264.8	6.90%	54.3%
Mar-16, 01	2,053.0	6.82%	51.0%
Mar-23, 01	2,802.5	6.84%	59.5%
Mar-30, 01	2,726.1	6.99%	58.8%
Apr-06, 01	2,427.2	6.90%	55.1%
Apr-13, 01	2,182.8	7.12%	53.1%
Apr-20, 01	1,954.9	7.07%	50.7%
Apr-27, 01	2,203.7	7.18%	52.0%
May-04, 01	1,970.0	7.18%	48.5%
May-11, 01	1,948.1	7.20%	47.8%
May-18, 01	1,546.8	7.16%	44.7%
May-25, 01	1,622.5	7.29%	45.1%
Jun-01, 01	1,553.6	7.16%	41.1%
Jun-08, 01	1,776.9	7.12%	44.8%
Jun-15, 01	1,593.1	7.09%	43.7%
Jun-22, 01	1,497.8	7.01%	43.7%
Jun-29, 01	1,521.6	7.27%	44.1%
Jul-06, 01	1,200.0	7.17%	39.0%
Jul-13, 01	1,387.4	7.09%	41.6%
Jul-20, 01	1,581.4	6.99%	43.6%
Jul-27, 01	1,643.0	6.96%	45.5%
Aug-03, 01	1,730.1	7.00%	46.4%
Aug-10, 01	1,716.0	6.87%	47.9%
Aug-17, 01	1,769.8	6.85%	49.7%
Aug-24, 01	2,048.4	6.83%	53.7%
Aug-31, 01	2,365.0	6.83%	56.0%
Sep-07, 01	2,295.9	6.73%	56.3%
Sep-14, 01	1,992.9	6.64%	55.5%
Sep-21, 01	2,713.9	6.63%	63.1%
Sep-28, 01	3,459.8	6.52%	66.7%
Oct-05, 01	4,285.7	6.49%	73.8%
Oct-12, 01	5,252.6	6.61%	76.5%
Oct-19, 01	4,580.3	6.59%	75.5%
Oct-26, 01	4,203.5	6.47%	73.9%
Nov-02, 01	5,223.2	6.40%	74.9%
Nov-09, 01	5,534.5	6.37%	78.4%
Nov-16, 01	4,998.3	6.84%	76.6%
Nov-23, 01	4,283.6	6.98%	72.9%
Nov-30, 01	3,040.7	6.83%	64.8%
Dec-07, 01	2,731.8	7.11%	63.8%
Dec-14, 01	1,968.8	7.23%	58.4%
Dec-21, 01	1,564.4	7.13%	49.2%

Source: *Mortgage Bankers Association*

to narrowly avert an economic recession. While the recession was not avoided, current macroeconomic data may be signaling an economic rebound in 2002. At the very least, the aggressive action taken by the Fed in 2001 has lessened the severity of the current economic recession. Figure 11 details the Fed action in 2001.

FIGURE 11 2001 Federal Reserve Interest Rate Adjustments

	Basis-Point Reduction	Fed Funds Rate
January 3rd	50	6.00%
January 31st	50	5.50%
March 20th	50	5.00%
April 18th	50	4.50%
May 15th	50	4.00%
June 27th	25	3.75%
August 21st	25	3.50%
September 17th	50	3.00%
October 2nd	50	2.50%
November 6th	50	2.00%
December 11th	25	1.75%

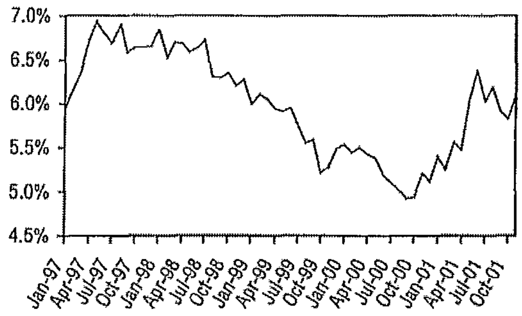
In our opinion, the interest rate cuts should help improve the growth outlook for the U.S. economy. A less publicized benefit of lower interest rates is the lower cost of debt service to the highly leveraged U.S. consumer.

Credit Quality

For the most part, companies with an emphasis on consumer credit (AXP, COF, KRB and PVN) have experienced the most downward pressure over the last six months as investors shifted their focus to more defensive names. The more defensive stocks, like FNM and FRE, have fared better. We believe FNM, FRE and CCR have additional room for upside as we expect investors to increasingly favor companies with low credit risk profiles. We continue to emphasize FNM and FRE in the current environment because, as investors move toward quality, we believe FNM and FRE will experience continued strength. Fundamentally, CCR offers investors very low credit risk and a very attractive valuation. FNM, FRE, and CCR have all had stellar fundamental performance, showing strong top-line growth and solid credit quality.

Consumer credit quality is an issue of increasing significance in our sector. As the economy deteriorated in 2001, credit quality concerns heightened. Fitch's asset-backed credit card index steadily increased from 5.12% in December of 2000 to a peak of 6.57% in June of 2001 before improving slightly to 6.09% at November. Figure 12 details the Fitch Charge-Off index since January 1991.

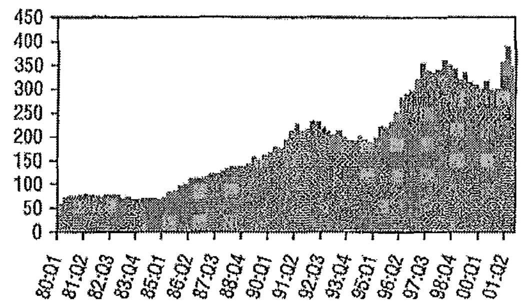
FIGURE 12 **Charge-Off Index**
January 1997—November 2001



Source: Fitch IBCA

We believe one of the more important indicators of consumer credit quality is the rate of bankruptcy filings. We monitor weekly personal bankruptcy filings collected by the Administration Office of the U.S. Courts. We use a four-week moving average, which serves to smooth calendar changes. As shown in Figure 9 on page 8, the four-week moving average of personal bankruptcy filings reversed a positive trend in late 2000. Filings increase dramatically in early 2001, a trend we attribute largely to the proposal of new bankruptcy legislation. Filings decreased from their early 2001 highs and maintained year-over-year growth rate in the mid-teens through much of late summer and fall. From mid-November to the end of December, however, the year-over-year filings increased to 25% growth on average. We attribute the more recent rise in the growth rate of personal bankruptcy filings to the steady rise in the U.S. unemployment rate. It is our belief that bankruptcy filings lag an increase in the unemployment rate. The current rise in personal bankruptcy filings is attributed to the rise in unemployment in late summer and early fall. Using the lagging assumption, we believe that filings will continue at elevated levels through at least the first half of 2002. We anticipate that filings may also experience a spike in 2002 when legislators again debate the adoption of a new bankruptcy law. While the short-term effect of increased filings may be a negative, we believe the legislation currently in discussion will be a psychological positive for the credit card sector. Figure 13 depicts the absolute level of personal bankruptcy filings, which remains quite high.

FIGURE 13 **Quarterly Personal Bankruptcy Filings**
(January 1980—September 2001)

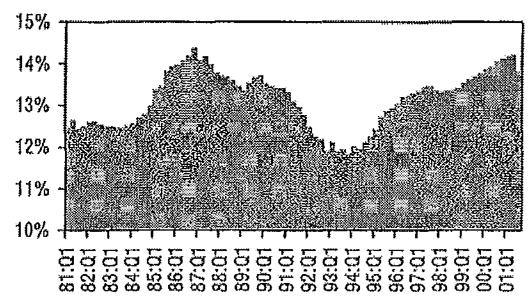


Source: Administrative Office of the U.S. Courts

State of the Consumer

Another important indicator we monitor in the consumer sector is the level of consumer debt in relation to disposable personal income. Figure 14 shows the debt burden ratio and how it has fluctuated over time. It is important to focus on three separate time periods of Figure 14—the 1990 recession, the 1995 soft landing and the present. Prior to the 1990 recession, the debt burden ratio was at a very high level. The high level of the consumer debt burden ratio could have served as a constraint on additional consumer borrowing and contributed to a pullback in consumer spending which helped push the economy into a recession. The essential difference versus the soft landing experienced in 1995 is that the U.S. consumer had capacity for additional debt. At the end of 1994, the consumer debt burden ratio was 12.0%, just above a cyclical trough in 1993 from the recovery of the 1990 recession. In the second quarter of 2001, the consumer debt burden ratio of 14.2% was approaching its historical high point of 14.4% that was obtained prior to the last U.S. recession.

FIGURE 14 **Debt Payment as a Percent of Disposable Income**
(January 1981—September 2001)



Source: Federal Reserve

In previous publications our main concern is that a slowdown in the U.S. economy would likely lead to higher unemployment and a decline in disposable personal income. Because the consumer has little excess capacity for additional debt, a decline in disposable personal income would likely be met by a reduction in consumer spending. Because approximately two-thirds of gross domestic product is attributable to consumer spending, any meaningful reduction in consumer spending increased the odds of a recession, in our view. While such an analysis probably oversimplifies a very complex situation, it does give us a strong reason to look closely at the current debt burden ratio. While the debt ratio remains at very elevated levels, the most recent data point available, third quarter 2001, shows a slight decline. We attribute the decline to the beginning of "retrenchment" by the U.S. consumer.

Our outlook is for credit losses to increase in both the consumer and commercial sector. In a general sense, we believe it is highly likely that if weakness in the economic environment continues, it will continue to negatively impact the consumer credit environment. After all, if capital spending and corporate profits are down, it seems reasonable to us that disposable personal income for the consumer is likely to come under pressure. We believe the extent of the pressure on disposable personal income will largely be a function of how high the unemployment rate moves. We believe the unemployment rate, currently around 5.7%, could move to 6.5%, or higher, before an economic recovery. In addition to disposable personal income, another key to the level of consumer spending is consumer confidence. Consumer confidence declined for most of 2001 and the events of September 11 sent the index to lows not seen since the early 1990s. Since the September events, consumer confidence has risen modestly, but the consumer is still very cautious about economic conditions in the near future. This brings us back to employment. We believe that the current wave of layoffs and corporate downsizing announcements need to subside before the U.S. consumer fully recovers from the September attacks and recessionary thinking.

Quarterly Earnings Preview—Specialty Finance

Below we give our thoughts on third-quarter earnings for individual companies in our universe. Figure 15 provides our fourth-quarter estimates and gives expected reporting dates. In our opinion, the mortgage companies in our specialty finance universe have the greatest probability to meet or slightly exceed our earnings estimates. Figure 16 provides a peer comparison valuation table for the specialty finance sector.

FIGURE 15 Quarterly Earnings Preview—Fourth Quarter

	Symbol	Rating	A.G. Edwards Q4 '01 est.		Q4 '00 Actual	Year/Year % Change	Consensus	Expected Report Date
Allied Capital	ALD	H-2	$0.45		$0.52	-13.5%	$0.45	2/19/02
American Capital	ACAS	SB-2	$0.58		$0.52	11.5%	$0.58	2/6/02
American Express	AXP	H-2	$0.22		$0.50	-56.0%	$0.22	1/28/02
AmeriCredit	ACF	H-2	$0.90	*	$0.57	57.9%	$0.90	1/10/02
Capital One	COF	B-2	$0.80		$0.61	31.1%	$0.80	1/15/02
Countrywide	CCR	SB-2	$1.27	*	$0.80	58.8%	$1.27	12/21/01
Fannie Mae	FNM	B-1	$1.39		$1.13	23.0%	$1.39	Week of 1/14
Freddie Mac	FRE	B-1	$1.12		$0.89	25.8%	$1.12	1/22/02
Household	HI	H-2	$1.17		$1.03	13.6%	$1.17	Week of 1/14
Investors Financial	IFIN	B-2	$0.43		$0.30	43.3%	$0.42	1/22/02
MBNA	KRB	H-2	$0.60		$0.48	25.0%	$0.59	Week of 1/7
Providian	PVN	H-3	$0.00		$0.80	-100.0%	$0.03	Week of 1/28
Redwood Trust	RWT	SB-2	$0.76		$0.62	22.6%	$0.76	Late February
Thornburg Mortgage	TMA	SB-2	$0.64		$0.28	128.6%	$0.62	1/22/02
Universe Average						19.4%		

Rating Scale
SB-Strong Buy B-Buy H-Hold S-Sell 1-Conservative 2-Aggressive 3-Speculative

** Note: CCR (Q3 - FY2002) Actual $1.27, ACF (Q2 FY2002) estimate $0.90*

FIGURE 16 Specialty Finance Valuation

Rating	Ticker Sym	Company Name	PRICE PER SHR 12/31/01	PRICE % CHG 2001	Mkt. Cap ($ Mln) 12/31/01	EPS 2000	EPS EST 2001	EPS EST 2002	EPS % Chg 01 vs 00	CAGR 00-02	P/E 2000	P/E 2001	P/E 2002	01 P/E RELATIVE TO CAGR	01 P/E RELATIVE TO S&P 500	DIV YIELD
	SPX	S&P Composite	1,148.1	-13.1%	105,972	56.34	44.11	51.56	-21.7%	-4.3%	20.4	26.0	22.3	-600.3%	100.0%	1.4%
	SPFN	S&P Financial Index	147.4	-11.3%	15,473	8.80	8.12	10.32	-7.7%	8.3%	16.7	18.1	14.3	218.9%	69.7%	1.8%
Credit Card Companies																
H-2	KRB	MBNA Corp.	35.20	-4.7%	29,983	1.53	1.92	2.20	25.5%	19.9%	23.0	18.3	16.0	92.1%	70.4%	1.0%
B-2	COF	Capital One	53.95	-18.0%	11,592	2.24	2.91	3.50	29.9%	25.0%	24.1	18.5	15.4	74.2%	71.2%	0.2%
	MXT	Metris	25.71	-2.3%	1,639	2.12	2.60	2.96	22.6%	18.2%	12.1	9.9	8.7	54.4%	38.0%	0.2%
H-3	PVN	Providian Financial	3.55	-93.8%	1,009	2.73	1.77	(0.15)	-35.2%	nm	1.3	2.0	nm	nm	7.7%	0.0%
	CCRT	CompuCredit	11.76	-35.1%	548	1.79	1.08	1.32	-39.7%	-14.1%	6.6	10.9	8.9	-77.1%	41.8%	0.0%
	NXCD	NextCard	0.52	-93.5%	28	(1.56)	(1.59)	0.88	nm	nm	(0.3)	(0.3)	0.6	nm	-1.3%	0.0%
		Average		*-41.2%*												
Diversified Financial Services																
H-2	AXP	American Express	35.69	-35.0%	47,618	2.07	0.97	1.70	-53.1%	-9.4%	17.2	36.8	21.0	-392.4%	141.4%	0.9%
H-2	HI	Household Int'l	57.94	5.3%	26,520	3.55	4.08	4.65	14.9%	14.4%	16.3	14.2	12.5	98.3%	54.6%	1.5%
		Average		*-14.8%*												
Mortgage/Home Equity/GSE																
B-1	FNM	Fannie Mae	79.50	-8.4%	79,421	4.29	5.19	6.00	21.0%	18.3%	18.5	15.3	13.3	83.9%	58.9%	1.5%
B-1	FRE	Freddie Mac	65.40	-5.0%	45,457	3.40	4.20	4.85	23.5%	19.4%	19.2	15.6	13.5	80.1%	59.8%	1.2%
SB-2	CCR	Countrywide Credit*	40.97	-18.5%	5,008	3.14	4.50	4.80	43.3%	23.6%	13.0	9.1	8.5	38.5%	35.0%	1.0%
SB-2	TMA	Thornburg Mortgage	19.70	117.4%	638	1.05	2.03	2.20	93.3%	44.7%	18.8	9.7	9.0	21.7%	37.3%	11.2%
SB-2	RWT	Redwood Trust	24.23	36.5%	522	2.08	3.05	2.65	46.6%	12.9%	11.6	7.9	9.1	61.7%	30.5%	9.9%
		Average		*24.4%*												
Commercial Finance																
H-2	ALD	Allied Capital	26.00	24.6%	2,570	1.94	2.18	2.35	12.4%	10.1%	13.4	11.9	11.1	118.5%	45.8%	7.8%
SB-2	ACAS	American Capital	28.35	12.6%	1,011	1.96	2.24	2.50	14.3%	12.9%	14.5	12.7	11.3	97.8%	48.6%	8.0%
	MCGC	MCG Capital	17.80	4.7%	468	na	0.93	1.77	na	na	na	19.1	10.1	na	73.5%	na
	GLAD	Gladstone Capital	18.50	23.3%	153	na	1.17	1.96	na	na	na	15.8	9.4	na	60.8%	na
	TAXI	Medallion Financial	7.90	-46.0%	144	0.86	0.61	0.70	-29.1%	-9.8%	9.2	13.0	11.3	-132.4%	49.8%	7.6%
		Average		*3.8%*												
Auto Finance																
H-2	ACF	AmeriCredit	31.55	15.8%	2,661	2.60	3.76	4.50	44.6%	31.6%	12.1	8.4	7.0	26.6%	32.2%	0.0%
	WFSI	WFS Financial	24.01	29.8%	836	2.35	1.93	2.65	-17.9%	6.2%	10.2	12.4	9.1	200.9%	47.8%	0.8%
		Average		*22.8%*												
Other																
B-1	STT	State Street	52.25	-15.9%	17,000	1.82	2.00	2.30	10.2%	12.6%	28.8	26.1	22.7	207.8%	100.4%	0.8%
B-2	IFIN	Investors Financial	66.21	-23.0%	2,112	1.08	1.52	1.94	40.7%	34.0%	61.3	43.6	34.1	128.0%	167.4%	0.1%
		Average		*-19.4%*												
		Universe 2001		*-4.1%*												
		AGE Specialty Finance		*6.9%*												

Rating Scale
SB-Strong Buy B-Buy H-Hold S-Sell 1-Conservative 2-Aggressive 3-Speculative

Estimates on CCRT, MXT, NXCD, GLAD, MCGC, TAXI, and WFSI are based on consensus; others are A.G. Edward's estimates. STT is covered by A.G. Edwards' Analyst T. Willi.
CCR EPS 2001 estimate of $4.50 reflects the estimate for FY ended February 2002. 2002 EPS estimate of $4.80 reflects CCR's new calendar year end December 31, 2002.
GLAD & ACF reflect Actual Fiscal Year 2001Earnings and 2002-2003 Fiscal Year Estimates
YTD GLAD Performance based on IPO Price of $15.00, on 8/24/01

A.G. Edwards & Sons, Inc. has managed an offering of common or common equivalent securities for ALD, ACAS, IFIN, TMA and RWT within the last three years.
FC Note: Access QBLUE for current blue-sky status of Nasdaq stocks. The analyst holds a position in the shares of FRE, ALD and ACAS.
A.G. Edwards & Sons, Inc. makes a market in the shares of ACAS and IFIN.

Allied Capital (ALD-Hold/Aggressive)
Our fourth quarter EPS estimate for ALD is $0.45, a 13% decrease over the $0.52 per share reported in the fourth quarter of 2000. We project net operating income per share (excludes net capital gains) of $0.46, a 7.0% increase over $0.43 in the fourth quarter of 2000. We project a net capital loss of $1.0 million in the fourth quarter, which compares unfavorably to the $7.6 million net capital gain reported in the fourth quarter of 2000. The decrease in net capital gains reflects the current "credit crunch" and lower equities market and valuations of private finance investments. We would also note that our 7% growth estimate for net operating income (NOI) per share marks a departure from ALD's recent historic double-digit growth rate in NOI per share. Our estimate for total originations in the fourth quarter is $200 million, ($60 million private finance, $140 million commercial mortgage-backed securities purchases). This compares with $261 million in the fourth quarter of 2000 ($213 million private finance, $43 million commercial mortgage-backed securities purchases, and $5 million commercial mortgage originations). Our assumptions include a continued focus on the CMBS portfolio, as the participation of senior lenders in the private finance market remains weak. Despite the economic slowdown, the credit quality in the commercial finance sector has remained quite stable. We estimate that total realized losses as a percent of assets will remain below 1% on an annualized basis.

American Capital Strategies (ACAS-Strong Buy/Aggressive)
Our fourth quarter net operating income per share estimate for ACAS is $0.58, a 12% increase over $0.52 in the fourth quarter of 2000. We estimate that ACAS invested more than $150 million in five new deals in the fourth quarter, which is a new record and compares favorably with $105 million deployed in the fourth quarter of 2000. ACAS announced two realized capital gains in the fourth quarter, which generated 18% and 22% internal rates of return, respectively. We point out that the internal rates of return on the two exits were at or above ACAS' targeted range of 18%-27%. More impressive perhaps is the fact that ACAS is able to realize capital gains at or above its hurdle rate despite depressed equity valuations and sluggish merger and acquisition activity in the marketplace. Adverse industry conditions in 2001 have served as an important stress test for ACAS' business model, which has passed with flying colors, in our view. In December, ACAS declared a $0.09 per share extra dividend and completed a $47 million follow-on offering. From an origination perspective, ACAS is in a sweet spot. The ongoing credit squeeze continues to constrain the supply of credit available to viable middle-market companies. ACAS, with its ability to provide capital at all levels of the balance sheet, is able to be more selective in funding deals, while making investments at lower leveraged multiples to cash flow. Hence, we believe the best is yet to come for ACAS shareholders. We find it noteworthy that ACAS continues to execute successful follow-on equity offerings during a volatile market when the economic outlook was uncertain. We attribute ACAS' ability to raise capital in a tough market environment to its excellent track record, superior business model and a proven management team.

American Express (AXP-Hold/Aggressive)
AXP preannounced its fourth quarter results on December 12, 2001. Our fourth quarter EPS estimate for AXP is $0.22, substantially below the $0.50 figure reported in the fourth quarter of 2000 and unchanged from the third quarter of 2001. Our $0.22 estimate includes an after-tax restructuring charge of $150 million to $180 million ($0.12 to $0.14 per share). The charge is to cover severance and related expenses of eliminating 5,500 to 6,500 jobs. The staff reductions are primarily in the travel business and reflect the sharp slowdown in business since September 11. Excluding the charge, our estimate is $0.35, 30% below the $0.50 figure reported in the year ago quarter. In Travel Related Services, compared with year ago levels, billings were down approximately 14% in September, 10% in October, and 6% in November. Travel sales for October declined approximately 46% from year ago levels. In November, travel sales were down approximately 38%. While AXP has not released December data for billed business volumes or travel sales, anecdotal evidence during the holiday season suggests continued negative year-over-year comparisons. Given low earnings visibility in 2002 and AXP's premium valuation relative to its peers, we believe the shares are likely to underperform our universe in 2002. AXP shares, at 21.0X our 2002 EPS estimate of $1.70, even trade at a premium to the company's long-term EPS growth target of 12%-15%. AXP is clearly going to fall short of its EPS growth target in 2001 and, in our opinion, is not likely to meet its growth objectives in 2002. We attribute AXP's premium valuation, in the face of deteriorating fundamentals, to continued speculation that the company is a buyout candidate. We question the

size premium a potential buyer would pay for AXP in an uncertain economic environment. Furthermore, we believe most would-be suitors would have difficulty justifying to their shareholder base a substantial premium above AXP's current market value. Longer term, absent a buyout or improvement in fundamentals, we believe AXP shares could trade near $25 per share.

AmeriCredit (ACF-Hold/Aggressive)
Our second-quarter fiscal 2002 EPS estimate is $0.90. On a generally accepted accounting principles (GAAP) basis, we expect EPS to increase 58% over $0.57 earned a year ago. On a managed basis (portfolio-based EPS), we expect EPS to increase 35% over $0.65 reported a year ago. Portfolio-based EPS exclude gain-on-sale revenues from the effects of asset securitizations. We expect to see continued net interest margin expansion as margins on new originations are running approximately 150 basis points higher than ACF's corporate average. We believe originations could exceed $2.0 billion in the quarter, a 45% increase over the second quarter of fiscal 2001. While the December quarter is typically the slowest origination quarter due to seasonality, the proliferation of 0% financing offers by the captive finance companies has led to increased traffic at dealerships in the U.S. ACF has experienced unusually strong demand in the December quarter because many consumers who do not qualify for 0% financing end up purchasing a vehicle anyway. The negative aspect of 0% financing offers is incremental weakness in used car prices, which has resulted in ACF recovery rates on repossessions running below 50%, the low end of its historic range. With the U.S. economy clearly in a recession and recovery rates under temporary pressure, we expect ACF's managed credit loss rate for the December quarter to rise 40-50 basis points from a 3.8% annualized rate in the September quarter. The good news is that ACF's net interest margin, which has benefited from relatively low short-term interest rates, should provide ample cushion to offset rising loss rates.

Capital One (COF-Buy/Aggressive)
Despite the slowdown in the U.S. economy, we expect Capital One to continue to deliver strong EPS growth. Our fourth quarter EPS estimate is $0.80, a 31% increase over $0.61 earned in the fourth quarter of 2000. Our forecast for total managed loans is $44.3 billion, up $5.8 billion from the linked quarter and a 50% increase versus a year ago. We estimate that COF added 1.5 million to 2.0 million net new accounts in the fourth quarter, bringing total accounts to approximately 42 million. Our forecast for managed revenue growth is 39%, the highest year-over-year quarterly growth rate in 2002. We anticipate that COF's net interest margin benefited from lower funding costs due to the lower short-term rate environment but continued to be partially offset by a higher mix of super-prime balances, which tend to have lower annual percentage rates (APRs). Based on a review of Master Trust data and industry bankruptcy filings, we expect COF's managed net charge-off ratio to increase in the fourth quarter to 4.50%, 58 basis points above third-quarter levels. Finally, marketing expenses should remain robust given COF's high volume of mail solicitations and continuation of its national advertising campaign. Marketing expenses in the fourth quarter could exceed $300 million for the first time in Capital One's history.

Countrywide Credit (CCR-Strong Buy/Aggressive)
Countrywide Credit reported its third fiscal quarter earnings ended November 30, 2001 on December 21. Diluted EPS of $1.27 were a penny above consensus and two cents ahead of our estimate. CCR's fiscal year changes to December from February effective January 1, 2002. Management provided earnings guidance for the first quarter ending March 2002 in the range of $1.27-$1.32. The revised guidance was significantly above the then-current consensus EPS estimate of $1.11. We view the forward guidance by management positively and have confidence that the company can deliver on increased expectations. We have established a 2002 EPS estimate of $4.50 for Countrywide. Our production assumptions include a $1.6 trillion origination market in 2002, a 6.3% market share and 0.60% production margin. Our servicing assumptions include an average servicing portfolio of $350 billion and a servicing margin of five basis points. Pretax diversification earnings are assumed to be $200 million. We continue to rate the shares of CCR Strong Buy and believe current valuation levels are an attractive entry point. CCR shares trade at 9.1X our 2002 EPS estimate of $4.50 and 1.23X book value per share. Both valuation metrics are near the low end of CCR's historic range.

Fannie Mae (FNM-Buy/Conservative)
Our fourth quarter EPS estimate is $1.39, up 24% from $1.12 earned in the fourth quarter of 2000. Our estimate is in line with Street consensus. FNM continues to exhibit strong operating momentum and we believe will continue to be a quality core

financial holding. In the current environment FNM represents a quality defensive holding with superior earnings quality and visibility. Aggressive Fed action in 2001 has kept FNM's margins elevated beyond our initial expectations. However, expenses from debt repurchases have served to restrain EPS growth somewhat in 2001. We have increased our margin expectations several times in 2001 and continued strength in margin may continue to put upward pressure on our 2002 EPS estimate of $6.00. Year to date through November, FNM's net mortgage portfolio has increased 16.1% annualized while its total book of business has increased 18.8% annualized. Outstanding portfolio commitments soared to $70 billion at the end of November, as FNM continued to defer settlements to future months. With relatively stable quality, wide net interest margins, and a favorable outlook for portfolio growth, we continue to rate the shares of FNM Buy with a $96 price objective.

Freddie Mac (FRE-Buy/Conservative)
Our fourth quarter EPS estimate for FRE is $1.12, up 26% from $0.89 earned in the fourth quarter of 2000. Our estimate is line with Street consensus. FRE continues to exhibit strong operating momentum and, we believe, will continue to be a quality core financial holding. In the current environment FRE represents a quality defensive holding with superior earnings quality and visibility. Aggressive Fed action in 2001 has kept FRE's margins elevated beyond our initial expectations. However, expenses from debt repurchases have served to restrain EPS growth somewhat in 2001. We have increased our margin expectations several times in 2001 and continued strength in margin may continue to put upward pressure on our 2002 EPS estimate of $4.85. Year to date through November, FRE's retained portfolio has increased 27.8% annualized while its total mortgage portfolio has increased 18.2% annualized. Purchase commitments at the end of November totaled $24.3 billion. With relatively stable quality, wide net interest margins, and a favorable outlook for portfolio growth, we continue to rate the shares of FRE Buy with a $78 price objective.

Household International (HI-Hold/Aggressive)
Our fourth quarter EPS estimate is $1.17, a 14% increase over $1.03 earned in the fourth quarter of 2000. Our forecast for period-end managed receivables is $100.6 billion, a 15% increase over period-end fourth quarter 2000. Our managed revenue projection is $3.0 billion, a 20% increase over fourth quarter 2000 with 23% growth in net interest income and 11% growth in noninterest income. Our model suggests an efficiency ratio of 32% in the fourth quarter, a 200 basis point improvement from the linked quarter but slightly above 31% a year ago. We have modeled a relatively stable net interest margin of 8.60% in relation to the linked quarter, as we believe most of HI's improvements in funding costs are likely to be offset by a mix shift to lower yielding real estate secured products. Despite the sluggish U.S. economy, credit quality should remain strong for HI. Our managed net charge-off rate assumption is 3.90% in the fourth quarter, which compares with 3.74% in the previous quarter and 3.41% in the year-ago quarter. We anticipate HI's managed delinquency ratio (60-plus) days will move modestly higher in the fourth quarter from 4.43% at September 30, 2001. Finally, our model indicates a 3.72% loan loss reserve (as a percentage of managed receivables) at December 31, 2001, unchanged from September 30, 2001.

Investors Financial Services (IFIN-Buy/Aggressive)
In early December, we raised our fourth quarter EPS estimate to $0.43 from $0.41 to reflect the continued relative steepness of the yield curve during the quarter. Our fourth quarter EPS estimate of $0.43 represents a 43% increase over $0.30 earned in the fourth quarter of 2000. We estimate total revenues should approximate $97 million in the fourth quarter, a 66% increase over the year-ago quarter. Our estimate for operating expenses is $77 million, up 73% versus a year ago. As a reminder, IFIN has yet to achieve a full run rate in cost savings related to the acquisition of Barclay's North American operations. We believe good visibility exists with respect to our 2002 diluted EPS estimate of $1.94. While we still believe good potential exists for revenue synergies from the Chase and Barclay's acquisitions, we have elected to be conservative with respect to our 2002 estimate. Moreover, if market values remain at current levels throughout 2002, we believe there is at least $0.06 per share upside in our 2002 earnings estimate. IFIN's earnings have 30% sensitivity to changes in the asset values of its clients. IFIN's current 2002 forecast assumes a flat equity market in relation to September 30, 2001. Using the S&P 500 as a proxy for client asset values suggest asset values are 11% higher relative to September 30, 2001, implying 3% upside to our $1.94 estimate.

MBNA Corp. (KRB-Hold/Aggressive)
Our fourth quarter EPS estimate is $0.60, a 25% increase versus $0.48 reported in the fourth quarter of 2000. We estimate that managed loans could top the $100 billion mark for MBNA as of December 31, 2001, which would equate to 13% growth in managed loans versus December 31, 2000. Given the continued decline in short-term interest rates in the fourth quarter, we cannot rule out continued net interest margin expansion for MBNA. MBNA's net interest margin was 8.57% in the third quarter 2001. However, we believe margin expansion relative to the linked quarter is likely to be tempered by incremental expenses incurred from hedging against rising interest rates in 2002. Because MBNA is on track to deliver 25% EPS growth in 2001, we suspect that management will elect to constrain EPS growth in the fourth quarter. One way to do this is by putting on additional financial hedges to protect against a rising interest rate environment in the coming quarters. Based on 8-K filings for managed loss rates and delinquencies through November, we estimate KRB's managed loss rate will remain relatively flat versus 4.90% recorded in the third quarter of 2001. Managed delinquencies (31-plus days) at November 30, 2001 stood at 5.03% of managed loans, significantly higher than the 4.23% ratio reported at September 30, 2001.

Providian Financial (PVN-Hold/Speculative)
Our fourth quarter EPS estimate is $0.00, significantly lower than the EPS of $0.79 reported in the fourth quarter of 2000. In late November, Providian announced that it reached an agreement with the Office of the Comptroller of the Currency, the Federal Deposit Insurance Corporation, and the Utah Department of Financial Institutions to develop formal plans for managing its capital and growth. The key aspects of the agreement include Providian's banking subsidiaries preparing and submitting three year capital plans with capital and liquidity support agreement from the parent corporation, a limitation on growth in total assets of no more than 2.5% per quarter until the regulatory agencies have accepted their capital plans, a review of loan loss reserves, cessation of marketing and account origination in the Standard Market, and gaining regulatory approval before paying dividends to the banks' parent company. Providian also announced that it will seek to sell its Argentina and United Kingdom credit card businesses, which comprise $188 million in deposits and $585 million in receivables. Providian continues to review its strategic options, which include additional asset sales and other capital enhancements.

Redwood Trust (RWT-Strong Buy/ Aggressive)
Our fourth quarter EPS estimate for RWT is $0.76, up 21% from $0.63 in the fourth quarter of 2000. Our net interest margin assumption of 1.70% is 78 basis points higher relative to the fourth quarter of 2000. We expect RWT's reported credit quality statistics to remain strong. At September 30, 2001, serious delinquencies were only 0.22% of total residential loans while annualized credit losses were 0.01%. Total credit protection (defined as external and internal reserves) was 0.41% of the total residential mortgage portfolio. With 41 basis points of reserve coverage, we believe TMA is well protected in the event of decline in real estate values. As support, we cite First Republic Bancorp's loss experience from 1991-1994. We cite First Republic's experience because it had 100% geographic concentration in California. We use California as a benchmark because it has historically been one of the most volatile real estate markets in the U.S. From 1991-1994, First Republic's cumulative net charge-offs amounted to 23 basis points of loans outstanding. Using First Republic's historic loss experience as a benchmark for a downside scenario, we find that RWT's reserve level of 41 basis points equates to 1.8X coverage relative to the California benchmark experience from 1991-1994. Due to RWT's extensive use of credit enhancements in the loan portfolio, we do not anticipate credit quality will materially change from the current levels.

Thornburg Mortgage (TMA-Strong Buy/Aggressive)
Our fourth quarter EPS estimate for TMA is $0.64, up 129% from $0.28 reported in the fourth quarter of 2000. Clearly, Thornburg is benefiting from the continued decline in short-term interest rates and resulting steep yield curve. Our assumption for net interest margin in the fourth quarter is 1.99%, a 28 basis point increase relative to the linked quarter and 106 basis point increase relative to the year-ago quarter. Aggressive easing by the Fed has served to lower TMA's funding costs. The relative steepness of the yield curve also benefits TMA's production capabilities. In a steep yield curve environment, adjustable rate mortgages look more attractive to consumers relative to fixed-rate mortgages. With the recent up-tick in 30-year fixed-rate mortgages, ARMs are even more attractive to consumers today. TMA is currently averaging about $90 million in monthly originations and anticipates originating more than $550 million in mortgages by year end.

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EXHIBIT 16

Exhibit 5: Business Descriptions Of The Six Members Of The Consumer Finance Index (1999 - 2002)

#	Company Name	Business Description
1	Americredit Corporation	Americredit and its subsidiaries have been operating in the automobile finance business since September 1992. The Company purchases auto finance contracts without recourse from franchised and select independent automobile dealerships and, to a lesser extent, makes loans directly to consumers buying used and new vehicles. Loans include auto finance contracts originated by dealers and purchased by the Company and direct extensions of credit made by the Company to consumer borrowers. The Company targets consumers who are typically unable to obtain financing from traditional sources. Funding for the Company's auto lending activities is obtained primarily through the sale of loans in securitization transactions. The Company services its automobile lending portfolio at regional centers using automated loan servicing and collection systems.
2	Capital One Financial Corporation	Capital One Financial Corporation ("Corporation) is a holding company whose subsidiaries market a variety of consumer financial products and services. The Corporation's principal subsidiary, Capital One Bank, offers credit card products. Capital One, F.S.B., a federally chartered savings bank, offers consumer lending and deposit products, and Capital One Auto Finance, Inc. offers automobile and other motor vehicle financing products. Capital One Services, Inc., another subsidiary of the Corporation, provides various operating, administrative and other services to the Corporation and its subsidiaries. The Company was among the six largest issuers of Visa® and MasterCard® credit cards in the United States based on managed credit card loans outstanding as of December 31, 2002.
3	Cash America International Inc	Cash America International, Inc. is a specialty financial services enterprise principally engaged in acquiring, establishing and operating pawnshops which advance money on the security of pledged tangible personal property. As of December 31, 2002, the Company owned pawnshops through wholly-owned subsidiaries in sixteen states and the United Kingdom and Sweden. The Company also provides check cashing services in twenty-one states through its subsidiary Mr. Payroll Corporation.
4	Countrywide Financial Corporation	Countrywide Financial Corporation is a holding company, which through its subsidiaries is engaged primarily in the residential mortgage banking business, as well as in other financial services that are in large part related to the residential mortgage market. Primarily through its principal subsidiary, Countrywide Home Loans, Inc. ("CHL"), the Company engages in the residential mortgage banking business, which entails the origination, purchase, sale (typically through securitization) and servicing of residential mortgage loans. The residential mortgage loans offered by the Company include prime and subprime credit mortgage loans secured by single- (one-to-four) family residences and prime home equity lines of credit.

Exhibit 5: Business Descriptions Of The Six Members Of The Consumer Finance Index (1999 - 2002)

#	Company Name	Business Description
5	MBNA Corporation	MBNA Corporation (the "Corporation") is the parent company of MBNA America Bank, N.A. (the "Bank"). Through the Bank, the Corporation is the largest independent credit card lender in the world and is the leading issuer of endorsed credit cards, marketed primarily to members of associations and customers of financial institutions and other organizations. In addition to its credit card lending, the Corporation also makes other consumer loans, which include installment and revolving unsecured loan products, and offers insurance and deposit products. The Corporation is also the parent of MBNA America (Delaware), N.A., a national bank which offers mortgage loans, aircraft loans and business card products.
6	Providian Financial Corporation	Providian Financial Corporation, operating through its subsidiaries, provides lending and deposit products to customers in the United States and the United Kingdom and offers credit cards in Argentina. The Company serves a broad, diversified market with its loan products, which include credit cards and cardholder service products.

Sources: Form 10-K filings for fiscal years ended from 1999 to 2002 for Americredit Corporation, Capital One Financial Corporation, Cash America International Inc, Countrywide Financial Corporation, MBNA Corporation and Providian Financial Corporation.

EXHIBIT 17

Exhibit 4
Number of Companies in Industry Subsectors in the S&P Financials Index[1]
11/15/00 – 10/11/02

	Fischel Control Period			Fischel Observation Window		
ICB Subsector[2]	**11/15/00**	**12/31/00**	**10/14/01**	**10/15/01**	**12/31/01**	**10/11/02**
Asset Managers	6	6	6	6	6	6
Banks	30	30	27	27	27	30
Consumer Finance[3]	**5**	**5**	**5**	**5**	**5**	**5**
Full Line Insurance	2	2	2	2	2	2
Industrial & Office REITs	0	0	0	1	0	1
Insurance Brokers	2	2	2	2	2	2
Investment Services	6	6	5	5	5	6
Life Insurance	7	8	8	8	8	9
Mortgage Finance	4	4	4	4	4	4
Property and Casualty Insurance	8	9	11	10	10	12
Residential REITs	0	0	0	0	1	1
Retail REITs	0	0	0	0	0	1
Specialty REITs	0	0	0	0	0	1
Industrial & Office	0	0	1	0	1	0
Specialty Finance	3	2	1	1	1	1
Total Number of Companies	**73**	**74**	**72**	**71**	**72**	**81**

Source: *Bloomberg*

Note:
[1] The S&P Financials Index is comprised of companies in the S&P 500 that are classified as members of the GICS (Global Industry Classification Standard) financials sector (GICS code 40).
[2] Subsectors are based on ICB (Industry Classification Benchmark) classifications from Bloomberg.
[3] Household is currently listed as HSBC Finance Corp and is included in the consumer finance subsector for the entire 11/15/00 – 10/11/02 period. The other companies in the consumer finance subsector during this period are MBNA Corp, American Express Co, Providian Financial Corp, and Capital One Financial Corp.

EXHIBIT 18

Begin forwarded message:

From: "Stoll, R. Ryan" <Ryan.Stoll@skadden.com>
Date: March 16, 2016 at 12:21:35 PM PDT
To: 'Dan Drosman' <DanD@rgrdlaw.com>
Cc: Mike Dowd <MikeD@rgrdlaw.com>, "sfarina@wc.com" <sfarina@wc.com>, "Fitzgerald, Patrick" <Patrick.Fitzgerald@skadden.com>, Luke Brooks <LukeB@rgrdlaw.com>
Subject: RE: Cornell

Dan: Thanks and sorry for the delay. I was travelling yesterday. Professor Cornell will not be offering testimony at trial with respect to paragraph 22 or the last sentence of paragraph 21 of his October 23 report. Please let me know if you have any further questions. Best, Ryan

R. Ryan Stoll
Skadden, Arps, Slate, Meagher & Flom LLP
155 N. Wacker Drive | Chicago | Illinois | 60606-1720
T: 312.407.0780 | F: 312.407.8533
ryan.stoll@skadden.com

From: Dan Drosman [mailto:DanD@rgrdlaw.com]
Sent: Tuesday, March 15, 2016 12:50 PM
To: Stoll, R. Ryan (CHI)
Cc: Mike Dowd; sfarina@wc.com; Fitzgerald, Patrick (CHI); Luke Brooks
Subject: Re: Cornell

Ryan,

Thank you for your e-mail. Please identify specifically which paragraphs (or sentences within a paragraph, if less than an entire paragraph) defendants are now abandoning and will not elicit testimony at trial.

Best,

Dan

On Mar 13, 2016, at 8:08 PM, Stoll, R. Ryan <Ryan.Stoll@skadden.com> wrote:

> Dan and Mike: I write to follow up on an issue that arose during Professor Cornell's deposition. As paragraph 21 of his October 23 report states, Professor Cornell understands "that others will address the disclosure of nonfraud, firm-specific information during Prof. Fischel's disclosure period." Accordingly, Professor Cornell will not testify at trial regarding the two examples set out in paragraph 22. Rather, as noted at the deposition, Prof. Cornell's testimony will address the misapplication by Professor

Fischel of what Professor Fischel deems to be the Cornell & Morgan model and that the output generated from Professor Fischel's misapplication is inconsistent with a leakage theory and unreliable. Thanks and please let me know if you have any questions.
Best, Ryan

R. Ryan Stoll
Skadden, Arps, Slate, Meagher & Flom LLP
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Further information about the firm, a list of the Partners and their professional qualifications will be provided upon request.

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