

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

LAWRENCE E. JAFFE PENSION PLAN, ON
BEHALF OF ITSELF AND ALL OTHERS SIMILARLY
SITUATED,

Plaintiff,

- against -

HOUSEHOLD INTERNATIONAL, INC., ET. AL.,

Defendants.

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

CLASS ACTION

Judge Ronald A. Guzman
Magistrate Judge Nan R. Nolan

**AFFIDAVIT OF DAVID R. OWEN IN SUPPORT OF
HOUSEHOLD DEFENDANTS' OPPOSITION TO
PLAINTIFFS' MOTION FOR A PROTECTIVE ORDER
QUASHING DEFENDANTS' INTERROGATORIES
SERVED ON THE LAST DAY OF THE CLOSE
OF FACT DISCOVERY**

STATE OF NEW YORK)
 : ss.:
COUNTY OF NEW YORK)

DAVID R. OWEN, being first duly sworn, deposes and says:

1. I am a member of the bar of the State of New York, admitted to this Court *pro hac vice* in connection with the above caption matter, and a member of the firm Cahill Gordon & Reindel LLP, co-counsel for defendants Household International, Inc., Household Finance Corporation, William F. Aldinger, David A. Schoenholz, Gary Gilmer, and J.A. Vozar in this action. I make this affidavit to place before the Court certain documents in support of Household Defendants' Opposition to Plaintiffs' Motion For a Protective Order Quashing Defendants' Interrogatories Served on the Last Day of the Close of Fact Discovery.

2. Attached hereto as Exhibit 1 is a true and correct copy of Household Defendants' Sixth Set of Interrogatories to Lead Plaintiffs, served on Plaintiffs on January 31, 2007 by counsel for Defendants.

3. Attached hereto as Exhibit 2 is a true and correct copy of the November 10, 2005 Order of Magistrate Judge Nan R. Nolan in this case.

4. Attached hereto as Exhibit 3 is a true and correct copy of the August 10, 2006 Order of Magistrate Judge Nan R. Nolan in this case.

5. Attached hereto as Exhibit 4 is a true and correct copy of the December 15, 2006 Transcript of Proceedings - Status Conference before Magistrate Judge Nan R. Nolan in this case, excerpted.

6. Attached hereto as Exhibit 5 is a true and correct copy of the January 10, 2007 Transcript of Proceedings - Status Conference before Magistrate Judge Nan R. Nolan in this case, excerpted.

7. Attached hereto as Exhibit 6 is a true and correct copy of the Lead Plaintiffs' Amended Responses and Objections to Household Defendants' [Fifth] Set of Interrogatories Pursuant to the January 10 and 19, 2007 Orders, served on Defendants on January 30, 2007 by counsel for Plaintiffs.

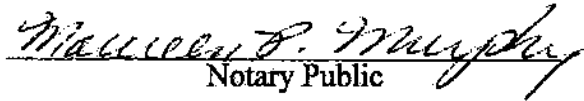
8. Attached hereto as Exhibit 7 is a true and correct copy of the Lead Plaintiffs' Amended Responses and Objections to Household Defendants' [Seventh] Set of Interrogatories Pursuant to the January 10 and 19, 2007 Orders, served on Defendants on January 30, 2007 by counsel for Plaintiffs.

9. Attached hereto as Exhibit 8 is a true and correct copy of the Lead Plaintiffs' Amended Responses and Objections to Household Defendants' [Eighth] Set of Interrogatories Pursuant to the January 10 and 19, 2007 Orders, served on Defendants on January 30, 2007 by counsel for Plaintiffs.



David R. Owen

Sworn to before me this
23rd day of February, 2007.


Notary Public

MAUREEN P. MURPHY
Notary Public, State of New York
No. 24-470844
Qualified in Richmond County
Certificate Filed in New York County
Commission Expires March 30, 2007

EXHIBIT 1

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

LAWRENCE E. JAFFE PENSION PLAN, ON
BEHALF OF ITSELF AND ALL OTHERS SIMILARLY
SITUATED,

Plaintiffs,

- *against* -

HOUSEHOLD INTERNATIONAL, INC., ET AL.,

Defendants.

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

Judge Ronald A. Guzman
Magistrate Judge Nan R. Nolan

**HOUSEHOLD DEFENDANTS' SIXTH SET OF INTERROGATORIES TO LEAD
PLAINTIFFS**

Pursuant to Rules 26 and 33 of the Federal Rules of Civil Procedure, Local Rule 33.1, and the Definitions and Instructions set forth below, Defendants Household International, Inc. and Household Finance Corp., William F. Aldinger, David A. Schoenholz, Gary Gilmer, and J.A. Vozar (collectively "Defendants" or "Household"), by their undersigned attorneys, hereby request that Lead Plaintiffs answer the following interrogatories separately and fully in writing under oath:

INTERROGATORIES

63. Identify any instances in which you contend that Household took a charge against earnings to increase loan loss reserves as a result of "Improperly 'Reaging' or 'Restructuring' Delinquent Accounts" as alleged and set forth in Part VI.B of the Complaint. (AC ¶¶ 50, 107-133)

64. For each Disclosure identified in response to Interrogatory Nos. 31-33, set forth the "truth" that you contend was revealed to the market by the Disclosure.

65. Identify any document reflecting the authorization or approval by Household of any policy that you contend was illegal or prohibited by any relevant banking or lending laws.

66. Identify any document reflecting an alleged instance where "account executives *were instructed* to sell customers on the loan's contract rate, *i.e.*, the rate of the loan before points, fees, insurance and other add-ons, over the annual percentage rate". (Plaintiffs' Response to Defendants' Second Set of Interrogatories at 54 (emphasis supplied))

67. Identify any document reflecting an alleged instance where "defendants . . . *directed the sales staff* to disguise points as an 'administrative fee'." (Plaintiffs' Response to Defendants' Second Set of Interrogatories at 55 (emphasis supplied))

68. Identify any document reflecting an alleged instance where "Household . . . *introduced a policy* prohibiting salespersons from receiving incentive compensation for loans where the maximum points were not charged because points constituted a huge part of Household's income opportunity," [sic] and in fact had this policy programmed into Household's electronic system to prevent exceptions." (Plaintiffs' Response to Defendants' Second Set of Interrogatories at 55 (emphasis supplied))

69. Identify any document reflecting an alleged instance where "loan officers *were trained* to conceal or even lie about [prepayment penalties and] to simply skip over the penalty section without disclosing it to customers or outright lie about the penalties." (Plaintiffs' Response to Defendants' Second Set of Interrogatories at 72 (emphasis supplied))

70. Identify any document reflecting an alleged instance where "branch managers . . . *were instructed* by the insurance trainers to outright lie to customers about insurance costs by telling them that the higher quote did not include insurance and the lower quote did in-

clude insurance when, in fact, it was the opposite.” (Plaintiffs’ Response to Defendants’ Second Set of Interrogatories at 81 (emphasis supplied))

71. Identify any document in which William F. Aldinger indicates his alleged “goal to eliminate the equity in borrowers’ homes, and thereby ensure that the customer could not go to another lender”. (Plaintiffs’ Response to Defendants’ Second Set of Interrogatories at - 99)

72. Identify any document reflecting an alleged instance where “Household loan officers *were encouraged* to inflate the customer’s income if the borrower’s true debt-to-income ratio was above 60% so that the recalculated ratio would fall below 50%.” (Plaintiffs’ Response to Defendants’ Second Set of Interrogatories at 99 - 100 (emphasis supplied))

73. Identify any document reflecting an alleged instance where employees *were directed* to delete HOLP’s or “paper copies of customer loan files.” (Plaintiffs’ Responses to Defendants’ Fourth Set of Interrogatories at 22 (emphasis supplied))

74. Identify the earliest date(s) which you contend that Defendants first had scienter in connection with the alleged fraud relating to “Illegal Predatory Lending Practices” as alleged and set forth in Part VI.A of the Complaint. (AC ¶¶ 50-106)

75. Identify the earliest date(s) which you contend that Defendants first had scienter in connection with the alleged fraud relating to “Improperly ‘Reaging’ or ‘Restructuring’ Delinquent Accounts” as alleged and set forth in Part VI.B of the Complaint. (AC ¶¶ 50, 107-133)

76. Identify the earliest date(s) which you contend that Defendants first had scienter in connection with the alleged fraud relating to “Improper Accounting of Costs Associated With Various Credit Card Co-Branding, Affinity and Marketing Agreements” as alleged and set forth in Part VI.C of the Complaint. (AC ¶¶ 50, 134-155)

77. If you contend that Household's "Illegal Predatory Lending Practices" as alleged and set forth in Part VI.A of the Complaint (AC ¶¶ 50-106) were the proximate cause of the alleged economic loss, state the legal and factual basis for your contention.

78. If you contend that Household's "Improper[] 'Reaging' or 'Restructuring' Delinquent Accounts" as alleged and set forth in Part VI.B of the Complaint (AC ¶¶ 50, 107-133) was the proximate cause of the alleged economic loss, state the legal and factual basis for your contention.

79. If you contend that Household's "Improper Accounting of Costs Associated With Various Credit Card Co-Branding, Affinity and Marketing Agreements" as alleged and set forth in Part VI.C of the Complaint (AC ¶¶ 50, 134-155) was the proximate cause of the alleged economic loss, state the legal and factual basis for your contention.

80. Identify all facts and documents that you contend establish that Household acted with scienter as to any fraud alleged in the Complaint.

DEFINITIONS AND INSTRUCTIONS

1. The term "Complaint" or "AC" means the [Corrected] Amended Consolidated Class Action Complaint filed in this action.

2. The term "Disclosure" means any statement by or about Household or any of the Defendants or any of their agents relating to the subject matter of Plaintiffs' Complaint.

3. The term "Plaintiffs" means the Plaintiffs in this consolidated class action.

4. The term "Plaintiffs' Response to Defendants' Second Set of Interrogatories" means Lead Plaintiffs' Amended Supplemental Responses and Objections to Household Defen-

dants' [Fourth] Set of Interrogatories to Lead Plaintiffs, served on Defendants on December 2, 2006 by counsel for Plaintiffs.

5. The term "Plaintiffs' Response to Defendants' Supplemental Interrogatories" means Lead Plaintiffs' Supplemental Amended Responses and Objections to Household Defendants' [Sixth] Set of Interrogatories Based on the Court's January 10, 2007 Revision to Defendants' Interrogatories, served on Defendants on January 19, 2006 by counsel for Plaintiffs.

6. The term "Plaintiffs' Responses to Defendants' Fourth Set of Interrogatories" means Lead Plaintiffs' Amended Responses and Objections to Household Defendants' [Seventh] Set of Interrogatories to Lead Plaintiffs Pursuant to the Court's January 10 and 19, 2007 Orders, served on Defendants on January 30, 2007 by counsel for Plaintiffs.

7. When used with reference to a document, the term "identify" shall require a response that includes the: (i) date; (ii) author(s); (iii) addressees and recipients; (iv) number of pages; and (v) such additional description sufficient to permit its location and production pursuant to a Rule 34 demand for the production of documents. If the document identified has been produced in this action, then a response shall include the bates number of the document.

8. The requirements of Rule 33 of the Federal Rules of Civil Procedure and Local Rule 33.1 are incorporated herein by reference.

9. If any of the interrogatories cannot be answered in full, answer to the extent possible, specifying the reasons for Plaintiffs' inability to answer the remainder and stating whatever information, knowledge or belief Plaintiffs do have concerning the unanswered portion.

10. If any information is withheld on grounds of privilege or work product immunity, (i) identify the information with sufficient particularity to allow the matter to be brought before


the court; (ii) state in writing the nature of the privilege claimed, and the legal and factual basis for the claim of the privilege or work product immunity.

11. Any objection to these interrogatories shall state with specificity all grounds therefore. All objections not made shall be deemed waived.

12. Pursuant to Rule 26 of the Federal Rules of Civil Procedure, these interrogatories shall be deemed continuing and shall require further and supplemental answers should Plaintiffs obtain information with respect to the subject matter of any of these interrogatories making their responses, objections, or production in response thereto incomplete, inaccurate or in any way misleading.

Dated: New York, New York
January 31, 2007

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EXHIBIT 2

AE

**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)	Lead Case No. 02 C 5893
similarly situated,)	(Consolidated)
)	
Plaintiff,)	
)	
vs.)	Judge Ronald A. Guzman
)	Magistrate Judge Nan R. Nolan
HOUSEHOLD INTERNATIONAL, INC,)	
et al.,)	
)	
Defendants.)	

ORDER

This matter is before the court for ruling on lead plaintiffs' motion to compel responses to the first set of interrogatories. The disputed interrogatories seek information pertaining to defendants' affirmative defenses. Defendants oppose the motion to compel, arguing that the interrogatories are contention interrogatories, and that they should not be required to answer until substantial discovery has been completed. For the reasons explained below, the motion to compel is granted in part and denied in part.

BACKGROUND

Before explaining the ruling, some brief background is warranted. When defendants answered the corrected, amended consolidated class action complaint on July 2, 2004, defendants asserted 22 affirmative defenses. Shortly thereafter, on July 16, 2004, plaintiffs served the first set of interrogatories asking defendants to (1) "identify all facts" on which they base their affirmative defenses, (2) "identify all persons" with knowledge of the facts identified in response

to the first interrogatory, and (3) "identify all documents" that support each affirmative defense.¹ In their responses and objections dated August 16, 2004, defendants referred lead plaintiffs to the persons identified in their Rule 26(a) disclosures for the witnesses with knowledge of the affirmative defenses. But defendants otherwise objected to the interrogatories on grounds that the questions were premature and could not be answered until the defendants engaged in discovery. Defendants further stated that they would supplement their answers after further information was obtained. During the course of the following year, the parties met and conferred regarding the first set of interrogatories on several occasions. As a compromise, lead plaintiffs requested responses to 13 of the affirmative defenses, agreeing to defer responses to the other 9 defenses. Defendants subsequently amended their responses and objections on January 19, 2005 to respond regarding certain affirmative defenses; instead of providing narrative answers, defendants invoked Rule 33(d) of the Federal Rules of Civil Procedure and identified business records, by bates range, from which the answers could be derived. Lead plaintiffs were not satisfied with those answers, but further efforts to meet and confer did not resolve the dispute.

On September 6, 2005, lead plaintiffs filed the pending motion to compel answers to the first set of interrogatories. According to lead plaintiffs, fact discovery is nearing an end, yet they

¹Although plaintiffs drafted their first set of interrogatories as three interrogatories (*i.e.*, for each affirmative defense, (1) identify all facts, (2) identify all witnesses, (3) identify all documents), in the court's view, each of the 22 affirmative defenses is a discrete area of inquiry. Accordingly, the interrogatories are more fairly counted as 22 interrogatories, each containing 3 subparts—*i.e.*, one interrogatory directed at each of the 22 affirmative defenses, which seek the facts, witnesses, and documents relating to each defense. *See Swackhammer v. Sprint Corp. PCS*, 225 F.R.D. 658, 664-665 (D. Kan. 2004) ("[A]n interrogatory containing subparts directed at eliciting details concerning a 'common theme' should generally be considered a single question. On the other hand, an interrogatory which contains subparts that inquire into discrete areas should, in most cases, be counted as more than one interrogatory.")

still do not know the factual basis underlying defendants' affirmative defenses. Moreover, lead plaintiffs maintain that defendants' reliance on Rule 33(d) was improper because the burden of deriving the answers from the documents is not substantially the same for both parties. Indeed, lead plaintiffs argue that it is not possible for them to derive the answers from the documents defendants have identified (which includes voluminous documents such as Household's 156 page SEC form 10-K and 699 pages of "First Call Analyst Reports" which contain an enormous amount of facts relating to numerous aspects of Household's business operations and financials). Defendants counter that the interrogatories are contention interrogatories, and that it is more fair and efficient to defer answers to the interrogatories until discovery is near an end. Additionally, defendants argue that their reliance on Rule 33(d) was proper.

At the time lead plaintiffs filed the motion to compel, fact discovery was scheduled to close on January 13, 2006. However, at the parties' request, the court recently extended the discovery cutoff until May 12, 2006, so six months still remain for fact discovery.

DISCUSSION

"Contention' interrogatories are interrogatories that seek to clarify the basis for or scope of an adversary's legal claims." *Starcher v. Correctional Med. Sys., Inc.*, 144 F.3d 418, 421 n. 2 (6th Cir. 1998). "Basically, contention interrogatories require the answering party to commit to a position and give factual specifics supporting its claims." *Ziemack v. Centel Corp.*, No. 92 C 3551, 1995 WL 729295, at *2 (N.D. Ill. Dec. 7, 1995). Generally speaking, "[c]ontention interrogatories ask a party: to state what it contends; to state whether it makes a specified contention; to state all facts upon which it bases a contention; to take a position, and explain or defend that position, with respect to how the law applies to facts; or to state the legal or

theoretical basis for a contention.” *B. Braun Med. Inc. v. Abbott Labs.*, 155 F.R.D. 525, 527 (E.D. Penn. 1994). Interrogatories seeking the identification of witnesses and documents, on the other hand, are not contention interrogatories. *Id.*

Contention interrogatories are a permissible form of discovery to which answers ordinarily are required. *Starcher*, 144 F.3d at 421 n.18. Here, without a doubt, lead plaintiffs are entitled to request information regarding defendants’ affirmative defenses. As in most cases, the timing of the answers, rather than the subject matter of the questions, is the disputed issue. Courts recognize that answers to contention interrogatories may help narrow and clarify the issues in litigation. *In re Convergent Tech. Sec. Litig.*, 108 F.R.D. 328, 337 (N.D. Cal. 1985). But courts also recognize that requiring early responses may force a party to articulate theories of its case that have not been fully developed, *Braun*, 155 F.R.D. at 527, to prematurely commit to a position, or to submit multiple supplemental answers later in the litigation, *Ziemack*, 1995 WL 729295 at *2. Because of these concerns, and in an effort to promote fairness and efficiency, courts generally defer answers to contention interrogatories until near the end of discovery. *E.g.*, *id.*; *In re Convergent Tech. Sec. Litig.*, 108 F.R.D. at 336. This is not a rigid rule, however. *In re Convergent Tech. Sec. Litig.*, 108 F.R.D. at 337. The appropriate timing for contention interrogatories depends on the facts of the case, and, ultimately, it is within the court’s discretion to determine when contention interrogatories should be answered. *Ziemack*, 1995 WL 729295 at *2; compare *Conopco, Inc. v. Warner-Lambert Co.*, No. Civ. A. 99-101(KSH), 2000 WL 342872, at *5 (D.N.J. Jan. 26, 2000) (concluding that contention interrogatories need not be answered until further discovery was completed) and *Fischer & Porter Co. v. Tolson*, 143 F.R.D. 93, 96 (E.D. Penn. 1992) (denying motion to compel answers to contention interrogatories where

substantial discovery still had to be conducted) *with Ziemack*, 1995 WL 729295 at * 2 (where a significant amount of discovery had already been completed, court compelled plaintiffs to answer half of defendants' contention interrogatories before discovery neared its end) *and Rusty Jones, Inc. v. Beatrice Co.*, No. 89 C 7381, 1990 WL 139145, at *2 (N.D. Ill. Sept. 14, 1990) (granting motion to compel answers to contention interrogatories before end of discovery where plaintiffs had received significant amount of defendant's documents before filing the complaint, and where defendant had already answered plaintiff's interrogatories and document requests).²

Turning to the interrogatories at issue here, lead plaintiffs' first set of interrogatories asks a combination of identification interrogatories and contention interrogatories. The interrogatories that ask defendants to identify witnesses and documents are not contention interrogatories. *Braun*, 155 F.R.D. at 527. Finding no reason to postpone the answers to those interrogatories, the court orders defendants to amend their answers to identify witnesses with knowledge of the facts underlying the affirmative defenses and to identify documents supporting the affirmative defenses by December 6, 2005. Further, when defendants identify which witnesses have knowledge of facts relating to the affirmative defenses, defendants must specifically identify which witness has knowledge regarding which affirmative defense(s). Additionally, the court reminds defendants that Rule 26(e)(2) imposes a duty to supplement interrogatory answers. Fed. R. Civ. P. 26(e)(2). If defendants fail to properly supplement their answers, they may be barred under Rule 37(c)(1) from using evidence at trial that has not been disclosed, unless the failure is

²These are just a few of the many cases in which courts have addressed when contention interrogatories must be answered. Because the decision regarding timing depends on the facts of the case and is left to the court's discretion, it is unnecessary to discuss all of the cases cited by the parties.

harmless. Fed. R. Civ. P. 37(c)(1); *Portis v. City of Chicago*, No. 02 C 3139, 2005 WL 991995, at *9 (N.D. Ill. Apr. 15, 2005); *For Your Ease Only, Inc. v. Calgon Carbon Corp.*, No. 02 C 7345, 2003 WL 22682361, at *2 (N.D. Ill. Nov. 12, 2003).

Unlike the requests for identification of witnesses and documents, lead plaintiffs' interrogatories asking defendants to identify all facts on which they base their 22 affirmative defenses are contention interrogatories because they ask defendants to set forth the factual basis underlying their defenses. *See Ziemack*, 1995 WL 729295 at * 2 (contention interrogatories ask party to identify facts supporting its claims). In an effort to balance the lead plaintiffs' need for information explaining the basis for the affirmative defenses with defendants' need to sufficiently develop their defenses, the court orders defendants to answer the contention interrogatories regarding each affirmative defense **no later than January 13, 2006**. This solution gives defendants two more months to develop their defenses, but still leaves four months before the close of fact discovery for lead plaintiffs to take any additional discovery they may require. Although lead plaintiffs ask for "all facts" supporting each of the 22 affirmative defenses, several courts have held that such interrogatories should be limited to the "principal or material" facts which support an allegation or defense." *Stoldt v. Centurion Indus., Inc.*, No. 03-2634-CM-DJW, 2005 WL 375667, at *5 (D. Kan. Feb. 3, 2005); *Steil v. Humana Kansas City, Inc.*, 197 F.R.D. 445, 447 (D. Kan. 2000). The court agrees with the reasoning of those decisions, and thus requires defendants to identify the principal and material facts supporting each of their affirmative defenses, rather than every possible fact. Additionally, because of the complexity of this case, defendants may not rely on Rule 33(d) to avoid providing a written narrative of the principal and material facts underlying their contentions. Moreover, although

defendants are relieved from the broad request for "all facts," the court reminds them of their obligation to supplement their answers under Rule 26(e)(2) and cautions them to disclose any evidence they intend to use at trial. *See* Fed. R. Civ. P. 26(e)(2) and 37(c)(1); *Portis v. City of Chicago*, 2005 WL 991995 at *9; *For Your Ease Only, Inc.*, 2003 WL 22682361 at *2.

As a final matter, before answering the interrogatories regarding the factual basis for the affirmative defenses, defendants should re-evaluate the asserted defenses and determine which truly constitute affirmative defenses. "[T]he basic concept of an affirmative defense is an admission of the facts alleged in the complaint, coupled with the assertion of some other reason defendant is not liable." *Instituto Nacional de Comercializacion Agricola v. Cont'l Ill. Nat'l Bank & Trust Co.*, 576 F. Supp. 985, 988 (N.D. Ill. 1983) (emphasis in original). Thus, a true affirmative defense does not merely raise matters already raised by a denial of plaintiff's allegations. *Bobbit v. Victorian House, Inc.*, 532 F. Supp. 734, 736 (N.D. Ill. 1982). Moreover, defendants bear the burden of proof on issues raised by a true affirmative defense. *Native Amer. Arts, Inc. v. Waldron Corp.*, 253 F. Supp. 2d 1041, 1045 (N.D. Ill. 2003). When a defendant raises an issue on which the plaintiff bears the burden of proof, the defendant has not raised a true affirmative defense. For example, estoppel, laches, and statute of limitations defenses are affirmative defenses. Fed. R. Civ. P. 8(c). Conversely, an asserted defense that challenges an element of the plaintiff's claim (*e.g.*, challenging whether plaintiff reasonably relied on misstatements in a fraud case) is not an affirmative defense. *See Maxcy v. WTTWS, Inc.*, No. 93 C 5088, 1993 WL 326889, at *2 (N.D. Ill. Aug. 26, 1993) (striking defenses that challenged causation in a negligence case); *In re Olympia Brewing Co. Sec. Litig.*, No. 77 C 1206, 1985 WL 3928, at *10 (N.D. Ill. Nov. 13, 1985) (defense that effectively denies reliance element of

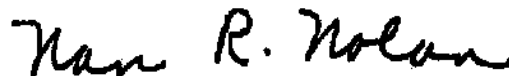
securities fraud claim is not an affirmative defense). Likewise, attacks on the sufficiency of the pleading (e.g., failure to state a claim) are not affirmative defenses. *See Instituto Nacional*, 576 F. Supp. at 991 (striking failure to state a claim from affirmative defenses).

After re-evaluating their affirmative defenses, if defendants find it necessary to amend, they should seek leave to do so from the district court.

CONCLUSION

For the reasons explained above, lead plaintiffs' motion to compel answers to the first set of interrogatories is granted in part and denied in part.

ENTERED:



NAN R. NOLAN
United States Magistrate Judge

Dated: November 10, 2005

EXHIBIT 3

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,)	
)	
v.)	No. 02 C 5893
)	
HOUSEHOLD INTERNATIONAL, INC., et al.,)	Judge Nan R. Nolan
)	
Defendants.)	

ORDER

Plaintiffs have filed this securities fraud class action alleging that Defendants Household International, Inc., Household Finance Corporation ("Household"), and certain individuals engaged in predatory lending practices between July 30, 1999 and October 11, 2002 (the "Class Period"). Currently before the court are (1) Plaintiffs' motion for additional deposition time; (2) Plaintiffs' motion to compel documents responsive to their third request for production; (3) Plaintiffs' motion to compel responses to their third set of interrogatories; and (4) Defendants' motion to compel responses to their second set of interrogatories. For the reasons set forth here, the motions are all granted in part and denied in part.

DISCUSSION

I. Plaintiffs' Motions

Plaintiffs have filed three motions, seeking additional time to take depositions and to compel certain discovery responses. The court addresses each in turn.

A. Motion for Additional Deposition Time

Plaintiffs first argue that they need more than the standard seven hours to depose three fact witnesses – Lisa Sodeika, Robin Allcock, and Daniel Patelis – and the four named individual defendants – William F. Aldinger, Gary Gilmer, J.A. Vozar, and David A. Schoenholz. Under FED.

R. Civ. P. 30(d)(2), the court may authorize a deposition to proceed for more than seven hours upon a showing of good cause. See *Mother & Father v. Cassidy*, 338 F.3d 704, 712 (7th Cir. 2003). The Seventh Circuit has not considered when good cause exists to extend a deposition, but the Advisory Committee notes to Rule 30 suggest the following examples: (1) the witness needs an interpreter; (2) the examination will cover events occurring over a long period of time; (3) the witness will be questioned about numerous or lengthy documents (although "it is often desirable for the interrogating party to send copies of the documents to the witness sufficiently in advance of the deposition so that the witness can become familiar with them"); and (4) the examination reveals that documents have been requested but not produced. FED. R. CIV. P. 30, Advisory Committee notes, 2000 Amendment. The Advisory Committee notes also admonish that "[i]t is expected that in most instances the parties and the witness will make reasonable accommodations to avoid the need for resort to the court Preoccupation with timing is to be avoided." *Id.* See also *Condit v. Dunne*, 225 F.R.D. 100, 112 (S.D.N.Y. 2004).

Continuing their disturbing pattern in this case, the parties have been unable to reach an agreement on the timing of several depositions and have again burdened the court with their unprofessional dispute. Plaintiffs argue that Defendants improperly terminated Ms. Sodeika's deposition at the end of approximately seven hours and now seek court approval for extending not only her deposition, but also the depositions of the other six individuals, none of which has even begun yet. Plaintiffs also ask that Defendants provide them with resumes and/or documents showing each deponent's positions within Household.

1. Ms. Sodeika

Ms. Sodeika was Assistant to Mr. Gilmer, the President of Household Finance Corporation and Beneficial Finance Corporation, until February 2002, at which time she became Vice President, Consumer Lending Practices. Defendants have produced over 62,000 pages of documents from

Ms. Sodeika's files, including numerous email messages and handwritten notes. Plaintiffs claim that during the first seven hours of Ms. Sodeika's deposition, they diligently questioned her about such critical topics as (1) the settlement discussions with the Attorneys General ("AGs") and the resulting \$484 million settlement agreement; (2) communications with ACORN, the AGs, and the state regulators as to predatory lending complaints; (3) Household's efforts to develop lending "best practices"; and (4) Household's internal discussions on the foregoing topics. (Pl. Dep. Mot., at 8.)¹ Plaintiffs view Ms. Sodeika as a key witness and insist that they need additional time to cover the vast material and documents relating to her.

Defendants respond that Plaintiffs were "demonstrably unprepared to take Ms. Sodeika's deposition," and that their

examination of this witness was a model of inefficiency and avoidance of the merits in favor of such wasteful pursuits as establishing the job duties of witnesses already deposed, the attendees at (but not the substance of) meetings for which Plaintiffs have attendance lists, the recipients (but not the substance) of documents created or received by Ms. Sodeika showing the names of all 'cc's,' the timing (but not the substance) of events for which Plaintiffs have written chronologies, and Ms. Sodeika's non-recollection of individual passages in documents that she did not recall seeing in their entirety.

(Def. Dep. Resp., at 8, 9.)² Defendants cite several examples of such conduct, including (1) asking Ms. Sodeika questions about handwriting she said she did not recognize; (2) testing Ms. Sodeika's recollection as to when certain meetings occurred, though the dates were a matter of record; and (3) repeatedly asking Ms. Sodeika questions about documents she said she had never seen. (*Id.* at 10-11.) In Defendants' view, Plaintiffs have not shown good cause for extending the deposition time because they "ran the clock on irrelevant trivia" rather than "'front load[ing]' the most salient topics." (*Id.* at 9.) Plaintiffs, of course, deny this charge, insisting that "defendants' blunderbuss

¹ The Class' Memorandum in Support of Motion for Additional Deposition Time is cited as "Pl. Dep. Mot., at ___."

² The Household Defendants' Memorandum of Law in Opposition to Lead Plaintiffs' Motion for Additional Deposition Time is cited as "Def. Dep. Resp., at ___."

attacks are made frequently without any citation to the deposition transcript and prove to be false upon reading the transcript.” (Pl. Dep. Reply, at 5.)³

The court is unable to determine from these arguments whether Plaintiffs utilized their time efficiently, and doubts that a review of the deposition transcript would provide meaningful assistance. *See, e.g., Beneville v. Pileggi*, No. 03-474 JJF, 2004 U.S. Dist. LEXIS 13586, at *3 (D. Del. July 19, 2004) (denying request for additional deposition time where “Plaintiffs have not provided the Court with the deposition transcript” or any other evidence “by which [the court] might determine whether additional deposition time is necessary.”); *Security Ins. Co. v. Trust-mark Ins. Co.*, 218 F.R.D. 29, 32 (D. Conn. 2003) (“A review of the deposition transcript and the scope of the notice of deposition does not support defendant’s argument that more time is justified.”) Given the amount of resources already devoted to resolving the parties’ petty squabbles, moreover, the court declines to embark on such a time-consuming, burdensome, and wasteful review, particularly where the parties are disputing the length of at least six (and likely more) additional depositions. (Pl. Dep. Mot., at 11 (“[T]here are other depositions [aside from the seven identified in this motion] that will present this issue and thus, this guidance is necessary as soon as possible.”).)

Ms. Sodeika is obviously a crucial witness in this case, for both Plaintiffs and Defendants. The court finds that both parties have acted unreasonably in failing to reach an agreement on additional deposition time. Defendants abruptly terminated Ms. Sodeika’s deposition without further discussion, while Plaintiffs failed to indicate the exact amount of additional time they need to complete the examination – one seven-hour day – until filing their reply brief. (Pl. Dep. Reply, at 1.) In a case of this magnitude, it does not strike the court as unreasonable to expect that the depositions of key witnesses will take longer than seven hours. Plaintiffs have requested only one additional day to complete their inquiry into just five specific topics: (1) Ms. Sodeika’s involvement

³ The Reply Brief in Support of the Class’ Motion for Additional Deposition Time is cited as “Pl. Dep. Reply, at ___.”

in internal investigations, such as the Effective Rate Complaint and the Bellingham, Washington branch office investigations; (2) the settlement discussions with the AGs and the resulting \$484 million settlement agreement; (3) communications with the consumer group, ACORN, the AGs, and the various state regulators regarding predatory lending complaints; (4) the development of Household's "best practices"; and (5) Household's internal discussions on the foregoing topics. (*Id.* at 3.)

The court finds Plaintiffs' request reasonable and grants the motion to compel seven additional hours of deposition questioning for Ms. Sodeika. To ensure increased efficiency and to assist with witness preparation, Plaintiffs should identify for Defendants no later than one week prior to the deposition date the documents they intend to use during questioning. Failure to designate a particular document, however, will not preclude its use at the deposition absent a showing of bad faith. The court also orders Defendants to produce no later than one week prior to the deposition any existing resume for Ms. Sodeika or, to the extent none exists, a document summarizing her positions within Household and the corresponding dates. Plaintiffs may ask Ms. Sodeika questions about that resumé or employment history, but any such time will be deducted from the seven hours.

2. Other Witnesses

Plaintiffs have not yet begun the depositions of the other six witnesses identified in this motion – i.e., Robin Allcock, Daniel Patellis, William F. Aldinger, Gary Gilmer, J.A. Vozar, and David A. Schoenholz – yet they still seek two days of testimony for each. The court agrees with Defendants that it would be premature to extend the deposition time before determining how much material Plaintiffs are actually able to cover during the seven-hour period. See, e.g., *General Elec. Co. v. Indemnity Ins. Co.*, No. 3:06-CV-232(CFD), 2006 WL 1525970, at *3 (D. Conn. May 25, 2006) (“[C]ourts have viewed Rule 26(b)(2) as containing an exhaustion requirement with regard

to moving for leave to extend a deposition."); *Malec v. Trustees of Boston College*, 208 F.R.D. 23, 24 (D. Mass. 2002) ("[T]he better practice is for the deposition to go forward to determine how much is able to be covered in the seven hours and, then, if additional time is needed, for counsel to stipulate to extend the deposition for a specific additional time period.") That said, the court does not want additional motions regarding the depositions of these or any other individuals.

Plaintiffs are thus ordered to produce to Defendants and the court no later than **August 18, 2006** a proposal setting forth the specific topics, in order of priority, they intend to cover at each deposition and the amount of time each topic should require. Based on Plaintiffs' current request for one additional day of testimony for these witnesses, they should not seek more than seven additional hours of deposition time.⁴ To ensure increased efficiency and to assist with witness preparation, Plaintiffs should identify for Defendants no later than one week prior to each deposition date the documents they intend to use during questioning. Failure to designate a particular document, however, will not preclude its use at a deposition absent a showing of bad faith. Defendants are ordered to produce no later than **August 15, 2006** any existing resumes for the witnesses or, to the extent none exists, documents summarizing their positions within Household and the corresponding dates. Questions regarding the witnesses' resumes or employment history must be included in the topic summaries.

The parties are then ordered to meet and confer to reach an agreement regarding each deposition length. If they are unable to do so, Plaintiffs may renew their motion as to specific deponents and topic requests, but only after they have exhausted the initial seven-hour period. The court reiterates that in a case of this magnitude, it is not unreasonable to expect that the depositions of key witnesses will take longer than seven hours. At the same time, "[t]he 7-hour rule

⁴ Nor should Plaintiffs seek more than seven additional hours of deposition time for any other witness, given that the individuals identified here represent Plaintiffs' "key" witnesses.

necessitates, especially in complex cases, that almost all depositions will be under-inclusive [and Plaintiffs] therefore must be selective and carefully decide how to apportion [their] time." *In re Sulfuric Acid Antitrust Litig.*, 230 F.R.D. 527, 532 (N.D. Ill. 2005). The parties are again cautioned that they are most familiar with the details of their case and this court will not waste valuable judicial resources assessing the minutiae of deposition testimony. Plaintiffs' motion for additional deposition time for the six witnesses who have not yet been deposed is denied without prejudice.

B. Motion to Compel Documents

Plaintiffs next seek to compel responses to their third document request nos. 1, 2, 6, 9-13, 16, 24, 27, 30, and 35. These requests seek (1) documents reflecting or describing the accounts and subaccounts in any Household general ledger; (2) documents reflecting Household's various sales practices that the Class alleges were predatory, and the revenues earned through those practices; (3) documents evaluating the adequacy of Household's credit loss reserves and documents relating to reaging or restructuring of loans; and (4) documents relating to Household's "blitz purge" of documents. (Pl. Doc. Mot., at 1-2.)⁵ Defendants claim that (1) they have already produced documents responsive to request nos. 1, 2, 6, 9, 11, 12, and 35; (2) they already agreed to, and did in fact undertake a reasonable and good faith additional search for documents responsive to 10 of the 13 contested requests in any event (nos. 1, 2, 6, 9, 10, 12, 24, 27, 30, and 35); and (3) Plaintiffs' motion seeks documents that simply do not exist. (Def. Doc. Resp., at 5-8.)⁶

Plaintiffs deny that the Third Request seeks documents that have already been produced, noting that Defendants expressly denied that the documents at issue were encompassed within

⁵ The Memorandum of Law in Support of the Class' Motion to Compel Household Defendants to Produce Responsive Documents to the Class' Third [Corrected] Request for Production is cited as "Pl. Doc. Mot., at ___."

⁶ The Memorandum of Law in Opposition to Lead Plaintiffs' Motion to Compel Household Defendants to Produce Response Documents is cited as "Def. Doc. Resp., at ___."

the First and Second Requests. (Pl. Doc. Reply, at 11.)⁷ Plaintiffs also object that Defendants have improperly limited their production to documents from certain business units, as opposed to the entire Consumer Segment.⁸ Such information is relevant, Plaintiffs argue, “to be able to understand and fully assess Household’s financial situation on the consolidated level.” (*Id.* at 10.) As for Defendants’ assertion that they do not have documents responsive to several requests, Plaintiffs insist that Peter Sesterhenn, Household’s 30(b)(6) witness, testified that they do. (*Id.* at 3-4.) Defendants claim that Plaintiffs have simply misread Sesterhenn’s testimony, but Plaintiffs urge that, at a minimum, Defendants should submit an affidavit confirming that they have made a reasonable search for responsive documents and could not locate any.

The court obviously cannot order Defendants to produce documents that do not exist. See *Williams v. Schueler*, No. 04 C 65, 2006 U.S. Dist. LEXIS 43007, at *5 (E.D. Wis. June 23, 2006). Nor will the court require Defendants to re-produce any documents a second time. At the same time, Plaintiffs are entitled to some reasonable assurance that Defendants have in fact conducted a full and diligent search. With respect to any documents that Defendants claim do not exist, they are ordered to submit an affidavit setting forth the efforts they made to locate the documents and confirming that none could be found. Defendants are also ordered to direct Plaintiffs to the previously-produced documents they believe are responsive to request nos. 1, 2, 6, 9, 11, 12, and 35. Finally, Defendants are ordered to produce all documents relating to the entire Consumer Segment in responding to request nos. 1, 2, and 6 only. Plaintiffs’ motion to compel is otherwise denied.

⁷ The Reply in Support of the Class’ Motion to Compel Household Defendants to Produce Responsive Documents is cited as “Pl. Doc. Reply, at ___.”

⁸ Plaintiffs also object that Defendants have limited their production to documents within the Class Period in accordance with this court’s June 15, 2006 Order. Plaintiffs’ objections to that Order are pending before the district court.

C. Motion to Compel Interrogatory Responses

Plaintiffs finally seek to compel complete and responsive answers to their third set of interrogatory nos. 22, 23, 26, 28, 29, 32-34, 36, 38-42, 44, 52, 53, and 56. The court addresses them by category below.

1. Nos. 28, 34, and 39

Interrogatory nos. 28, 34, and 39 seek identification of written and oral public statements made over a four-year period regarding Household's charge-off policies, predatory lending, and financial losses due to that predatory lending. Defendants object that answering these interrogatories "would entail a company-wide investigation for every written and oral statement made by the corporation as a whole and by any of its thousands of employees," many of whom no longer work at the company. (Def. Int. Resp., at 3.)⁹ Plaintiffs respond that Defendants "can easily discover the vast majority of such statements by reviewing the files and speaking to members of Household's 'Responsible Lending Rapid Response Team,'" which gathered information and responded to customer inquiries regarding predatory lending allegations. (Pl. Int. Reply, at 2-3.)¹⁰ The court finds Plaintiffs' proposal reasonable to the extent it limits Defendants' inquiry to members of the Responsible Lending Rapid Response Team. Defendants are ordered to respond to interrogatory nos. 28, 34, and 39 based on information they obtain from those members. The individual named Defendants must likewise identify any public statements they made which are responsive to these interrogatories. Plaintiffs' motion to compel further responses to these interrogatories is denied.

⁹ The Memorandum of Law in Opposition to Lead Plaintiffs' Motion to Compel Household Defendants' Responses to Third Set of Interrogatories is cited as "Def. Int. Resp., at ___."

¹⁰ The Reply in Support of the Class' Motion to Compel Household Defendants' Responses to the Third Set of Interrogatories is cited as "Pl. Int. Reply, at ___."

2. Nos. 22, 23, 26, 38, and 44

Interrogatory nos. 22, 23, 26, 38, and 44 seek the identification of individuals most knowledgeable about, or responsible for certain subject matters. In response to these interrogatories, Defendants did identify several individuals by name, but they grouped other individuals into categories, such as "Members of the Audit Committee," "various members of Household management and members of the Board of Directors," the "Corporate Accounting Department," "Arthur Andersen LLP," and "KPMG." (Pl. Int. Mot., at 7 (citing Ex. K to Brooks Decl.))¹¹ The court agrees that Defendants should identify specific individuals and not just categories of individuals. To the extent an entire committee made a certain decision, for example, Defendants should identify the names of the relevant committee members. Similarly, Defendants should identify specific individuals within Household, KPMG and Arthur Andersen who participated in the decision to restate Household's financial statements. With respect to the "core" group of individuals referenced in response to interrogatory no. 26, Defendants must at a minimum identify the individuals who participated in the benchmarking study. Such specificity is necessary to streamline and limit the number of depositions in this case. In that regard, the court cautions Plaintiffs that they have a limited number of depositions available and they will be responsible for prioritizing all of the names provided.

3. No. 52

Interrogatory no. 52 asks Defendants to define the term "predatory lending." Defendants have outlined the commonly-understood meanings of the term and need not provide any further definition or information. If Plaintiffs insist on obtaining further information about the definition and/or an attribution to specific Household employees, Plaintiffs must first provide Defendants with

¹¹ The Class' Memorandum in Support of Motion to Compel Household Defendants' Responses to the Third Set of Interrogatories is cited as "Pl. Int. Mot., at ___."

their own definition of "illegal predatory lending practices" as requested in Defendants' contention interrogatories, discussed below.

4. Nos. 29 and 33

Interrogatory nos. 29 and 33 ask Defendants to speculate as to what the financial impact on Household would have been if it had used "bank-like policies" between January 1, 1999 and December 31, 2002. Plaintiffs claim that Household considered changing some of its policies in 2002 "to become more bank-like," and that the company analyzed the impact such changes would have had on their financials. (Pl. Int. Mot., at 8, 9.) Defendants deny that they have any such statistics and argue that these hypothetical policies are irrelevant given that the majority of Household's business was not subject to banking guidelines. (Def. Int. Resp., at 8.)

To the extent Household did in fact study the impact of policy changes relating to the consumer lending business units at issue in this lawsuit, Defendants must produce those results. Plaintiffs' request that Defendants newly create some hypothetical assessment of policy changes, however, is denied. See *Micro Motion, Inc. v. Kane Steel Co.*, 894 F.2d 1318, 1328 (Fed. Cir. 1990) ("A litigant may not engage in merely speculative inquiries in the guise of relevant discovery.")

5. No. 36

Interrogatory no. 36 seeks all reasons why Household entered into the settlement agreement with the Attorneys General. Defendants identified (by reference to Bates number and speaker) the reasons given by Household executives when they announced the settlement, as well as the reasons set forth in the Consent Decrees. Plaintiffs insist that Defendants provide written responses, as opposed to references to documents. (Pl. Int. Mot., at 11.) The court agrees that Defendants should specifically list the reasons Household entered into the settlement agreement, even if it means repeating statements made in certain documents.

Defendants contend that any further response to this interrogatory is barred by the work-product doctrine. Plaintiffs disagree, characterizing the reasons as business decisions that are subject to disclosure. (Pl. Int. Mot., at 10 (citing *National Union Fire Ins. Co. v. Continental Illinois Group*, No. 85 C 7080, 1988 U.S. Dist. LEXIS 7826 (N.D. Ill. July 21, 1988).) In *National Union*, an insurance company sought to compel the defendant's general counsel and executive vice-president, Richard Brennan, to answer deposition questions about a recommendation he made to the Board of Directors – based on advice he received from outside counsel – to settle a prior lawsuit. *Id.* at *2. The defendant argued that the statements were privileged because they involved an attorney providing confidential advice to a client. *Id.* at *3. The court disagreed, finding that given the general counsel's dual role within the company, "the record strongly suggests that when Mr. Brennan met with the Board, he recommended a business decision (to settle and on certain terms) based on the advice of counsel. If this is so, the discussion at the Board meeting was not privileged." *Id.* at *3-4.

In this case, the court cannot determine from the parties' briefs whether Household settled the case on the advice of counsel, or pursuant to a business decision. Defendants are ordered to produce to the court *in camera* by **August 18, 2006** an explanation of the settlement decision-making process, the persons involved, and the basis for the claim of privilege.

6. Nos. 40-42

Interrogatory nos. 40-42 seek financial statistics related to Household's predatory lending practices. Defendants object that these requests are irrelevant, explaining that "[i]f a certain category of data was not tracked by management at the time, it stands to reason that it cannot form the basis for allegations that Defendants made false or misleading representations concerning that data during the Class Period." (Def. Int. Resp., at 11.) The court disagrees. Plaintiffs may not be

able to use the data to establish scienter, but it is still relevant to whether Household was engaging in the unlawful predatory practices.

Defendants also claim that the requests are overly burdensome because Household does not maintain such statistics in the ordinary course of business. In their motion to compel, Plaintiffs argued that Defendants should at a minimum provide the estimated cost of producing the requested data. (*Id.* at 12-13.) Defendants have submitted an affidavit from Diane Giannis, Director of Business Systems within HSBC Technology & Services (USA), Inc. ("HTS"), stating that HTS would have to develop a new software program to analyze customer account data, which would take approximately 56 business days and cost \$26,600. (Def. Int. Resp., at 11.) Plaintiffs argue that Ms. Giannis "has proven unable to accurately estimate the cost for such projects," noting that she previously estimated the cost of responding to certain of Plaintiffs' second set of interrogatories at \$23,000, but Defendants later indicated that the real cost was nothing for the period January 1, 1999 through October 5, 2002. (Pl. Int. Reply, at 12-13.)

On the current record, the court has no way of verifying the actual cost to Defendants of compiling the requested statistics. It is clear, however, that Household does not maintain the information in the ordinary course of business and will incur some associated expense. The parties are ordered to meet and confer to determine a fair estimate of the cost of producing the statistics, along with a proposal setting forth the amount each side is prepared to contribute. The parties must present the proposal to the court for review no later than **August 18, 2006**.

7. No. 49

Interrogatory no. 49 requests the "time period in which employees of Household utilized an 'effective rate' comparison to promote acceptance of the EZ Pay Plan." Defendants responded that on May 24, 2001 and multiple subsequent occasions, "all HFC Sales Offices and HFCPS Management were informed via Bulletin Board that the use of 'effective rate comparisons' was

expressly prohibited." (Def. Int. Resp., at 13.) Defendants claim that providing any greater specificity would require them "to somehow determine every instance in which an effective rate comparison was used by a Household employee," which "would require an office-by-office survey of every individual who worked at Household during the Class Period." (*Id.*) Plaintiffs insist that Defendants may easily obtain such information by consulting the systems on which it tracked customer complaints. (Pl. Int. Reply, at 9.) According to Plaintiffs, Household's Regulatory Compliance Risk Management Team "compiled a report containing detailed findings regarding effective rate complaint statistics by (a) state; (b) state and year; (c) branch number; (d) branch location and month; (e) month; and (f) a listing of all effective rate complaints." (*Id.*)

To the extent the dates Plaintiffs seek are accessible through the effective rate complaint database, Defendants are ordered to produce them. If the dates are not accessible in this manner, Defendants are to submit an affidavit to that effect, explaining why not.

8. No. 53

Interrogatory no. 53 asks Defendants to "identify those Household business practices that fall within the definition of 'predatory lending' as it was used during" the Class Period. (Def. Int. Resp., at 13.) Defendants responded that Household did not endorse any predatory lending practices. (*Id.* at 13-14.) Plaintiffs object that Defendants should identify business practices that "would be characterized by the Company as 'predatory lending practices," in effect seeking a definition of "predatory lending." (Pl. Int. Reply, at 14.) As noted, in response to interrogatory no. 52, Defendants outlined the commonly-understood meanings of this term and need not provide any further definition or information. If Plaintiffs insist on obtaining further information about the definition, Plaintiffs must first provide Defendants with their own definition of "illegal predatory lending practices" as requested in Defendants' contention interrogatories, discussed below.

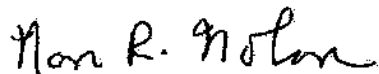
products and revenues Plaintiffs claim derived from those illegal practices. (Def. Mot., at 10-11.)¹³ The court agrees that Defendants are entitled to such information, but the interrogatories as written do not clearly request it. Defendants may thus submit up to five additional and more specific interrogatories on these issues no later than **September 15, 2006**.¹⁴ Their request for further responses to interrogatory nos. 10-14 as written, however, is denied.

CONCLUSION

For the reasons stated above, Plaintiffs' motion for additional deposition time [Doc. 559], motion to compel responses to interrogatories [Doc. 551], and motion to compel document requests [Doc. 555] are all granted in part and denied in part. Defendants' motion to compel interrogatory responses [Doc. 543] is also granted in part and denied in part.

ENTER:

Dated: August 10, 2006



NAN R. NOLAN
United States Magistrate Judge

¹³ The Memorandum of Law in Support of the Household Defendants' Motion to Compel Responses to Household Defendants' Second Set of Interrogatories is cited as "Def. Mot., at ___."

¹⁴ This is in addition to the one additional interrogatory Defendants may serve in exchange for answering Plaintiffs' interrogatory no. 56.

EXHIBIT 4

1 **TRANSCRIBED FROM DIGITAL RECORDING**

2 IN THE UNITED STATES DISTRICT COURT
3 NORTHERN DISTRICT OF ILLINOIS
4 EASTERN DIVISION

4 LAWRENCE E. JAFFE, Pension Plan, on) No. 02 C 5893
5 behalf of itself and all others)
6 similarly situated, and GLICKENHAUS)
7 INST GRP.,)

6 Plaintiffs,)

7 vs.)

8 HOUSEHOLD INTERNATIONAL, INC., ARTHUR)
9 ANDERSEN, L.L.P., W F ALDINGER, and)
10 D A SCHOENHOLD,) Chicago, Illinois
11 Defendants.) December 15, 2006
12) 7:44 A.M.

11 TRANSCRIPT OF PROCEEDINGS - Status Conference
12 BEFORE THE HONORABLE NAN R. NOLAN, Magistrate Judge

13 **APPEARANCES:**

14 For the Plaintiffs: LERACH, COUGHLIN, STOIA, GELLER,
15 RUDMAN & ROBBINS, LLP
16 100 Pine Street, Suite 2600
17 San Francisco, California 94111
18 BY: MS. AZRA D. MEHDI
19 MR. LUKE O. BROOKS

18 MILLER, FAUCHER AND CAFFERTY, LLP
19 30 North LaSalle Street, Suite 3200
20 Chicago, Illinois 60602
21 BY: MS. LORI A. FANNING

21 PAMELA S. WARREN, CSR, RPR
22 Official Court Reporter
23 219 South Dearborn Street
24 Room 1928
25 Chicago, Illinois 60604
(312) 294-8907

24 **NOTE: Please notify of correct speaker identification.**
25 **STATIC ON RECORDING.**

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APPEARANCES: (Continued)

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(Appearing telephonically)

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Chicago, Illinois 60604
BY: MR. ADAM B. DEUTSCH

1 MS. MEHDI: -- whether or not we will object. But it
2 will be on the same time frame as the E&Y objections since it
3 is part of the same order.

4 THE COURT: Okay. Have you had a status before Judge
5 Guzman?

6 MS. MEHDI: Not yet. I was going to ask your Honor,
7 we intend to file a request for status conference before Judge
8 Guzman to inform him of things that are going on and probably
9 try to get it early January if we can get on his calendar and
10 let him know what's going on so that maybe we can get some
11 movement on some of the older objections that are pending
12 before him.

13 THE COURT: All right. So maybe we can even -- I
14 don't know what his schedule is. He's just finishing up a long
15 trademark trial, but I don't know what his schedule is. That
16 seems to be a good idea. I haven't had any communication with
17 him either. So, I mean, we're all on the same page on that.

18 So -- okay. And -- all right. So next comes what we
19 have entitled discovery disputes. First thing we have listed
20 is Household objects that plaintiffs have not responded to
21 three sets of interrogatories. And I'll tell you what they
22 are, and then we'll go back to each.

23 First is the Household contends that plaintiffs have
24 made no response to the contention interrogatories in the third
25 set.

1 Second, no response to five supplemental
2 interrogatories this Court ordered, allowed in its August 10th,
3 2006, order.

4 And third is no responses to the fourth set, only
5 objections.

6 So let me hear from either Mr. Brook or Ms. Mehdi on
7 the -- well, on this whole issue we'll begin with no responses
8 to contention interrogatories in the third set.

9 MS. MEHDI: Your Honor, the third set, that's part of
10 that objection that is pending before Judge Guzman, the
11 September 20th order. And the whole issue is that defendants
12 have propounded more interrogatories than this Court has
13 allowed. And pending that ruling on that objection, we think
14 that we -- we have properly held off answering those
15 interrogatories.

16 With respect to the fifth -- five additional
17 interrogatories that this Court allowed them to have pursuant
18 to the August 10th order, we served them our responses
19 yesterday. And in fact we have already responded and what we
20 believe to be sufficient responses, but we agreed voluntarily
21 to supplement them so we didn't see a time frame on that, but
22 we did it in a timely fashion.

23 With respect to the fourth set, the same rationale
24 applied as the third set, which is if we're objecting to the
25 third set based on overpropounding of interrogatories, then it

1 reasons that, you know, we have propounded our objections in a
2 timely fashion or served our objections in a timely fashion,
3 and we have responded. Judge Guzman believes that we should be
4 responding to those interrogatories.

5 THE COURT: All right. I -- okay.

6 So, Ms. Best.

7 MS. BEST: Yes, your Honor. First of all, the
8 plaintiffs are correct that we did receive late last night
9 their supplemental revised responses to the Court authorized
10 supplemental set of interrogatories that pertain to the second
11 set of interrogatories. I haven't had a chance -- we haven't
12 had a chance to review them to determine whether there are any
13 deficiencies. But if there are, we would like to bring those
14 to your Honor's attention early next week if possible.

15 But the other two sets, that is the third set and
16 fourth set, we respectfully disagree with counsel's position
17 that they can essentially grant themselves a stay of this
18 Court's orders without seeking the stay from your Honor or from
19 Judge Guzman.

20 Your Honor issued orders instructing them to answer
21 their -- our contention interrogatories prior to the
22 two-month -- two months before the discovery cutoff. We think
23 that their objections to Judge Guzman are not well founded.
24 This is a retained discovery matter that involves
25 recounting -- how you count the number of interrogatories. And

1 this is the first we have heard from them that they interpret
2 just a routine objection as an automatic stay of your orders,
3 and we believe that that's incorrect.

4 THE COURT: Okay. Just one moment.

5 MS. BEST: And I just --

6 THE COURT: Just one moment.

7 MS. BEST: I'm sorry.

8 (Brief interruption.)

9 THE COURT: Okay.

10 MS. BEST: And just to reiterate, I mean, these
11 are -- in the third set, your Honor, your Honor had issued a
12 ruling on them. It is actually five interrogatories where we
13 seek just very general information.

14 THE COURT: But that's what they answered yesterday.

15 MS. BEST: No, no, no, these are what we haven't
16 received any responses. This is what they are saying is held
17 up because they filed objections to Judge Guzman on how you
18 count interrogatories. I mean, these are contention
19 interrogatories that go at the heart of what the theory of
20 their securities fraud claims are. And we fully expected that
21 we would be getting responses to these basic interrogatories by
22 December 1st or December 4th. We're concerned, your Honor,
23 that this is just going to push us back further and further,
24 and we're not going to be able to have timely follow up.

25 MS. MEHDI: Your Honor, may I briefly address those?

1 Those interrogatories relate to briefing done on Dura. Okay?

2 Briefing done on --

3 THE COURT: This is --

4 MS. MEHDI: -- (unintelligible).

5 THE COURT: This is our Number C? This is our --

6 MS. BEST: Number 3.

7 MS. MEHDI: Number 3.

8 THE COURT: Right.

9 MS. MEHDI: That they called Number 3, that's actually
10 the fifth set that they propounded.

11 It relates to briefing on the pleading standards of
12 Dura. The 1292(b) motion that was denied by Judge Guzman
13 addresses the whole issue of pleading standards under Dura.

14 THE COURT: So --

15 MS. BEST: That's incorrect.

16 MS. MEHDI: -- in any event.

17 THE COURT: Hold on. So you're talking
18 about -- okay. Go get me the August -- Lynette, pull off the
19 August 10th order. I --

20 MS. BEST: It is actually the September order, your
21 Honor. September 19th order. It is the third set. It is your
22 September 19th order.

23 THE COURT: All right. Well, actually we have the
24 20th so when -- she's pulling it off, I don't know which --

25 MS. BEST: I have a copy here.

1 THE COURT: The 19th. Okay.

2 That's the one -- that's okay. Got it.

3 Okay. So you're saying that the fourth set of
4 objections are to Dura -- involve Dura not subpart counting.
5 I'm trying to figure out --

6 MS. BEST: No, it is --

7 THE COURT: -- if this is a subpart counting of
8 interrogatories, which would be -- I could potentially guess
9 what Judge Guzman is going to do with that. Okay?

10 MS. MEHDI: Your Honor --

11 THE COURT: As opposed to what the issue is as a Dura
12 issue.

13 MS. MEHDI: Your Honor, the third set as well as the
14 fourth set relate to -- well, I don't remember exactly what the
15 fourth set relates to. But the -- what they call the third set
16 relates to briefing on Dura.

17 MS. BEST: No, it doesn't. I have got it right here.
18 Our third set -- for example, you -- let me back up.

19 There was one that had to do with Dura, and you denied
20 our motion to compel back in August. So that's not even on the
21 table.

22 What we are talking about is our interrogatories
23 Number 30 through -- I'm sorry. Let me just be precise here.

24 30 through 34, Interrogatories Number 30 through 34,
25 and --

1 THE COURT: Number 30 --

2 MS. BEST: In the third set. And Number 30 says,
3 identify all documents and alleged facts that plaintiffs
4 contend demonstrate that the market or any member of the class
5 became aware of the alleged fraud on any day prior to August
6 14th of '02. That doesn't relate to the Dura briefing, it is
7 just a pure statement, a pure interrogatory.

8 And then 31 through 33 have to do with what are the
9 disclosures that they contend revealed the fraud to the market
10 based upon their three theories.

11 MS. MEHDI: Which is based on Dura. Lost causation,
12 right?

13 MS. BEST: But it is not tied to our -- it is related
14 to lost causation, but Judge Nolan specifically found that you
15 all were required to answer these questions.

16 And as clear in your September order, your Honor.

17 THE COURT: Okay.

18 MS. MEHDI: And, your Honor, we object on the basis
19 that they have exceeded their interrogatories. So just like
20 they are asking for us for -- they told E&Y not to produce
21 documents to us and they are not producing documents to us on
22 E&Y, the same standard should apply on both sides of those with
23 an objection pending.

24 MS. BEST: Your Honor, we're prepared to seek a stay,
25 and that's the difference. And we are -- in fact we'll ask

1 your Honor for the stay of the E&Y.

2 THE COURT: You did.

3 MS. BEST: And we did.

4 THE COURT: You did.

5 MS. BEST: And if you were to deny it, we would go to
6 Judge Guzman and ask him for a stay. There is a distinction
7 there.

8 THE COURT: Right.

9 All right. We'll figure this out before we leave
10 today.

11 So the -- we'll take a break. I want to talk to
12 Allison. I -- we believe when parties -- I mean I actually
13 do -- never mind. I will talk to Allison. Okay.

14 Okay. Second, Household will ask for a stay of the
15 December 6th order pending an appeal to Judge Guzman. I assume
16 you have no objection to that. Right? Okay?

17 MS. MEHDI: We -- we understood that when there is an
18 objection pending --

19 THE COURT: Well, that isn't -- that has been -- I
20 mean, first of all, what has been going on in the rest of the
21 case when we had plenty of time is different than when we have
22 a January 30th cutoff. I mean, I -- I don't think anyone has
23 even raised this issue before, and --

24 MS. MEHDI: We'd be happy to make a formal request for
25 a stay, your Honor.

1 THE COURT: No, no, no, that's -- I don't
2 (unintelligible) -- I understand that. Okay?

3 Well, and the other thing is until this fall you
4 really weren't appealing much so it really wasn't that much of
5 an issue until now. We didn't have to deal with this.

6 So, okay. And three is during a recent
7 deposition -- this is the third discovery dispute. This is
8 the -- this is the last discovery dispute that we see that is
9 not briefed or not before us on a motion.

10 And there is a section in the -- right. Why don't you
11 tell us -- why don't you put it on the record rather than me
12 reading it.

13 So this is regarding your idea that Ms. Mehdi was
14 participating on this deposition by conference call or
15 telephone or something. And so why don't you tell us what your
16 issue is. And I don't know what you really want me to do
17 anyway other than put me on notice. I wasn't quite sure what
18 the remedy was.

19 Do you want to --

20 MS. BEST: Your Honor (unintelligible) --

21 THE COURT: Yes.

22 MS. BEST: I think it would be helpful to bring up
23 because we were actually shocked to find out that it appeared
24 that Ms. Mehdi was listening in on conversations between
25 counsel and the client during the breaks at depositions.

1 THE COURT: No, no. You're going to --

2 MS. BEST: We're going to be parties. So we're going
3 to be filing opening brief -- we'll file our brief on the 22nd.

4 THE COURT: No, because -- no, you're not.

5 MS. BEST: No reply?

6 THE COURT: You're going to file whatever you want by
7 the 4th. And that --

8 MS. BEST: Okay.

9 THE COURT: If we're here on the 8th in the morning --

10 MS. BEST: Well, why can't they give us their response
11 on the 29th and if we're filing a reply --

12 THE COURT: That's true.

13 MS. BEST: We are all working the holidays.

14 THE COURT: That's true. The 29th -- you're right.
15 You're right. And yours is due the day we come back.

16 MS. BEST: Okay.

17 THE COURT: Or the 3rd.

18 MS. BEST: Okay.

19 THE COURT: Everything else is the 3rd. Yours is due
20 the 3rd on this particular one. You're right, Ms. Best.

21 Okay. I hope that's it.

22 MR. DEMBROW: Your Honor, I just wanted to add, I
23 think we want to -- need to move with respect to the fourth set
24 for which we only got response -- objections and no responses.
25 We're going to need to move on those as well.

1 MS. BEST: I think she has stayed that. Right? Those
2 are contention interrogatories.

3 THE COURT: Those are contention interrogatories.

4 MR. DEMBROW: The --

5 THE COURT: And until -- they are part -- the same
6 objections, I believe, right.

7 MS. BEST: And --

8 MR. DEMBROW: I don't think that's right.

9 MS. BEST: Okay.

10 MR. DEMBROW: I mean, the only objection that is
11 before Guzman now is with respect to the counting, and those
12 contention interrogatories that your Honor has already ordered
13 them to respond to. These are several ones which they
14 responded to, but their objections don't rely in the same sense
15 as the other ones do on the issues raised by your Honor's order
16 that they respond to them.

17 MR. BROOKS: Judge, our objection before Judge Guzman
18 is that the defendants have exceeded their interrogatory
19 limit. These were propounded even after the one that we were
20 objecting to. So it is -- again, doesn't make sense. Although
21 we do have other objections to these -- this latest set of
22 interrogatories that we propounded --

23 THE COURT: Okay. Now you understand I am staying
24 this. But both as to the contention interrogatories and to
25 these, if Judge Guzman rules, I want you to know we're going

1 give you like seven days.

2 MS. MEHDI: Okay.

3 MR. BROOKS: Okay.

4 THE COURT: From the date.

5 MR. BROOKS: And --

6 THE COURT: From whatever the date is because I'm --
7 you know, and that's not -- I mean, that's the only thing we
8 can do at the moment.

9 MS. MEHDI: That's acceptable to us, your Honor.

10 MR. DEMBROW: Your Honor, may I suggest something?

11 THE COURT: Uh-huh.

12 MR. DEMBROW: I just want to suggest something. I
13 mean, given that they have all these other objections that
14 aren't yet before Guzman and haven't yet been before your
15 Honor, you know, they are going to rely on those on the
16 assumption that Guzman is going to respect your Honor's
17 counting and the limits set by your Honor with respect to the
18 number of interrogatories. I think it would slow the process
19 down a lot to have to then --

20 THE COURT: You're right.

21 MR. DEMBROW: -- (unintelligible).

22 THE COURT: You're right. Okay. So any other
23 objection, if there is another objection other than issues
24 raised with Judge Guzman, which I believe are just counting,
25 those you have got to do now because I have to be ready.

1 Because we're not going to do an entire set. Judge Guzman
2 comes back January 3rd and says, overruled, your objection is
3 overruled on counting, then we're not going to start two more
4 weeks of -- on the other objections.

5 MS. MEHDI: You know, we are ready with -- or willing
6 to within seven days respond.

7 THE COURT: So you're going to waive your other
8 objections.

9 MS. MEHDI: No, that's why we, for the fourth set, we
10 didn't waive our objections but did object. See, our
11 objections remain because we only --

12 THE COURT: So -- but you're willing to live with it.

13 MS. MEHDI: Respond with our objections, yes.

14 THE COURT: But then I have to then review -- what
15 does that mean? I don't know what that means. Because that
16 means --

17 MS. MEHDI: Well --

18 THE COURT: -- then you're still not -- you may not be
19 answering.

20 MR. BROOKS: Judge, the -- are you proposing that we
21 have a round of briefing on interrogatories that we may not
22 have to answer and that we believe are over the limit that they
23 have? I mean, we can immediately try to narrow the issue.

24 THE COURT: Your only objection, as I understand it,
25 is to counting.

1 MR. BROOKS: In front of Judge Guzman --

2 THE COURT: Right.

3 MR. BROOKS: -- that's the only objection.

4 THE COURT: We're not going --

5 (Discussion off the record.)

6 THE COURT: Right. Then you got all these other
7 objections.

8 MS. MEHDI: Correct.

9 THE COURT: We're not going to -- I want you to brief
10 those right now because I don't frankly believe of all of your
11 appeals, I do not believe Judge Guzman is going to reverse me
12 on counting. Okay?

13 So I want you to flush out your other objections right
14 now because we're going to be ready to go, and you're going to
15 do the same briefing schedule the plaintiffs are doing. You're
16 going to have a meet and confer by Monday night. And then you
17 just do the flipside of that brief, of their briefing, which
18 is -- what's the flipside of -- Allison, what's the flipside?

19 Meet and confer by Monday night.

20 MR. BROOKS: It is still defendants's motion.

21 MS. MEHDI: It is still defendants's motion, your
22 Honor.

23 MR. DEMBROW: To say that same schedule.

24 THE COURT: We have to know what you're -- I mean, no,
25 it is you are objecting, right.

1 MS. MEHDI: We already did that though.

2 MR. BROOKS: If they are --

3 THE COURT: So then I guess it is. It is the same
4 thing. So you are -- what's the matter -- you meet and confer
5 by Monday night on this. Then --

6 (Discussion off the record.)

7 THE COURT: 12-22.

8 Response 12-29.

9 THE CLERK: Reply January 3rd.

10 THE COURT: So any objection plaintiffs have, other
11 than counting, is going to be -- and then we'll be ready to go.

12 MS. MEHDI: Right.

13 THE COURT: I assume when I call Judge Guzman, first
14 of all, on the counting one, they can probably -- they have
15 been on trial for three weeks in this huge trademark case. But
16 I'm assuming that's the one motion he can probably crank out.

17 MS. MEHDI: Your Honor, and in an equal manner, when
18 E&Y, the motion -- their objection gets -- your order gets
19 affirmed, in seven days they will be providing us all the
20 documents, including those from E&Y? Because, you know, we
21 need to then schedule the deposition with E&Y. The same
22 standards apply.

23 MS. BEST: It is a completely separate issue, your
24 Honor.

25 THE COURT: No, that is completely different than

1 counting. Okay? And the E&Y -- the E&Y might be -- that
2 deposition might be after January 31st.

3 MS. MEHDI: Okay.

4 THE COURT: That's a very complicated issue. I mean,
5 this is something that might happen. Okay? Wilmer and Cutler
6 and E&Y, you guys may be doing your expert disclosures at the
7 same time that issue -- and, of course, I'm going to give you
8 enough time.

9 MS. MEHDI: Okay.

10 THE COURT: Okay? I am. I'm going to give you enough
11 time. This is boilerplate stuff here.

12 MS. MEHDI: Okay.

13 THE COURT: And it is boilerplate, frankly, that
14 should have been ruled on a long time ago, so we'll try to get
15 you -- an issue on that, if you have one. What I am trying to
16 do actually, Ms. Mehdi, is respect your objections. And if you
17 have got other valid objections, we'll deal with them, and
18 we'll still get you the information, hopefully, in time for
19 your 20 depositions in January.

20 MS. MEHDI: Thank you, your Honor.

21 MR. DEMBROW: Your Honor, can I ask just one more
22 thing?

23 THE COURT: Oh, sure.

24 MR. DEMBROW: I --

25 THE COURT: Quick. Quick. I have got two more cases.

EXHIBIT 5

1 **TRANSCRIBED FROM DIGITAL RECORDING**

2 IN THE UNITED STATES DISTRICT COURT
3 NORTHERN DISTRICT OF ILLINOIS
4 EASTERN DIVISION

4 LAWRENCE E. JAFFE, Pension Plan, on) No. 02 C 5893
5 behalf of itself and all others)
6 similarly situated, and GLICKENHAUS)
7 INST GRP.,)

6 Plaintiffs,)

7 vs.)

8 HOUSEHOLD INTERNATIONAL, INC., ARTHUR)
9 ANDERSEN, L.L.P., W F ALDINGER, and)
10 D A SCHOENHOLD,) Chicago, Illinois
11 Defendants.) January 10, 2007
12) 10:45 A.M.

12 TRANSCRIPT OF PROCEEDINGS - Status
13 BEFORE THE HONORABLE NAN R. NOLAN, Magistrate Judge

13 APPEARANCES:

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25 **NOTE: Please notify of correct speaker identification.
FAILURE TO STAND NEAR THE MICROPHONE MAKES SOME PORTIONS
INAUDIBLE.**

1 **APPEARANCES: (Continued)**

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1 documents relating to valuation.

2 THE COURT: And I have -- we haven't decided that.
3 But it is fully briefed.

4 THE CLERK: (Unintelligible).

5 THE COURT: Okay. So that's good.

6 Okay. And then everything else on that motion is
7 finished.

8 Okay. Here's what I want to get finished before
9 lunch. Okay? So anybody want to -- I'm assuming nobody has
10 anybody else to say on that (unintelligible). Correct?

11 MR. BAKER: Correct.

12 THE COURT: Okay. Let's go on to the motion to compel
13 responses to the fourth set of interrogatories. Okay?

14 So there are actually two motions. One is Document
15 Number 852, Court Document 852, and Court Document 857, which
16 was filed a little bit after the 1st. It is defendants's
17 motion to compel responses to the fourth set. And then we have
18 defendants's motion for sanctions and to compel responses to
19 supplemental interrogatories authorized by the court's August
20 10th, 2006, order.

21 Okay. So we'll do first the 852. This covers
22 Interrogatories 35 through 43, though plaintiffs say the
23 numbering should be 129 through 137 and asks us to count these
24 interrogatories. Okay.

25 As we understand the plaintiffs state they will

1 respond to 41, 42, and 43 if Judge Guzman affirms the Court's
2 previous counting.

3 Am I right on that?

4 MR. BAKER: That's correct, your Honor.

5 THE COURT: Okay. So the next is 36. The only thing
6 left from that then is 36 through 39. All ask what facts
7 plaintiffs contend would have been necessary and sufficient if
8 disclosed to inform the market of illegal predatory lending,
9 re-aging, improper accounting, and restructure policies.

10 These do seem to impose -- okay -- the objection is
11 that they are asking hypothetical questions, okay, and that it
12 is wrong.

13 Now hold on.

14 Allison, what do I have to -- then I go over here.

15 Okay. So the plaintiffs's objection is first, number
16 one, that it is over the number that was allowed counting.

17 And number two is that they are asking a hypothetical
18 question. And the plaintiffs also object because there is no
19 time limitation. And the plaintiffs think there are ambiguous
20 terms. And they finally argue that once they respond to 41
21 through 43 they will have effectively responded to 36 to 40,
22 which are cumulative, and they also claim that they are
23 going -- 129 is cumulative. Okay?

24 All right. Here's what we have done because we don't
25 know with the time left in this case any other way to really do

1 this. Where is 39 though? What -- did I do --

2 (Discussion off the record.)

3 THE COURT: Okay. So we're ruling that 35 and 40
4 should be answered as written, which is identify all documents
5 and alleged facts that -- 35 is alleged facts that plaintiffs
6 contend support their statement and plaintiffs (unintelligible)
7 a brief that August 14th, 2002, was a date that investors began
8 to learn of the true facts about Household's financial and
9 operating condition concealed by the multi-component fraud
10 scheme. And we think you should answer this as written.

11 I want to say for this record that back in -- when I
12 allowed -- when we allowed these contention interrogatories to
13 be answered at the end of the case, inherent in my ruling was
14 but for something really outrageous, really outrageous you were
15 going to answer these interrogatories because I realize that
16 the defendants had not been given any depositions, and I
17 thought it was fair to the class to say we were to postpone
18 this. But I want you to know that I firmly believe that the
19 class isn't -- I mean, that the defendants are entitled, so I
20 want you to answer 35 and 40.

21 On 36, 37, 38, and 39, I agree with some of your
22 comments, which I don't think hypothetical questions are
23 probably in order. So we actually in light of the time have
24 gone back and reworded. What we have done is we have reworded
25 what we're going to order answered. So 36, 37, 38, and 39 are

1 Household's language. We basically took out the first --

2 THE CLERK: No, no, no.

3 THE COURT: No, not on that one? Okay. No, then what
4 -- thank you.

5 We have actually reworded them.

6 36 now says, and we'll put this in the order, you are
7 to identify the particular facts Household failed to disclose
8 to the market regarding its, quote, its purported, quote,
9 illegal predatory lending practices as alleged in part VI.A of
10 the complaint.

11 I don't know if that's exactly what Household wanted,
12 but I know that's a proper contention interrogatory.

13 37, identify the particular facts Household failed to
14 disclose to the market regarding its purportedly, quote,
15 improper re-aging or restructuring of delinquent accounts as
16 alleged in part V -- VI.B of the complaint.

17 38 now reads, identify the particular facts Household
18 failed to disclose to the market regarding its purported
19 improper accounting of costs associated with various credit
20 card co-branding, affinity, and marketing agreements as alleged
21 in part VI.

22 And, 39, you are to order, identify any facts
23 Household failed to disclose to the market regarding its
24 restructure policy and practice.

25 Probably nobody is happy with this, but that's the

1 these document requests are -- yeah. And they -- and the other
2 ones are due a week from Friday.

3 Then we have all of these interrogatory answers for
4 plaintiffs to do.

5 Make that a week from Friday, the 19th, I think, too.

6 MR. BAKER: Then we're talking about the supplemental
7 set.

8 THE COURT: That's -- okay. Hold on. Hold. Because
9 that's -- that is the other issue we have down as the fifth set
10 of interrogatories.

11 (Discussion off the record.)

12 THE COURT: All right. So you're going to get -- what
13 we're going to do, just look in the -- I'm going to call Judge
14 Guzman on 41, 42, and 43 and Interrogatory 35 and 40. Okay?
15 Those all are within five days of Judge Guzman's ruling. Okay?

16 The motion for sanctions and to compel responses,
17 those we're making a week from Friday. We're trying to be
18 consistent here. That would be January 19th. Those are the
19 supplement -- the five supplemental --

20 MR. BAKER: January 14, your Honor, was a
21 (unintelligible). Okay?

22 THE COURT: And you're going to get this all in
23 writing tomorrow.

24 MR. BAKER: Okay.

25 THE COURT: And then we have improperly withheld

1 Document 885 -- what is that, Allison? I'm sorry.

2 (Discussion off the record.)

3 THE COURT: Oh, a briefing schedule on that one.

4 Okay.

5 885, this is the briefing schedule. Okay?

6 All right. We'll have this order then. It seems like
7 everybody can live with this.

8 There is one more thing, and my poor settlement
9 conference here that I had to shove off. Here, the last thing
10 is the -- somebody wanted me to give a warning to the other
11 side about the -- oh, defendants wanted me to tell the
12 plaintiffs there is a fifth set of interrogatories coming, and
13 your answers are due January 24th.

14 I want to say to you, again, if -- if these
15 interrogatories are even conceivably part of the request that
16 your -- your request, that I put them off till the end of
17 January, please do not come in here with generic answers
18 because I'm going to be very unhappy with you because I'm
19 telling you I would never have let this happen if I did not
20 think that you were going to fully answer me because it is the
21 end of discovery here.

22 MR. BAKER: Your Honor, I appreciate that. And I will
23 say I haven't spent a lot of time looking at those
24 interrogatories, but I looked at the first one. And as your
25 Honor knows we have had a number of issues with the defendants

1 drafting of their interrogatories. They have not --

2 THE COURT: All right.

3 MR. BAKER: -- done it very well. Like I say I don't

4 --

5 THE COURT: I agree with you. And now after today,
6 and after you get this order with the way I reworded them, you
7 can probably bet I'm going to do something pretty consistent
8 with that.

9 MR. BAKER: Well --

10 THE COURT: So you call them up say how about if I
11 rephrase one, will you take it?

12 MR. BAKER: Okay. Well, I think that's --

13 THE COURT: Either that or what I get in their set of
14 interrogatories is I object, I object, I object, but. And then
15 you answer it. Okay? What did you in all of the sets I have
16 now is you didn't answer anything.

17 MR. BAKER: Well, there is a set that you -- that you
18 rewrote, your Honor. I believe we answered -- we have
19 voluminous answers.

20 But, anyway, we will go look at -- I have to say
21 January 24th, I know it is coming up soon. But as your Honor
22 knows, we have quite a busy schedule. And I can't predict when
23 we will get around to calling the defendants and saying --

24 THE COURT: Well, I want you to do it because this is
25 their discovery from you.

1 MR. BAKER: We will -- we will, your Honor.

2 THE COURT: And I want to make that as much of a
3 priority as I have had to make all of the discovery that you
4 wanted from them.

5 MR. BAKER: We will (unintelligible) two things, your
6 Honor. We will do what you say, which is call them up in
7 advance and say we don't understand this, we think this is the
8 right way to read this question, we're going to answer this
9 one, or I think this is probably more likely, but the second
10 thing you said, which was, object, object, object. We think
11 this interrogatory clearly calls for this information and just
12 answer it, so avoid the dialog back and forth.

13 THE COURT: Well, I'd like you to first try and say
14 can we do it, what Nolan said and --

15 MR. BAKER: These are different interrogatories, your
16 Honor.

17 THE COURT: No, I understand. Okay.

18 MR. BROOKS: Your Honor, this is Luke Brooks here in
19 San Francisco.

20 We understand that these interrogatories also are
21 subject right before the (unintelligible) to Judge Guzman's
22 objection -- ruling on the objection --

23 THE COURT: You're going to get -- Mr. Brooks,
24 probably by Friday we're going to have a ruling. I'm calling
25 Judge Guzman myself, okay, and say I need a ruling, period. I

1 think this is the easiest of all of the issues that are before
2 him, and we're going to get an end to that. Okay?

3 MR. BAKER: Your Honor, if I could ask you to urge him
4 to rule on all the issues because --

5 THE COURT: Well --

6 MR. BAKER: -- I mean I (unintelligible)? Okay.

7 THE COURT: I'm not because I -- I mean, I -- but this
8 one is -- you know, I want these interrogatories. And, I mean,
9 of course I would like that, but I -- I like my job more, so --

10 MR. KAVALER: (Unintelligible).

11 (Laughter.)

12 MR. KAVALER: This morning when we were before Judge
13 Guzman, I hear those words out of his mouth and Judge Guzman's
14 words.

15 THE COURT: They know me better, that's all.

16 MR. BAKER: (Unintelligible). All this stuff, your
17 Honor, does pertain --

18 THE COURT: I --

19 MR. BAKER: -- finish discovery --

20 THE COURT: I understand. But I am going to -- the
21 reason Judge Guzman did what he did is, you know, if nothing
22 else he can say about me, I will allow you time to do your
23 work. So if you get the ruling on the 29th of January, I'm
24 going to -- and he allows more discovery, I'm going to give you
25 time to do it.

1 He did a very smart thing there, he dumped it back on
2 me. Right?

3 Okay. I think we are finished. The only thing we
4 need to do is have another status. We have to give you the
5 opinion -- we have an opinion here for you.

6 Are you back in Chicago on any other depositions?

7 MR. BAKER: I don't believe so, your Honor.

8 MS. MEHDI: No, we are next week.

9 THE COURT: Oh. That's too soon.

10 MR. BAKER: No, the ones after that I believe --

11 MS. MEHDI: There is Kay Curtin in Chicago on the
12 25th.

13 THE COURT: Oh, the 25th?

14 MS. MEHDI: Is it the -- yeah, the 25th.

15 THE COURT: Okay. What time is the deposition?

16 MS. MEHDI: We usually start at 9:00, your Honor.

17 THE COURT: All right. Why don't we do 4:30.

18 MS. BEST: What date was that, your Honor?

19 THE COURT: The 25th. Will the deposition be over at
20 4:30?

21 MS. MEHDI: Well, your Honor, I think that this
22 probably -- either the day before or the day after would be
23 better for us.

24 THE COURT: We have a special -- we have a special
25 event --

EXHIBIT 6

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

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

**LEAD PLAINTIFFS' AMENDED OBJECTIONS AND RESPONSES TO HOUSEHOLD
DEFENDANTS' [FIFTH] SET OF INTERROGATORIES TO LEAD PLAINTIFFS
PURSUANT TO THE JANUARY 10 AND 19, 2007 ORDERS**

Pursuant to Fed. R. Civ. P. 26 and 33 as well as Civil L.R. 33.1, Glickenhau & Company, PACE Industry Union-Management Pension Fund and International Union of Operating Engineers Local No. 132 Pension Plan (collectively, "Lead Plaintiffs"), hereby respond and object to Household Defendants' [Fifth] Set of Interrogatories to Lead Plaintiffs (the "Interrogatories"). All responses contained herein are based only upon such information and documents presently available and specifically known to Lead Plaintiffs. Further independent discovery, independent investigation, legal research and analysis may supply additional facts and/or add meaning to the known facts. Moreover, the responses below are given without prejudice to Lead Plaintiffs' right at trial or other proceedings to produce evidence of any subsequently discovered fact or facts that may later develop.

I. GENERAL OBJECTIONS

Lead Plaintiffs generally object to the Interrogatories on the following grounds, each of which is incorporated by reference in the responses to the individual interrogatories below. All responses set forth herein are subject to and without waiver of any of these General Objections:

1. Lead Plaintiffs object to the Interrogatories because they are improperly designated as "Third Set of Interrogatories." Defendants Household International, Inc. and Household Finance Corporation ("Household" or the "Company") served six interrogatories on each of the Lead Plaintiffs on July 30, 2004. Also on July 30, 2004, Individual Defendants William F. Aldinger, David A. Schoenholz, Gary Gilmer and J.A. Vozar served four interrogatories on each of the Lead Plaintiffs. Then, on January 23, 2006, defendants served four interrogatories on each of the Lead Plaintiffs, which constituted the Third Set. Later, on February 14, 2006 defendants served their "second" set of Interrogatories, *i.e.*, the Fourth Set. In responding to these Interrogatories, Lead Plaintiffs have designated them as the Fifth Set of Interrogatories, which properly reflects the sequence of this set in the discovery propounded on Lead Plaintiffs.

2. Lead Plaintiffs object to the Interrogatories because defendants have served more than

the 85 interrogatories permitted by the Court. Prior to propounding these Interrogatories, defendants had already served at least 128 interrogatories. Lead Plaintiffs maintain their objection to the manner in which defendants and the Court have counted interrogatories, which has resulted in depriving the Class of at least 30 interrogatories. Lead Plaintiffs believe this is clearly an error and preserve their objection for appeal.

3. Lead Plaintiffs object to the Interrogatories because they are incorrectly numbered. Based on not less than 128 interrogatories previously served by the defendants (noted above) the numbering of the Interrogatories is inaccurate. Thus, these Interrogatories have been renumbered to reflect the proper sequence and number of interrogatories propounded thus far.

4. Lead Plaintiffs object to the Interrogatories on the grounds that they are compound, contain subparts, and inquire into numerous discrete substantive areas.

5. Lead Plaintiffs object to the Interrogatories because the defendants have not observed proper service requirements pursuant to Fed. R. Civ. P. 5 and Civil L.R. 5.5(a)-(b) in serving the Interrogatories on Lead Plaintiffs. Defendants failed to attach a proof of service to their Interrogatories. The defects in service render these Interrogatories null and void.

6. Lead Plaintiffs object to the Interrogatories on the grounds that discovery has not yet been completed and a significant number of depositions, including those of Individual Defendants, former auditor defendant Arthur Andersen and numerous third parties are yet to be taken. Defendants are in possession, custody and control of some or all of the information required by the Lead Plaintiffs to respond to contention interrogatories. Significantly, because the Individual Defendants have refused to answer the discovery propounded by the Class, directing the Class to wait until the depositions of the Individual Defendants, so too must the facts relating to the Individual Defendants in response to these Interrogatories await the depositions of the Individual

Defendants. Accordingly, any requirement to respond to the contention interrogatories contained in this set are premature.

7. Lead Plaintiffs object to the Interrogatories because they seek to impose obligations on them beyond those imposed by the Federal Rules of Civil Procedure and the Local Civil Rules.

8. Lead Plaintiffs object to the Interrogatories because they call for the disclosure of information protected by the attorney-client privilege, the attorney work product doctrine and/or any other applicable privilege or protection. Such responses that may occur pursuant to the Interrogatories shall not include any information protected by such privileges or doctrines. Inadvertent production of any such information is not intended to be, and shall not operate as, a waiver of any applicable privilege, protection, or immunity, in whole or in part.

9. Lead Plaintiffs object to the Interrogatories because they seek information that is neither relevant to the claims or defenses of any party, nor reasonably calculated to lead to the discovery of admissible evidence.

10. Lead Plaintiffs object to the Interrogatories because they impose a duty to seek out information and documents which are not in Lead Plaintiffs' possession, custody or control.

11. Lead Plaintiffs object to the Interrogatories because they are overly broad, unduly burdensome, harassing, and vexatious.

12. Lead Plaintiffs object to these Interrogatories on the grounds that defendants have failed to identify any time period for these responses.

13. Lead Plaintiffs object to these Interrogatories on the grounds that the requirement that Lead Plaintiffs identify "all" documents and facts is contrary to the Court's November 10, 2005 Order. Lead Plaintiffs will provide responses based upon such facts as are currently known to them.

14. Lead Plaintiffs object to the Interrogatories because defendants have failed to provide evidence of the documents that were destroyed throughout the entire Company pursuant to the

“purge” that occurred in mid-2001, the knowing destruction of documents by certain of the defendants related to Andrew Kahr, as well as the destruction of documents and spoliation of other relevant evidence that occurred both during and after the Class Period. Lead Plaintiffs cannot fully respond to the Interrogatories due to defendants’ spoliation of evidence. Lead Plaintiffs will provide responses based upon such facts as are currently known to them.

15. Lead Plaintiffs object to the Interrogatories because they fail to state with sufficient particularity the information to be provided.

16. Lead Plaintiffs object to the Interrogatories because they are so vague, ambiguous, complex or confusing as to make a meaningful or complete response impossible. Accordingly, responses provided herein are based upon Lead Plaintiffs’ best understanding of the information defendants are attempting to elicit from the Lead Plaintiffs, without prejudice to Lead Plaintiffs’ right to amend, modify or revise their responses in the future.

17. Lead Plaintiffs object to the definition of “identify” as overly broad, unduly burdensome and harassing.

18. Lead Plaintiffs object to the Interrogatories because they call for a legal conclusion, or a legal argument that is invasive of the attorney work product doctrine.

19. Lead Plaintiffs object to the Interrogatories because they seek information that may be protected by the right to privacy recognized under the United States Constitution, or any other federal or state law.

20. Lead Plaintiffs object to the Interrogatories as overly broad and unduly burdensome because they provide no limitation as to time.

21. Lead Plaintiffs object to the Definitions and Instructions because they are overly broad, vague, ambiguous, compound, and render each interrogatory unintelligible.

22. Lead Plaintiffs object to the Definitions and Instructions because they seek to impose obligations on Lead Plaintiffs beyond those imposed by the Federal Rules of Civil Procedure and the Local Civil Rules.

23. Lead Plaintiffs further object to the Definitions and Instructions because they impose a duty to seek out information which is not in Lead Plaintiffs' possession, custody or control.

24. Lead Plaintiffs object to the Definitions and Instructions because they call for the disclosure of information protected by the attorney-client privilege and/or the attorney work product doctrine and are unduly burdensome.

25. Lead Plaintiffs object to Definition and Instruction No. 12 because it seeks to impose obligations upon Lead Plaintiffs beyond those imposed by Fed. R. Civ. P. 26. Lead Plaintiffs do not interpret Fed. R. Civ. P. 26 obligations to be "continuing." Lead Plaintiffs reserve the right to supplement these Objections and Responses with new information as and when it becomes available pursuant to their obligations under Fed. R. Civ. P. 26(e).

26. Lead Plaintiffs' decision to provide information, notwithstanding the objectionable nature of any of the Interrogatories themselves, should not be construed as: (a) an admission that the material is relevant; (b) a waiver of the General Objections or the objections asserted in response to a specific interrogatory; or (c) an agreement that an interrogatory for similar information in this or any other related proceedings will be treated in a similar manner.

27. In responding to the Interrogatories, Lead Plaintiffs do not in any way waive or intend to waive any privilege or objection, but rather intend to preserve and specifically preserve the following: all objections as to the competency, relevancy, materiality and admissibility of any interrogatory, Lead Plaintiffs' response, or the subject matter; all objections as to vagueness, ambiguity or other infirmity in the form of the Interrogatories and any objections based on the undue burden imposed by the Interrogatories; all rights to object on any ground to the use of any of the

responses, or their subject matter, in any subsequent proceedings, including the trial of this or any other action; all rights to object on any ground to any further document requests or interrogatories or other discovery requests involving or related to the subject matter of the Interrogatories; the right to supplement responses to the Interrogatories prior to trial; and any and all privileges and/or rights under the applicable rule under the Federal Rules of Civil Procedure or other statutes, guidelines or common law.

28. The failure to object on a particular ground or grounds shall not be construed as a waiver of Lead Plaintiffs' right to object on any additional grounds.

29. References to a document identification number shall be deemed to refer to the entire document of which it is a constituent part.

30. References to documents in response to a particular interrogatory shall also be deemed to be responsive to any other interrogatory to which it reasonably relates.

31. Lead Plaintiffs reserve the right to supplement and/or amend the specific objections and responses set forth herein consistent with Fed. R. Civ. P. 26.

II. SPECIFIC RESPONSES TO INTERROGATORIES

INTERROGATORY NO. 129 [29]¹:

Identify all documents and alleged facts that Plaintiffs contend support their statement in Plaintiffs' *Foss* Brief that "plaintiffs' claims did not arise until at least August 14, 2002, the earliest date that plaintiffs could have discovered the essential facts underlying defendants' fraud." Plaintiffs' *Foss* Brief at 8; *see also* Plaintiffs' *Dura* Brief at 10.

RESPONSE TO INTERROGATORY NO. 129 [29]:

Lead Plaintiffs hereby incorporate all the General Objections above, as if fully set forth herein. Lead Plaintiffs object to this interrogatory on the grounds that it is vague and ambiguous. Additionally, Lead Plaintiffs object to this interrogatory on the grounds that defendants' quotation of plaintiffs' legal argument is both incomplete and taken out of context, rendering the interrogatory incomprehensible. Lead Plaintiffs also object to this interrogatory on the grounds that it consists of multiple interrogatories in that identification of documents and identification of facts are two separate interrogatories. Lead Plaintiffs further object to this interrogatory as not reasonably calculated to lead to the discovery of relevant or admissible evidence, particularly as the Court has granted the Household Defendants' *Foss* motion and ruled that for statute of repose purposes, plaintiffs' claims arose on the date of defendants' misrepresentation or omission in connection with the sale or purchase of a security, and not upon inquiry notice. In light of the Court's ruling, there is no apparent motive for propounding this interrogatory other than to unduly harass and burden the plaintiffs. Lead Plaintiffs also object to this interrogatory as duplicative and unduly cumulative of other interrogatories in this set, including the next two interrogatories. These objections were granted by the Court's September 19, 2002 Order.

¹ Numbers in brackets represent the numbers ascribed by defendants to their interrogatories. As noted in General Objections 1-4, *supra*, Lead Plaintiffs have renumbered the Interrogatories to reflect the appropriate sequence and number of subparts, by adopting defendants and the Court's manner of counting interrogatories.

INTERROGATORY NO. 130 [30]:

Identify all documents and alleged facts that Plaintiffs contend demonstrate that the market or any member of the class became aware of the alleged fraud on any day prior to August 14, 2002.

RESPONSE TO INTERROGATORY NO. 130 [30]:

Lead Plaintiffs hereby incorporate all the General Objections above, as if fully set forth herein. Lead Plaintiffs object to this interrogatory as premature on two independent grounds. First, Household has not identified all Disclosures on this topic. Indeed, Household has refused to answer Lead Plaintiffs' interrogatories that specifically request the identification of public statements made by Household. See Responses to Interrogatory Nos. 28, 34 and 39. Second, this interrogatory seeks information that is the subject of expert testimony. Lead Plaintiffs object to this interrogatory on the grounds that it is compound and asks for the identification of documents and identification of facts. Additionally, as posed, this interrogatory incorporates a third interrogatory seeking the identification of whether Lead Plaintiffs are contending notice prior to August 14, 2002. Lead Plaintiffs also object to this interrogatory as this request is vague and ambiguous with respect to the fraud at issue and the derivation of the assertion that Lead Plaintiffs have contended notice of the fraud prior to August 14, 2002. Lead Plaintiffs further object to this interrogatory on the grounds that it seeks discovery pertaining to individual class members prematurely and in violation of prior Court orders.

Additionally, Lead Plaintiffs object to this interrogatory on the grounds that it cannot be fully answered until discovery has been substantially completed. Although fact-discovery cut-off is scheduled for January 31, 2007, defendants are still producing responsive documents notwithstanding their improper and evasive certification that their document production is complete. Defendants have also failed to log documents on privilege logs despite improperly withholding and/or redacting responsive documents in violation of Fed. R. Civ. P. 26. Further, defendants have objected to producing documents and/or deposition testimony from a number of witnesses that defendants have identified as having knowledge of facts relevant to this litigation. In addition, the

Individual Defendants have refused to respond to the discovery propounded on them by the Class, directing the Class instead to wait until after their depositions to obtain information relevant to this litigation from the Individual Defendants. Three of the Individual Defendants have yet to be deposed. Lead Plaintiffs will provide responses based upon such facts as are currently known to them. Lead Plaintiffs reserve the right, as necessary and appropriate, to supplement, amend, modify or revise their response to this interrogatory consistent with their obligations under Fed. R. Civ. P. 26(e).

Lead Plaintiffs also object to this interrogatory as vague and ambiguous, unduly burdensome and harassing and not reasonably calculated to lead to the discovery of admissible evidence. As defendants are aware, the applicable legal standard regarding loss causation does not require a corrective disclosure. This interrogatory incorrectly and improperly presupposes a requirement that in order for the Class members to suffer a loss, defendants' fraudulent scheme must first have been fully disclosed to the market.

Subject to and specifically incorporating the foregoing General and Specific Objections, and without waiving them, Lead Plaintiffs respond to this interrogatory as follows:

The full magnitude of defendants' fraud did not become known to the market prior to August 14, 2002. Certain limited facts regarding the nature of Household's operational and financial condition began to leak into the market in late 2001. Each time negative information about Household was disclosed, however, defendants were swift to react with additional false statements in furtherance of the fraud. For example, on November 15, 2001 the *Associated Press* and *Los Angeles Times* reported that the California Department of Corporations sued Household for \$8.5 million, alleging the Company engaged in predatory lending practices. The same day Household shares dropped \$2.00 per share. Household denied any misconduct: "We've been in business for 123 years. History has shown us you simply don't stay in business that long by taking advantage of your

customers. We make good loans to our customers who need them, and frankly have nowhere else to go. And we're proud of that." On November 16, 2001, UBS Warburg issued a report reiterating Household management's explanation that the suit against Household brought by the California Department of Corporations regarding over-billing was the result of a computer "glitch."

On December 3, 2001 *Barron's* and *Businessweek* (although the *Businessweek* article bears a date of December 10, 2001, it was available to the public on December 3, 2001) published articles criticizing Household's accounting policies, including its reaging and charge-off practices and policies. That day, Household shares dropped \$2.70 per share. Following publication of these articles, Household senior employees, including individual defendants William Aldinger and David Schoenholz held an emergency weekend meeting to work out a response strategy. That weekend Household began contacting analysts and shareholder groups to minimize the impact of the articles. To shore up investors, on December 4, 2001, defendant Aldinger spoke at an investor conference, where he directly addressed the concerns raised in the *Barron's* and *BusinessWeek* articles regarding the Company's accounting practices. The following day, UBS Warburg analyst J. McDonald maintained a "Buy" rating based on Aldinger's representations and issued a report on Household entitled "Management Remains Confident in Outlook." However, uncertainty regarding Household's loan restructuring activities and credit quality, combined with other allegations and admissions of misconduct caused Household's stock price to steadily decline during 2002. See Ex. A, attached hereto.

On February 6, 2002 the Dow Jones Newswire published a report on a *Wall Street Journal* article regarding an ACORN lawsuit against Household over the Company's lending practices. That day, Household shares dropped \$2.82 per share. Household denied the allegations and was quoted in the article as stating: "With ACORN, our efforts have been met with factually misleading allegations instead of constructive solutions." Five days later, on February 7, 2002, at the direction of the

Officer Defendants, Household spokesperson Megan Hayden-Hakes publicly stated, "We make good loans that not only are legal loans, but are beneficial for our customers." In addition, defendant Schoenholz publicly insisted that predatory lending practices were "not a significant issue, not indicative of any widespread problem and certainly not a concern that it will spread elsewhere." On April 22, 2002, again at the direction of the Officer Defendants, Hayden-Hakes told the press: "It is absolutely against our policy to in any way quote a rate that is different than what the true rate is I can't underscore that enough."

On May 7, 2002 a series of articles were published in various sources regarding Household's improper lending practices. That day, Household shares dropped \$0.93 per share. On May 14, 2002, the *St. Paul Pioneer Press* published Household's denial of allegations that Household misleads families about the terms of their loans.

At the same time Household was issuing such public denials regarding its predatory lending practices, defendants had also filed an injunction in Washington state court seeking to block the publication of the Washington Department of Financial Institutions ("DFI") report that detailed Household's predatory tactics. On May 30, 2002, the *New York Post* published an article regarding Household's attempts to block public access to the Washington DFI report. That day, Household shares dropped \$1.15 per share. In an *American Banker* article published on May 31, 2002, Household characterized the Washington DFI report as a "draft" with "factual errors" that Household wanted to correct and tried to downplay the situation, stating: "It is our regulators' and the attorney general's job to investigate any complaints brought forth by consumers in their state, and we don't find anything unique or surprising that they are doing their job [W]e take proper steps to work with the department to uncover the facts and if necessary formulate an appropriate resolution for the borrower." In the same article, Household admitted that some "customers in Bellingham may have indeed been justified in their confusion about the rate of their loans" and

claimed Household “took full and prompt responsibility” and is “satisfied that this situation was localized to the Bellingham branch.”

On July 26, 2002, the *Bellingham Herald* published an article detailing accusations that Household was engaged in predatory lending practices. That day, Household shares dropped \$1.14 per share. The Company told the *Bellingham Herald* it was “possible” that one or a small group of rogue employees isolated at one of its remote branches in Washington “may” have misrepresented mortgage terms to “some” Whatcom County homeowners who refinanced their home loans at the Company’s Bellingham office, but continued to insist that the problems were limited to a single branch. Lead Plaintiffs incorporate by reference their responses to all prior interrogatories served by defendants in this litigation.

INTERROGATORY NO. 131 [31]:

Identify the Disclosure(s) that Plaintiffs contend revealed to the market or any member of the class that Household was allegedly engaged in a “Fraudulent Scheme” involving “Illegal Predatory Lending Practices” as set forth in Part VI.A of the Complaint. (AC ¶¶ 50-106).

RESPONSE TO INTERROGATORY NO. 131 [31]:

Lead Plaintiffs hereby incorporate by reference all the General Objections above, as if fully set forth herein. Lead Plaintiffs object to this interrogatory as premature on two independent grounds. First, Household has not identified all Disclosures on this topic. Indeed, Household has refused to answer Lead Plaintiffs’ interrogatories that specifically request the identification of public statements made by Household. *See* Defendants’ Responses to Plaintiffs’ Interrogatory Nos. 28, 34 and 39. Second, the identification of Disclosures that “revealed to the market that Household was engaging in securities fraud relating to its predatory lending practices as alleged in Part VI.A of the Complaint” is the subject of expert testimony. Lead Plaintiffs also object to this interrogatory as compound on the grounds that it seeks discovery pertaining to the market and to individual class members. Additionally, any interrogatory with respect to individual class members is premature and

in violation of prior Court Orders. Lead Plaintiffs also object to this interrogatory as vague and ambiguous, unduly burdensome and harassing and not reasonably calculated to lead to the discovery of admissible evidence. As defendants are aware, the applicable legal standard regarding loss causation does not require a corrective disclosure. Lead Plaintiffs further object on the grounds that the complaint on file in this proceeding identifies certain instances in which there was public disclosure of Household's engagement in predatory lending practices as well as instances where Household specifically denied engaging in such practices. This complaint has been upheld by the Court as adequately alleging the facts necessary to support the element of loss causation.

Additionally, Lead Plaintiffs object to this interrogatory on the grounds that it cannot be fully answered until discovery has been substantially completed. Although fact-discovery cut-off is scheduled for January 31, 2007, defendants are still producing responsive documents notwithstanding their improper and evasive certification that their document production is complete. Defendants have also failed to log documents on privilege logs despite improperly withholding and/or redacting responsive documents in violation of Fed. R. Civ. P. 26. Further, defendants have objected to producing documents and/or deposition testimony from a number of witnesses that defendants have identified as having knowledge of facts relevant to this litigation. In addition, the Individual Defendants have refused to respond to the discovery propounded on them by the Class, directing the Class instead to wait until after their depositions to obtain information relevant to this litigation from the Individual Defendants. Three of the Individual Defendants have yet to be deposed. Lead Plaintiffs will provide responses based upon such facts as are currently known to them. Lead Plaintiffs reserve the right, as necessary and appropriate, to supplement, amend, modify or revise their response to this interrogatory consistent with their obligations under Fed. R. Civ. P. 26(e).

Lead Plaintiffs object on the grounds that the information sought by this investigation is properly the subject of expert testimony. Lead Plaintiffs also object to this interrogatory as vague and ambiguous, unduly burdensome and harassing and not reasonably calculated to lead to the discovery of admissible evidence. As defendants are aware, the applicable legal standard regarding loss causation does not require a corrective disclosure. This interrogatory incorrectly and improperly presupposes a requirement that in order for the Class members to suffer a loss, defendants' fraudulent scheme must first have been fully disclosed to the market.

Subject to and specifically incorporating the foregoing General and Specific Objections, and without waiving them, Lead Plaintiffs respond to this interrogatory as follows:

Certain limited facts regarding Household's operational and financial condition began to leak into the market in late 2001. Each time negative information about Household was disclosed, however, defendants were swift to react with additional false statements in furtherance of the fraud. For example, on November 15, 2001 the *Associated Press* and *Los Angeles Times* reported that the California Department of Corporations sued Household for \$8.5 million, alleging the Company engaged in predatory lending practices. That day, Household shares dropped \$2.00 per share. Household denied any misconduct: "We've been in business for 123 years. History has shown us you simply don't stay in business that long by taking advantage of your customers. We make good loans to our customers who need them, and frankly have nowhere else to go. And we're proud of that." On November 16, 2001, UBS Warburg issued a report reiterating Household management's explanation that the suit against Household brought by the California Department of Corporations regarding over-billing was the result of a computer "glitch."

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the article as stating: “With ACORN, our efforts have been met with factually misleading allegations instead of constructive solutions.” Five days later, on February 7, 2002, at the direction of the Officer Defendants, Household spokesperson Megan Hayden-Hakes publicly stated, “We make good loans that not only are legal loans, but are beneficial for our customers.” In addition, defendant Schoenholz publicly insisted that predatory lending practices were “not a significant issue, not indicative of any widespread problem and certainly not a concern that it will spread elsewhere.” On April 22, 2002, again at the direction of the Officer Defendants, Hayden-Hakes told the press: “It is absolutely against our policy to in any way quote a rate that is different than what the true rate is I can’t underscore that enough.”

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At the same time Household was issuing such public denials regarding its predatory lending practices, defendants had also filed an injunction in Washington state court seeking to block the publication of the Washington DFI report that detailed Household’s predatory tactics. On May 30, 2002, the *New York Post* published an article regarding Household’s attempts to block public access to the Washington DFI report. That day, Household shares dropped \$1.15 per share. In an *American Banker* article published on May 31, 2002, Household characterized the Washington DFI report as a “draft” with “factual errors” that Household wanted to correct and tried to downplay the situation, stating, “It is our regulators’ and the attorney general’s job to investigate any complaints brought forth by consumers in their state, and we don’t find anything unique or surprising that they are doing their job [W]e take proper steps to work with the department to uncover the facts and if necessary formulate an appropriate resolution for the borrower.” Household admitted that some

“customers in Bellingham may have indeed been justified in their confusion about the rate of their loans” and claimed Household “took full and prompt responsibility” and is “satisfied that this situation was localized to the Bellingham branch.”

On July 26, 2002, the *Bellingham Herald* published an article detailing accusations that Household was engaged in predatory lending practices. That day, Household shares dropped \$1.14 per share. The Company told the *Bellingham Herald* it was “possible” that one or a small group of rogue employees isolated at one of its remote branches in Washington “may” have misrepresented mortgage terms to “some” Whatcom County homeowners who refinanced their home loans at the Company’s Bellingham office, but continued to insist that the problems were limited to a single branch.

On September 2, 2002, *Forbes* published an article “Home Wrecker” which detailed allegations of predatory lending at Household. Household immediately sent a letter to *Forbes* denying the allegations. At the same time, Household sought to conceal from investors the fact that the Company was engaged in settlement talks with the Attorneys General (“AG”) Multi-State Working Group. As late as September 2, 2002 and despite the fact that settlement talks had been ongoing for months, defendants falsely stated that they were not aware of any pending enforcement actions or settlement talks.

On September 3, 2002, analyst Howard Mason of Sanford C. Bernstein & Co. published a report cutting growth estimates for Household based on anticipated sales practice reform at Household. That day, Household shares dropped \$2.75 per share.

On September 10, 2002, *The American Banker* published an article entitled “Reforms Seen Hurting Household’s Profits.” That day, Household shares dropped \$1.18 per share.

On October 4, 2002, the *Wall Street Journal* published an article entitled “Household May be Near Large Settlement” which discussed the AG’s year-long investigation into Household’s

predatory lending practices and indicated Household and the AG were nearing a \$350-\$500 million settlement. Household shares fell \$1.94 per share that day.

On October 11, 2002, Household issued a release announcing that, in addition to its most recent charge of \$600 million (pre-tax) to cover the cost of its restatement, the Company would now be forced to pay \$484 million (pre-tax) in restitution to customers nationwide (plus the cost of reimbursing the states for their investigation) to settle claims by a multistate group of attorney generals and banking regulators related to its predatory lending practices from January 1, 1999 through September 30, 2002. Lead Plaintiffs incorporate by reference their responses to all prior interrogatories served by defendants in this litigation.

INTERROGATORY NO. 132-133 [32]:

Identify the Disclosure(s) that Plaintiffs contend revealed to the market or any member of the class that Household was allegedly engaged in a “Fraudulent Scheme” involving “Improperly ‘Reaging’ Delinquent Accounts,” as set forth in Part VI.B of the Complaint. (AC ¶¶ 50, 107-133).

RESPONSE TO INTERROGATORY NO. 132-133 [32]:

Lead Plaintiffs hereby incorporate by reference all the General Objections above, as if fully set forth herein. Lead Plaintiffs object to this interrogatory as premature on two independent grounds. First, Household has not identified all Disclosures on this topic. Indeed, Household has refused to answer Lead Plaintiffs’ interrogatories that specifically request the identification of public statements made by Household. *See* Defendants’ Responses to Plaintiffs’ Interrogatory Nos. 28, 34 and 39. Second, the identification of Disclosures that “revealed to the market” that Household was engaging in securities fraud relating to its reaging of accounts and disclosure of credit quality metrics as alleged in Part VI.B of the Complaint is the subject of expert testimony. Lead Plaintiffs also object to this interrogatory as compound on the grounds that it seeks discovery pertaining to the market and to individual class members. Additionally, any interrogatory with respect to individual class members is premature and in violation of prior Court orders. Additionally, Lead Plaintiffs

object to this interrogatory as vague and ambiguous, unduly burdensome and harassing, and not reasonably calculated to lead to the production of admissible evidence. As defendants are aware, the applicable legal standard regarding loss causation does not require a corrective disclosure. Lead Plaintiffs further object on the grounds that the complaint on file in this proceeding identifies certain instances in which there was public disclosure of Household's engagement in improper reaging of delinquent accounts as well as instances where Household specifically denied engaging in such practices. This complaint has been upheld by the Court as adequately alleging the facts necessary to support the element of loss causation.

Additionally, Lead Plaintiffs object to this interrogatory on the grounds that it cannot be fully answered until discovery has been substantially completed. Although the fact-discovery cut-off is scheduled for January 31, 2007, defendants are still producing responsive documents notwithstanding their improper and evasive certification that their document production is complete. Defendants have also failed to log documents on privilege logs despite improperly withholding and/or redacting responsive documents in violation of Fed. R. Civ. P. 26. Lead Plaintiffs further object to this interrogatory because defendants have failed to provide evidence of the documents that were destroyed throughout the entire Company pursuant to the "purge" that occurred in mid-2001; the knowing destruction of relevant documents by certain of the defendants related to Andrew Kahr as well as the destruction of documents and spoliation of other relevant evidence that occurred both during and after the Class Period. Lead Plaintiffs' ability to fully respond to this interrogatory is limited due to defendants' spoliation of evidence. Lead Plaintiffs' response, thus, is based upon such facts as are currently known to them.

Further, defendants have objected to producing documents and/or deposition testimony from a number of witnesses that defendants have identified as having knowledge of facts relevant to this litigation. In addition, the Individual Defendants have refused to respond to the discovery

propounded on them by the Class, directing the Class instead to wait until after their depositions to obtain information relevant to this litigation from the Individual Defendants. Three of the Individual Defendants have yet to be deposed. Additionally, the depositions of Household's primary auditors during the Class Period have yet to occur. Further, expert discovery has not yet begun. Lead Plaintiffs will provide responses based upon such facts as are currently known to them. Lead Plaintiffs reserve the right, as necessary and appropriate, to supplement, amend, modify or revise their response to this interrogatory consistent with their obligations under Fed. R. Civ. P. 26(e).

Subject to and specifically incorporating the foregoing General and Specific Objections and without waiving them, Lead Plaintiffs further respond to this interrogatory as follows:

Certain limited facts regarding the nature of Household's operational and financial condition began leaking into the market – in late 2001. Each time negative information about Household was disclosed, however, defendants were swift to react with additional false statements in furtherance of the fraud. For example, on December 3, 2001 *Barron's* and *BusinessWeek* (although the *BusinessWeek* article bears a date of December 10, 2001, it was publicly available on December 3, 2001) published articles criticizing Household's accounting policies, including its reaging and charge-off practices and policies. That day, Household shares dropped \$2.70 per share. Following publication of these articles, Household senior employees, including individual defendants William Aldinger and David Schoenholz held an emergency weekend meeting to work out a response strategy. That weekend Household began contacting analysts and shareholder groups to minimize the impact of the articles. To shore up investors, on December 4, 2001, defendant Aldinger spoke at an investor conference, where he directly addressed the concerns raised in the *Barron's* and *Newsweek* articles regarding the Company's accounting practices. The following day, UBS Warburg analyst J. McDonald maintained a "Buy" rating based on Aldinger's representations and issued a report on Household entitled "Management Remains Confident in Outlook." However,

uncertainty regarding Household's loan restructuring activities and credit quality, combined with other allegations and admissions of misconduct caused Household's stock price to steadily decline during 2002. *See* Ex. A.

On March 19, 2003, Household issued a press release announcing that on March 18, 2003, it had agreed to the entry by the SEC of a consent order relating to Household's disclosures about its restructuring and other account management policies. The order included the SEC's findings that prior descriptions of Household's restructuring policies were inaccurate and violated the federal securities laws. Lead Plaintiffs incorporate by reference their responses to all prior interrogatories served by defendants in this litigation.

INTERROGATORY NO. 134 [33]:

Identify the Disclosure(s) that Plaintiffs contend revealed to the market or any member of the class that Household was allegedly engaged in a "Fraudulent Scheme" involving "Improper Accounting of Costs Associated With Various Credit Card Co-Branding, Affinity and Marketing Agreements" as set forth in Part VI.C of the Complaint. (AC ¶¶ 50, 134-155).

RESPONSE TO INTERROGATORY NO. 134 [33]:

Lead Plaintiffs hereby incorporate by reference all the General Objections above, as if fully set forth herein. Lead Plaintiffs object to this interrogatory as premature on two independent grounds. First, Household has not identified all Disclosures on this topic. Indeed, Household has refused to answer Lead Plaintiffs' interrogatories that specifically request the identification of public statements made by Household. *See* Defendants' Responses to Plaintiffs' Interrogatory Nos. 28, 34 and 39. Second, the identification of Disclosures at issue is the subject of expert testimony. Lead Plaintiffs also object to this interrogatory as compound on the grounds that it seeks discovery pertaining to the market and to individual class members. Additionally, any interrogatory with respect to individual class members is premature and in violation of prior Court orders. Additionally, Lead Plaintiffs object to this interrogatory as vague and ambiguous, unduly burdensome and harassing, and not reasonably calculated to lead to the production of admissible

evidence. As defendants are aware, the applicable legal standard regarding loss causation does not require a corrective disclosure. Lead Plaintiffs further object on the grounds that the complaint on file in this proceeding identifies certain instances in which there was public disclosure of Household's engagement in accounting fraud as well as instances where Household specifically denied engaging in such practices.

Additionally, Lead Plaintiffs object to this interrogatory on the grounds that it cannot be fully answered until discovery has been substantially completed. Although the fact-discovery cut-off is scheduled for January 31, 2007, defendants are still producing responsive documents notwithstanding their improper and evasive certification that their document production is complete. Defendants have also failed to log documents on privilege logs despite improperly withholding and/or redacting responsive documents in violation of Fed. R. Civ. P. 26. Lead Plaintiffs further object to this interrogatory because defendants have failed to provide evidence of the documents that were destroyed throughout the entire Company pursuant to the "purge" that occurred in mid-2001; the knowing destruction of relevant documents by certain of the defendants related to Andrew Kahr as well as the destruction of documents and spoliation of other relevant evidence that occurred both during and after the Class Period. Lead Plaintiffs' ability to fully respond to this interrogatory is limited due to defendants' spoliation of evidence. Lead Plaintiffs' response, thus, is based upon such facts as are currently known to them.

Further, defendants have objected to producing documents and/or deposition testimony from a number of witnesses that defendants have identified as having knowledge of facts relevant to this litigation. In addition, the Individual Defendants have refused to respond to the discovery propounded on them by the Class, directing the Class instead to wait until after their depositions to obtain information relevant to this litigation from the Individual Defendants. Three of the Individual Defendants have yet to be deposed. Additionally, the depositions of Household's primary auditors

during the Class Period have yet to occur. Further, expert discovery has not yet begun. Lead Plaintiffs will provide responses based upon such facts as are currently known to them. Lead Plaintiffs reserve the right, as necessary and appropriate, to supplement, amend, modify or revise their response to this interrogatory consistent with their obligations under Fed. R. Civ. P. 26(e).

Subject to and specifically incorporating the foregoing General and Specific Objections and without waiving them, Lead Plaintiffs further respond to this interrogatory as follows:

Although defendants were aware of accounting issues surrounding a number of their credit card agreements and had been informed that the Office of the Comptroller of the Currency had issues with the manner in which Household accounted for its AFL-CIO and Union Privilege contracts, it was not until 3Q02 or August 14, 2002, that defendants finally admitted that Household's earnings had been falsely reported for approximately eight and one-half years and that Household would take a \$600 million charge and restate its previously reported earnings for each and every quarter of the Class Period. This \$600 million (pre-tax) charge had the effect of wiping out \$386 million of earnings previously reported by the Company. The Company's release regarding the restatement was issued before the markets opened for trading, and when shares of Household opened, they immediately plunged to as low as \$32.09 per share – a decline of over \$4.71 per share relative to the prior day's close of \$37.80 per share. Lead Plaintiffs incorporate by reference their responses to all prior interrogatories served by defendants in this litigation.

INTERROGATORY NO. 135 [34]:

Identify each of the alleged "efforts by defendants to bolster the price of Household stock" referenced in ¶ 140 of the Complaint.

RESPONSE TO INTERROGATORY NO. 135 [34]:

Lead Plaintiffs hereby incorporate by reference all the General Objections above, as if fully set forth herein. Lead Plaintiffs object to this interrogatory as unduly burdensome to the extent it seeks identification of all such efforts. Lead Plaintiffs further object to this interrogatory as

premature on two independent grounds. First, Household has refused to answer Lead Plaintiffs' interrogatories that specifically request the identification of public statements made by Household that would fall within this interrogatory. *See Defendants' Responses to Plaintiffs' Interrogatory Nos. 28, 34 and 39.* Second, the identification of statements made by defendants on relevant topics that bolstered the stock price is the subject of expert testimony. Additionally, Lead Plaintiffs object to this interrogatory as vague, ambiguous, unduly burdensome and harassing.

Subject to and specifically incorporating the foregoing General and Specific Objections and without waiving them, Lead Plaintiffs further respond to this interrogatory as follows:

Household and the Individual Defendants engaged in ongoing activities designed to bolster the stock price of Household. These activities or efforts included numerous statements to analysts, investors, rating agencies and the press that misrepresented that the true state of Household's financial status as to each of the frauds alleged in the complaint and/or were intended to blunt the effect and impact of negative news on these subjects. Examples of such efforts are identified in the complaint, in Lead Plaintiffs' *Dura* brief and include, *inter alia*, statements made by Mr. Aldinger and others to investors and others subsequent to the December 2001 *Barron's* and *BusinessWeek* articles regarding Household's reaging policies as well as statements on that same subject made at the 2002 Financial Relations Conference. Another example is the August 14, 2002 press release where Household included the disclosure of the restatement with other items to mute the negative impact. Other efforts include campaigns to discredit and undercut critics of Household and its practices, including William Ryan and ACORN. The statements and campaigns at issue are referenced in numerous documents contained within Household's own document production and identification of each would be unduly burdensome on Lead Plaintiffs, particularly as Household has greater knowledge respecting its efforts and documents than Lead Plaintiffs do. Lead Plaintiffs

incorporate by reference their responses to all prior interrogatories served by defendants in this litigation.

DATED: January 29, 2007

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DECLARATION OF SERVICE BY EMAIL AND BY U.S. MAIL

I, the undersigned, declare:

1. That declarant is and was, at all times herein mentioned, a citizen of the United States and employed in the City and County of San Francisco, over the age of 18 years, and not a party to or interested party in the within action; that declarant's business address is 100 Pine Street, Suite 2600, San Francisco, California 94111.

2. That on January 29, 2007, declarant served by electronic mail and by U.S. Mail to the parties the: **LEAD PLAINTIFFS' AMENDED OBJECTIONS AND RESPONSES TO HOUSEHOLD DEFENDANTS' [FIFTH] SET OF INTERROGATORIES TO LEAD PLAINTIFFS PURSUANT TO THE JANUARY 10 AND 19, 2007 ORDERS.** The parties' email addresses are as follows:

<u>TKavaler@cahill.com</u> <u>PSloane@cahill.com</u> <u>PFarren@cahill.com</u> <u>LBest@cahill.com</u> <u>DOwen@cahill.com</u>	<u>NEimer@EimerStahl.com</u> <u>ADeutsch@EimerStahl.com</u> <u>MMiller@MillerLawLLC.com</u> <u>LFanning@MillerLawLLC.com</u>
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and by U.S. Mail to:

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I declare under penalty of perjury that the foregoing is true and correct. Executed this 29th day of January, 2007, at San Francisco, California.



MONINA O. GAMBOA

EXHIBIT 7

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

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

**LEAD PLAINTIFFS' AMENDED RESPONSES AND OBJECTIONS TO HOUSEHOLD
DEFENDANTS' [SEVENTH] SET OF INTERROGATORIES TO LEAD PLAINTIFFS
PURSUANT TO THE COURT'S JANUARY 10 AND 19, 2007 ORDERS**

Pursuant to Fed. R. Civ. P. 26 and 33 as well as Civil L.R. 33.1, Glickenhous & Company, PACE Industry Union-Management Pension Fund and International Union of Operating Engineers Local No. 132 Pension Plan (collectively "Lead Plaintiffs"), hereby respond and object to Household Defendants' [Seventh] Set of Interrogatories to Lead Plaintiffs (the "Interrogatories"). All responses contained herein are based only upon such information and documents presently available and specifically known to Lead Plaintiffs. Further independent discovery, independent investigation, legal research and analysis may supply additional facts and/or add meaning to the known facts. Moreover, the responses below are given without prejudice to Lead Plaintiffs' right at trial or other proceedings to produce evidence of any subsequently discovered fact or facts that may later develop.

I. GENERAL OBJECTIONS

Lead Plaintiffs generally object to the Interrogatories on the following grounds, each of which is incorporated by reference in the responses to the individual interrogatories below. All responses set forth herein are subject to and without waiver of any of these General Objections:

1. Lead Plaintiffs object to the Interrogatories because they are improperly designated as "Fourth Set of Interrogatories." Defendants Household International, Inc. and Household Finance Corporation ("Household" or the "Company") served six interrogatories on each of the Lead Plaintiffs on July 30, 2004. Also on July 30, 2004, Individual Defendants William F. Aldinger, David A. Schoenholz, Gary Gilmer and J.A. Vozar served four interrogatories on each of the Lead Plaintiffs. Then, on January 23, 2006, defendants served four interrogatories on each of the Lead Plaintiffs which constituted the Third Set. Later, on February 14, 2006, defendants served their "Second" set of interrogatories, *i.e.*, the Fourth set. On May 26, 2006, defendants served their "Third" set of interrogatories, *i.e.*, the Fifth set. Pursuant to the Court's August 10, 2006 Order, the Court permitted defendants to serve "up to five additional and more specific interrogatories." *See* August 10, 2006 Order at 17 (Docket No. 631). Defendants improperly styled the interrogatories

propounded pursuant to that Order as a "supplement" when in fact they were separate from, and in addition to, their prior interrogatories. Defendants served those additional interrogatories on September 15, 2006 and are properly considered defendants' Sixth Set of Interrogatories. As a consequence of the foregoing discovery, in responding to these Interrogatories, Lead Plaintiffs have designated them as the "Household Defendants' [Seventh] Set of Interrogatories to Lead Plaintiffs."

2. Lead Plaintiffs object to the Interrogatories because defendants have served more than the 85 interrogatories permitted by the Court. Prior to propounding these Interrogatories, defendants had already served at least 135 interrogatories. Lead Plaintiffs maintain their objection to the manner in which defendants and the Court have counted interrogatories, which has resulted in depriving the Class of at least 30 interrogatories. Lead Plaintiffs believe this is clearly an error and preserve their objection for appeal.

3. Lead Plaintiffs object to the Interrogatories because they are incorrectly numbered. Based on not less than 135 interrogatories previously served by the defendants (noted above) the numbering of the Interrogatories is inaccurate. Thus, these Interrogatories have been renumbered to reflect the proper sequence and number of interrogatories propounded thus far.

4. Lead Plaintiffs object to the Interrogatories on the grounds that they are compound, contain subparts, and inquire into numerous discrete substantive areas.

5. Lead Plaintiffs object to the Interrogatories because the defendants have not observed proper service requirements pursuant to Fed. R. Civ. P. 5 and Civil L.R. 5.5(a)-(b) in serving the Interrogatories on Lead Plaintiffs. Defendants failed to attach a proof of service to their Interrogatories. The defects in service render these Interrogatories null and void.

6. Lead Plaintiffs object to the Interrogatories on the grounds that discovery has not yet been completed and a significant number of depositions, including those of Individual Defendants, former auditor defendant Arthur Andersen and numerous third parties are yet to be taken.

Defendants are in possession, custody and control of some or all of the information required by the Lead Plaintiffs to respond to contention interrogatories. Significantly, because the Individual Defendants have refused to answer the discovery propounded by the Class, directing the Class to wait until the depositions of the Individual Defendants, so too must the facts relating to the Individual Defendants in response to these Interrogatories await the depositions of the Individual Defendants. Accordingly, any requirement to respond to the contention interrogatories contained in this set are premature.

7. Lead Plaintiffs object to the Interrogatories because they seek to impose obligations on them beyond those imposed by the Federal Rules of Civil Procedure and the Local Civil Rules.

8. Lead Plaintiffs object to the Interrogatories because they call for the disclosure of information protected by the attorney-client privilege, the attorney work product doctrine and/or any other applicable privilege or protection. Such responses that may occur pursuant to the Interrogatories shall not include any information protected by such privileges or doctrines. Inadvertent production of any such information is not intended to be, and shall not operate as, a waiver of any applicable privilege, protection, or immunity, in whole or in part.

9. Lead Plaintiffs object to the Interrogatories because they seek information that is neither relevant to the claims or defenses of any party, nor reasonably calculated to lead to the discovery of admissible evidence.

10. Lead Plaintiffs object to the Interrogatories because they impose a duty to seek out information and documents which are not in Lead Plaintiffs' possession, custody or control.

11. Lead Plaintiffs object to the Interrogatories because they are overly broad, unduly burdensome, harassing, and vexatious.

12. Lead Plaintiffs object to these Interrogatories on the grounds that defendants have failed to identify any time period for these responses.

13. Lead Plaintiffs object to these Interrogatories on the grounds that the requirement that Lead Plaintiffs identify “all” documents and facts is contrary to the Court’s November 10, 2005 Order. Lead Plaintiffs will provide responses based upon such facts as are currently known to them.

14. Lead Plaintiffs object to the Interrogatories because defendants have failed to provide evidence of the documents that were destroyed throughout the entire Company pursuant to the “purge” that occurred in mid-2001, the knowing destruction of documents by certain of the defendants related to Andrew Kahr, as well as the destruction of documents and spoliation of other relevant evidence that occurred both during and after the Class Period. Lead Plaintiffs cannot fully respond to the Interrogatories due to defendants’ spoliation of evidence. Lead Plaintiffs will provide responses based upon such facts as are currently known to them.

15. Lead Plaintiffs object to the Interrogatories because they fail to state with sufficient particularity the information to be provided.

16. Lead Plaintiffs object to the Interrogatories because they are so vague, ambiguous, complex or confusing as to make a meaningful or complete response impossible. Accordingly, responses provided herein are based upon Lead Plaintiffs’ best understanding of the information defendants are attempting to elicit from the Lead Plaintiffs, without prejudice to Lead Plaintiffs’ right to amend, modify or revise their responses in the future.

17. Lead Plaintiffs object to the definition of “identify” as overly broad, unduly burdensome and harassing.

18. Lead Plaintiffs object to the Interrogatories because they call for a legal conclusion, or a legal argument that is invasive of the attorney work product doctrine.

19. Lead Plaintiffs object to the Interrogatories because they seek information that may be protected by the right to privacy recognized under the United States Constitution, or any other federal or state law.

20. Lead Plaintiffs object to the Interrogatories as overly broad and unduly burdensome because they provide no limitation as to time.

21. Lead Plaintiffs object to the Definitions and Instructions because they are overly broad, vague, ambiguous, compound, and render each interrogatory unintelligible.

22. Lead Plaintiffs object to the Definitions and Instructions because they seek to impose obligations on Lead Plaintiffs beyond those imposed by the Federal Rules of Civil Procedure and the Local Civil Rules.

23. Lead Plaintiffs further object to the Definitions and Instructions because they impose a duty to seek out information which is not in Lead Plaintiffs' possession, custody or control.

24. Lead Plaintiffs object to the Definitions and Instructions because they call for the disclosure of information protected by the attorney-client privilege and/or the attorney work product doctrine and are unduly burdensome.

25. Lead Plaintiffs object to Definition and Instruction No. 12 because it seeks to impose obligations upon Lead Plaintiffs beyond those imposed by Fed. R. Civ. P. 26. Lead Plaintiffs do not interpret Fed. R. Civ. P. 26 obligations to be "continuing." Lead Plaintiffs reserve the right to supplement these Objections and Responses with new information as and when it becomes available pursuant to their obligations under Fed. R. Civ. P. 26(e).

26. Lead Plaintiffs' decision to provide information, notwithstanding the objectionable nature of any of the Interrogatories themselves, should not be construed as: (a) an admission that the material is relevant; (b) a waiver of the General Objections or the objections asserted in response to a specific interrogatory; or (c) an agreement that an interrogatory for similar information in this or any other related proceedings will be treated in a similar manner.

27. In responding to the Interrogatories, Lead Plaintiffs do not in any way waive or intend to waive any privilege or objection, but rather intend to preserve and specifically preserve the

following: all objections as to the competency, relevancy, materiality and admissibility of any interrogatory, Lead Plaintiffs' response, or the subject matter; all objections as to vagueness, ambiguity or other infirmity in the form of the Interrogatories and any objections based on the undue burden imposed by the Interrogatories; all rights to object on any ground to the use of any of the responses, or their subject matter, in any subsequent proceedings, including the trial of this or any other action; all rights to object on any ground to any further document requests or interrogatories or other discovery requests involving or related to the subject matter of the Interrogatories; the right to supplement responses to the Interrogatories prior to trial; and any and all privileges and/or rights under the applicable rule under the Federal Rules of Civil Procedure or other statutes, guidelines or common law.

28. The failure to object on a particular ground or grounds shall not be construed as a waiver of Lead Plaintiffs' right to object on any additional grounds.

29. References to a document identification number shall be deemed to refer to the entire document of which it is a constituent part.

30. References to documents in response to a particular interrogatory shall also be deemed to be responsive to any other interrogatory to which it reasonably relates.

31. Lead Plaintiffs reserve the right to supplement and/or amend the specific objections and responses set forth herein consistent with Fed. R. Civ. P. 26.

II. RESPONSES TO INTERROGATORIES

INTERROGATORY NO. 136 [35]¹:

Identify all documents and alleged facts that Plaintiffs contend support their statement in Plaintiffs' *Dura* Brief that "August 14, 2002" was the date that "investors began to learn of the true facts about Household's financial and operating condition concealed by the multi-component fraud scheme." *Dura* Brief at 10.

RESPONSE TO INTERROGATORY NO. 136 [35]:

Lead Plaintiffs hereby incorporate all the General Objections above, as if fully set forth herein. Lead Plaintiffs further object to this interrogatory on the grounds that it seeks information protected by the attorney work product doctrine. Lead Plaintiffs further object on the grounds that this interrogatory calls for expert opinion and analysis, and is therefore, premature. Expert discovery has not yet commenced. Lead Plaintiffs further object on the grounds that this interrogatory is overly broad and unduly burdensome. Lead Plaintiffs further object to this interrogatory on the grounds that its requirement that Lead Plaintiffs identify "all" documents and facts is contrary to the Court's November 10, 2005 Order.

Lead Plaintiffs also object to this interrogatory as vague and ambiguous as to the definition of "Plaintiffs' *Dura* Brief" – Lead Plaintiffs have filed numerous briefs with this Court that could be described as briefs relating to the Supreme Court's opinion in *Dura Pharms., Inc. v. Broudo*, 544 U.S. 336, 125 S. Ct. 1627 (2005).

Lead Plaintiffs further object to this interrogatory because defendants have mischaracterized Lead Plaintiffs' legal argument by taking a quotation out of context. In responding to defendants'

¹ Numbers in brackets represent the numbers ascribed by defendants to their interrogatories. As noted in General Objections 1-4, *supra*, Lead Plaintiffs have renumbered the Interrogatories to reflect the appropriate sequence and number of subparts, by adopting defendants and the Court's manner of counting interrogatories.

procedurally improper and substantively *denied Dura* Motion, the full text of Lead Plaintiffs'

Response states:

The Complaint also pleads the requisite "causal connection" between defendants' scheme and plaintiffs' economic loss: On August 14, 2002, investors began to learn of the true facts about Household's financial and operating condition concealed by the multi-component fraud scheme when defendants were forced to disclose a \$386 million restatement resulting in a \$600 million charge to earnings. ¶¶5-6; *see also* ¶¶26-27, 50, 134-155.

Additionally, Lead Plaintiffs object to this interrogatory on the grounds that it cannot be fully answered until discovery has been substantially completed. Although the fact-discovery cut-off is scheduled for January 31, 2007, defendants are still producing responsive documents notwithstanding their improper and evasive certification that their document production is complete. Defendants have also failed to log documents on privilege logs despite improperly withholding and/or redacting responsive documents in violation of Fed. R. Civ. P. 26. Lead Plaintiffs further object to this interrogatory because defendants have failed to provide evidence of the documents that were destroyed throughout the entire Company pursuant to the "purge" that occurred in mid-2001; the knowing destruction of relevant documents by certain of the defendants related to Andrew Kahr as well as the destruction of documents and spoliation of other relevant evidence that occurred both during and after the Class Period. Lead Plaintiffs' ability to fully respond to this interrogatory is limited due to defendants' spoliation of evidence. Lead Plaintiffs' response, thus, is based upon such facts as are currently known to them.

Further, defendants have objected to producing documents and/or deposition testimony from a number of witnesses that defendants have identified as having knowledge of facts relevant to this litigation. In addition, the Individual Defendants have refused to respond to the discovery propounded on them by the Class, directing the Class instead to wait until after their depositions to obtain information relevant to this litigation from the Individual Defendants. Three of the Individual Defendants have yet to be deposed. Additionally, the depositions of Household's primary auditors

during the Class Period have yet to occur. Further, expert discovery has not yet begun. Lead Plaintiffs will provide responses based upon such facts as are currently known to them. Lead Plaintiffs reserve the right, as necessary and appropriate, to supplement, amend, modify or revise their response to this interrogatory consistent with their obligations under Fed. R. Civ. P. 26(e).

Subject to and specifically incorporating the foregoing General and Specific Objections and without waiving them, Lead Plaintiffs further respond to this interrogatory as follows:

This interrogatory assumes that Lead Plaintiffs contend in their complaint that August 14, 2002 was the first time investors suffered a loss due to Household's fraud. That is not Lead Plaintiffs' contention. August 14, 2002 was the date that defendants first admitted that Household's earnings had been falsely reported for approximately eight and one-half years and that Household would take a \$600 million charge and restate its previously reported earnings for each and every quarter of the Class Period. This \$600 million (pre-tax) charge had the effect of wiping out \$386 million of earnings previously reported by the Company.

Lead Plaintiffs also incorporate by reference their responses to all prior interrogatories served by defendants in this litigation.

INTERROGATORY NO. 137 [36]:

Identify the particular facts Plaintiffs contend would have been necessary and sufficient, if disclosed by Defendants, to inform the market that Household was engaged in "Illegal Predatory Lending Practices" as alleged and set forth in Part VI.A of the Complaint. (AC ¶¶50-106).

RESPONSE TO INTERROGATORY NO. 137 [36]:

Lead Plaintiffs hereby incorporate all the General Objections above, as if set forth fully herein. Lead Plaintiffs also object to this interrogatory because it is incomprehensible, unintelligible and inconsistent as drafted. Lead Plaintiffs object to this interrogatory because it is compound and contains numerous subparts. Lead Plaintiffs also object that this interrogatory is overly broad, unduly burdensome, harassing and vexatious in that it inquires into no fewer than 56 paragraphs of

Lead Plaintiffs' Complaint. In addition, this interrogatory poses hypothetical questions that are vague and ambiguous. Lead Plaintiffs object to this interrogatory because it fails to specify a time period for which a response is sought. Lead Plaintiffs further object to this interrogatory on the grounds that it seeks information protected by the attorney work product doctrine. Lead Plaintiffs further object on the grounds that this interrogatory prematurely calls for expert opinion and analysis. Expert discovery has not yet commenced.

Additionally, Lead Plaintiffs object to this interrogatory on the grounds that it cannot be fully answered until discovery has been substantially completed. Although the fact-discovery cut-off is scheduled for January 31, 2007, defendants are still producing responsive documents notwithstanding their improper and evasive certification that their document production is complete. Defendants have also failed to log documents on privilege logs despite improperly withholding and/or redacting responsive documents in violation of Fed. R. Civ. P. 26. Lead Plaintiffs further object to this interrogatory because defendants have failed to provide evidence of the documents that were destroyed throughout the entire Company pursuant to the "purge" that occurred in mid-2001; the knowing destruction of relevant documents by certain of the defendants related to Andrew Kahr as well as the destruction of documents and spoliation of other relevant evidence that occurred both during and after the Class Period. Lead Plaintiffs' ability to fully respond to this interrogatory is limited due to defendants' spoliation of evidence. Lead Plaintiffs' response, thus, is based upon such facts as are currently known to them.

Further, defendants have objected to producing documents and/or deposition testimony from a number of witnesses that defendants have identified as having knowledge of facts relevant to this litigation. In addition, the Individual Defendants have refused to respond to the discovery propounded on them by the Class, directing the Class instead to wait until after their depositions to obtain information relevant to this litigation from the Individual Defendants. Three of the Individual

Defendants have yet to be deposed. Additionally, the depositions of Household's primary auditors during the Class Period have yet to occur. Further, expert discovery has not yet begun. Lead Plaintiffs will provide responses based upon such facts as are currently known to them. Lead Plaintiffs reserve the right, as necessary and appropriate, to supplement, amend, modify or revise their response to this interrogatory consistent with their obligations under Fed. R. Civ. P. 26(e).

Apparently recognizing the validity of Lead Plaintiffs' aforementioned objections, the Court in its January 10, 2007 Order rewrote defendants' inartfully drafted interrogatories as follows:

Identify the particular facts Household failed to disclose to the market regarding its purported "Illegal Predatory Lending Practices" as alleged in Part IV.A of the Complaint.

Subject to and specifically incorporating the foregoing General and Specific Objections and without waiving them, Lead Plaintiffs further respond to this interrogatory as rewritten by the Court's January 10, 2007 Order as follows:

Household and defendants failed to disclose that Household was engaged in the following predatory lending practices in order to achieve maximum growth as promised by Individual Defendants to the market and to the analysts during the various annual financial relations conferences held by the Company:

(a) Misrepresenting the loan terms, including the interest rate, loan amounts and other terms, including, but not limited to, by presenting customers with interest rates other than the contract rate or APR and misrepresenting the actual interest rates on loans by falsely telling customers that making bi-weekly payments with Household's EZ Pay Plus Bi-weekly Payment Plan ("EZ Pay Plan") would produce lower interest rates, when it would not;

(b) Charging finance charges or "discount points" that bore no relation to interest rates charged, failing to disclose the existence or amount of up-front finance charges, failing to offer any option of the amount of points to be pre-paid, providing borrowers with a range of discount

points but almost always charging the high end of the range, failing to provide accurate good faith estimates of known charges from points and fees and failing to disclose to customers that finance charges would be added to the amount of total debt owed;

(c) Failing to disclose or actively concealing that loans contained prepayment penalties;

(d) Requiring borrowers to purchase credit, life and other types of insurance in order to secure loans and forging signatures indicating customer approval of insurance purchases. Concealing from customers: (i) the total cost and term of insurance products sold in connection with the loans; (ii) that the policies did not provide protection for the life of the loan; (iii) that the customers were paying additional up-front points based on the cost of the insurance; and (iv) that these points would not be refunded if the insurance was cancelled; and

(e) "Up-selling" loans carrying exorbitant interest rates of 20% or higher, mischaracterizing closed-ended loans as open-ended and failing to comply with the disclosure requirements for open-ended loans; up-selling second loans to customers who had not requested them and who did not need them, but for the unconscionable and often undisclosed fees regularly charged on the first loans or the intentional undervaluing property; failing to disclose to customers at the time of closing that the projected monthly payments under their consolidated loans included payments toward separate, so-called open-ended second loans and failing to disclose that the second loan would amortize at a slower rate than the customers' existing loans (if they amortized at all) and could result in balloon payments at end of the loan term; falsely designating loans as open-ended despite the fact that they did not reasonably contemplate repeat transactions in order to avoid federal disclosure requirements under the Home Owners Equity Protection Act ("HOEPA"), 15 U.S.C. §1639, that would alert borrowers to the high costs and unfavorable terms of the loans; failing to provide the disclosures in advance of closing; including prepayment penalties on open-ended loans;

extending loans based primarily on the value of the borrowers' homes rather than their ability to repay the loans; and failing to provide the disclosures required by 15 U.S.C. §1637(a), (b) and (e) to be given upon application for true open-ended loans.

Defendants failed to disclose that in many instances Household's computer systems were designed to permit its sales personnel to implement such practices. For example, during the Class Period Household's computer systems were designed to provide borrowers with GFEs or good faith estimates that were incorrect because they only offered the customer with a range of discount points ranging from \$0 to a higher number, but almost always charging the high end of the range. Further, GFEs failed to disclose the different types of charges, including points and fees that would be imposed and failed to disclose to customers that finance charges would be added to the amount of total debt owed, thereby increasing significantly the total amount borrowed by the customers. Household did not implement a fix to this systemic issue until after the Class Period. Defendants also failed to disclose that sales personnel were trained to not to discuss insurance with the borrower during the sales pitch for the loan, but rather was presented to the borrower at the closing. Frequently, the borrower did not notice this additional charge until after the closing. In instances where they did notice the charge and question it, they were either informed that the closing would be delayed if the loan papers were not signed as presented at closing, or that the borrower could call back to have the charge removed. In reality the process of reversing insurance charges was much more cumbersome than a mere phone call.

Defendants also failed to disclose to the market and the analysts that the Company's use of these deceptive lending practices was widespread throughout the Company in part due to the Company's corporate training, Household's incentive structure for sales personnel, as well as a conscious and reckless disregard in failing to institute such internal controls as necessary to ensure that Household sales employees were in fact complying with state and federal laws and other

regulations. For example, Household did not have in place an independent quality control and compliance group during the Class Period. Instead, defendants put the District Sales Managers and District General Managers in charge of ensuring compliance. At the same time, these very DSMs and DGMs were incentivized to maximize loan growth through sales. Indeed, each level above the account executive received compensation based upon branch performance as well as district and regional performance. This move not only made no sense, but was designed to ensure that Household would fulfill its objective of maximum loan growth to meet record revenue expectations, without regard to whether or not the Company's lending practices were following state and federal mandates.

Further, defendants failed to disclose that a number of the initiatives that led to the predatory practices originated at the most senior executive level with the knowledge and participation of the Individual Defendants. Defendant and CEO Aldinger hired consultant Andrew Kahr to mastermind opportunistic methods to increase growth in Consumer Lending. Mr. Kahr came up with numerous ideas that were implemented by the Company, including hiding loan terms like prepayment penalties in dense loan documents, using bi-weekly payment plans to lower effective rates, using the bank entity to make loans, using AMPTA to impose prepayment penalties in states that did not allow such penalties, and others. Defendants paid Mr. Kahr at least \$2.36 million between September 1999 and July 2002. Andrew Kahr was the founder of Providian Financial Corporation, another sub-prime lender which paid more than \$400 million to settle charges of deceptive sales practices that were masterminded by Mr. Kahr and memorialized in several memos prepared by Kahr. The Kahr memos at issue in Providian became public after the *San Francisco Chronicle* forced the production of them in May 2002. Shortly thereafter in June 2002, despite pending lawsuits and investigations by the Attorneys General, defendants here undertook elaborate efforts to distance themselves from Andrew Kahr, going so far as to block access to Household employees from his email account and collect

and destroy memos Mr. Kahr drafted for Household. Defendants did not disclose these facts to the market or the analysts at the time.

Additional facts that defendants failed to disclose to the market was that trainers from Household's corporate headquarters in Illinois trained Household employees in deceptive sales techniques designed to: misrepresent the actual rate of interest on loans; maximize the loan amount in order to strip the borrower's equity and prevent customer attrition; conceal or lie about the existence of prepayment penalties and their impact, and sell unwanted and unnecessary insurance products, often without disclosing their inclusion. Further, Household encouraged branch experimentation and cross-fertilization in selling products and meeting the Company's sales goals. District Managers received training at Household headquarters and were responsible for passing that training on to Branch Managers and account executives in the branches throughout the country. Branch Managers who were particularly successful in attaining high volumes of EZ Pay sales and insurance sales traveled around the region and to other regions training other sales personnel in their own successful sales techniques.

For example, the training on how to sell EZ Pay using the "effective rate" technique to mislead borrowers was conceived at the corporate level sometime in early 1999. Household created a worksheet on the "bi-weekly plan vs. a 30 year program – Equivalent Rate" for account executives to use. From 1999 to 2001, trainers held AE sales workshops designed to show account executives how to use this misleading worksheet to sell loans using the "effective rate." Employees were trained using the EZ Pay Plan and the "effective rate" technique to tell customers that they could lower the interest rate on their existing loan. The Multi-State AG Group specifically rejected Household's contention that misrepresentations of loan terms using the "effective rate" technique were mostly concentrated in a few branches in a few states, finding that "[w]hile Household might

like to maintain the belief that these are isolated instances with rogue offices and loan officers, *the coast-to-coast usage of common forms and sales techniques belie any such position.*”

Significantly, although defendants now claim that the Company discontinued the use of the “effective rate” sales technique in late 1999, there are numerous sales booked as late as 2001 where customers complained that the “effective rate” interest rate sales pitch was employed on them in order to convince them to take Household’s loan. Additionally, there are video presentations that demonstrate that these practices were not only utilized in many states, where they were not being utilized to attain maximum benefit, District Managers traveled to different parts of the country to train other sales personnel on these deceptive lending practices. The simple explanation is that Household did not undertake any measures to ensure that the deceptive sales techniques were no longer being used by the sales personnel. In fact, it appears that there was not even a Quality Control department at Household during the Class Period to ensure that sales employees were complying with the necessary laws and regulations. An existing Quality Assurance and Compliance department was disbanded from 1998 through mid-2000, likely to ensure that defendants’ objective of maximum loan growth was attained, and compliance issues did not present an obstacle to that goal.

Therefore, despite recognizing the potential for state and federal law violations and the fact that Household’s training pervaded its nationwide operations representing significant “headline risk” to the Company, defendants reinforced this training by rewarding employees with large incentive awards in the form of cash and travel bonuses. Employees who successfully implemented Household’s deceptive sales techniques were routinely rewarded and lauded as “leaders” and “very ethical in [their] lending practices.” Defendants also held monthly cash contests for achieving certain pre-set goals. Although defendant Gilmer advised defendant Aldinger early on in the Class Period that Household’s “compensation plans are driving some wrong behaviors,” they did nothing to stop such wrong behaviors, but instead ensured that these behaviors would continue, by making it

clear that no incentives would be awarded for loans sold below the Net Interest Margin requirements, or loans that did not include the maximum amounts of points and fees.

During the Class Period, state regulators repeatedly cited Household for violations of state statutes and regulations during the course of their respective state examinations. Household's general pattern was to initially deny that the Company was engaged in such practices. But more often than not, Household was forced to issue refunds to the customers who were subject to the violations identified in the state examinations. In mid-2001, when Household began to draw increased scrutiny by some state regulators for its deceptive sales practices and sales techniques, despite the existence of ongoing regulatory investigations and pending lawsuits, the Company, through its senior management issued a directive that all sales materials in every branch that "could be perceived as 'predatory'" should be purged. Internally at Household, this attempt to destroy incriminating evidence was designated as the "blitz purge." Defendants did not disclose these facts to the investing public or the analysts. There were numerous subsequent follow-up document destruction measures undertaken throughout 2001 and 2002 to ensure that the branches had indeed rid themselves of all such materials.

When Household's deceptive sales practices first became public in the state of Washington, defendants attempted to convince the market that Household's predatory lending practices were "localized to the Bellingham [Washington] branch." The Group – a group of Attorneys General investigating Household's deceptive sales practices – concluded, however, that Washington "was not an aberration, in part because – as former employees are telling us – [Household] management held up Bellingham as a role model to underperforming offices, at least that is until Bellingham's problems started making the newspapers." State investigators also concluded that Household's deceptive sales practices were part of Household's corporate culture because it was inconceivable to them that borrowers from remotely different locations could all be confused about exactly the same

thing in the same way. Based on their investigations, several states believed that Household's deceptive sales practices were not only known, but likely fostered by the Company itself based on the complaints they were receiving, the fact that that they were communicating with regulators from other states that had exactly the same types of complaints, and Household headquarters' knowledge of the disclosures and sales practices when responding to complaints by the state investigators. Even the successful Household employees, who were later discredited as "rogue" employees, stated that they had followed Company procedures for decades and the sales pitches used on potential borrowers were both approved and provided by Household.

In an effort to conceal their predatory lending, defendants consistently took the public position that no predatory lending practices were occurring at Household, and any assertion to the contrary was false. In fact, defendants maintained that Household's strong performance was based on its use of underwriting criteria that prevented the potential for customer abuse and that it had adopted technology that would alert management to early signs of abuse and that Household applied a "tangible benefits" test for its loans to ensure fair treatment of its customers.

During the Class Period, defendants managed and manipulated the public perception of Household's predatory lending practices in order to maintain the artificially high prices of the Company's securities. While at the same time publicly denying any wrongdoing, defendants in 1999 began discussing internally the increased controversy surrounding predatory lending issues in the sub prime industry. As early as April 2000, defendant Gilmer advised defendant Aldinger of his concern about the market view of the predatory lending issue and fear that Household stock could be negatively impacted by the increased scrutiny and potential new legislation. In response, defendants initiated a myriad of projects and hired an outside consultant to formulate and execute an offensive strategy to manage public perception of predatory lending issues.

A major part of defendants' strategy of deception and non-disclosure was defendants' repeated false assertions to the market that Household's performance was based on superior underwriting and flexible customer-oriented collection practices, rather than improper business practices. On March 23, 2001, defendant Gilmer stated for the *American Banker* that Household's "position on predatory lending is perfectly clear. Unethical lending practices of any type are abhorrent to our company, our employees and most importantly our customers."

On May 8, 2001 at Household's annual stockholders' meeting, defendant Aldinger told investors, "[w]e believe the existence of predatory lending practices undermines the integrity of the marketplace and limits our ability to provide the financial service needs of this country's diverse consumer market" and such practices are "abhorrent" to Household. On May 15, 2001, William Aldinger, Gary Gilmer and Craig Stroom met with *The Wall Street Journal* editorial board to discuss predatory lending, ACORN and the Company's extensive lobbying efforts headed by Denis O'Toole.

On May 16, 2001, defendants presented to the AFSA Fixed Income Investors Conference information on Household's internal controls in an effort to assure debt investors that historically "Household has been a leader against predatory practices." On the same day, Household created the Responsible Lending Rapid Response Team to Manage Public Perception "regarding predatory lending allegations" by "gathering and documenting the facts of the matter" and "constructing a fact file in a standard format with all supporting documentation attached." To that end, the team members would compile "[a]ll docs from image" and after "learning the complete customer story" would forward the file to assure the materials are then provided to the "appropriate communicator."

In July 2001, Household announced to the public that it had implemented its "Best Practices Lending Initiatives" to ensure that Household customers actually benefited from their loans, but denied that the program was connected to actions by fair-lending advocates, calling it "a

coincidence.” It was no coincidence. The predatory lending problem had been “keep[ing] [Gilmer] awake at night” and by July 2001, defendant Gilmer was spending 75% of his time on predatory lending issues, including trips to Washington, D.C. to lobby on Household’s behalf. Despite the fact that Household’s predatory practices continued, on November 26, 2001, the Company issued a formal statement “vehemently deny[ing] any assertion that it has willfully violated laws that regulate its business.”

On February 7, 2002, at the direction of defendants, Household spokesperson Hayden publicly stated: “We make good loans that not only are legal loans, but are beneficial for our customers.” In addition, defendant Schoenholz publicly insisted that predatory lending practices were “not a significant issue, not indicative of any widespread problem and certainly not a concern that it will spread elsewhere.” On April 22, 2002, again at the direction of the defendants, Hayden told the press: “It is absolutely against our policy to in any way, quote a rate that is different than what the true rate is I can’t underscore that enough.” On May 14, 2002, the *St. Paul Pioneer Press* published Household’s denial that Household misled families about the terms of their loans.

Defendants continued their media offensive, publishing several full-page ads in *The Wall Street Journal*, with headlines that read: “For 124 years, we’ve set the standard for responsible lending. And now we’re doing it again.” The bottom of the ad carried the legend, “Advocates for Responsible Lending.”

At the same time Household was issuing such public denials regarding its predatory lending practices, defendants had also filed an injunction in Washington state court seeking to block the publication of the Washington DFI report that detailed Household’s predatory tactics. Household characterized the Washington DFI report as a “draft” with “factual errors” that Household wanted to correct and tried to downplay the situation, stating: “It is our regulators’ and the attorney general’s job to investigate any complaints brought forth by consumers in their state, and we don’t find

anything unique or surprising that they are doing their job . . . [W]e take proper steps to work with the department to uncover the facts and if necessary formulate an appropriate resolution for the borrower.” Household admitted that some ‘customers in Bellingham may have indeed been justified in their confusion about the rate of their loans’ and claimed Household ‘took full and prompt responsibility’ and is ‘satisfied that this situation was localized to the Bellingham branch.’

On July 16, 2002, the Washington DFI announced that it had caused Household to return over \$400,000 to over 1,000 Washington borrowers who were overcharged by the Company in connection with their real estate loans. On July 17, 2002, Household attempted to deflect attention from the very practices encouraged by the Company’s corporate culture to drive its “record” results, stating that the overcharges were the result of simple computer system errors.

On July 26, 2002, Household again attempted to minimize exposure of its predatory lending practices. The Company told the *Bellingham Herald* it was “possible” that one or a small group of rogue employees isolated at one of its remote branches in Washington “may” have misrepresented mortgage terms to “some” Whatcom County homeowners who refinanced their home loans at the Company’s Bellingham office, but continued to insist that the problems were limited to a single branch.

In addition to concealing its predatory practices, Household sought to conceal from investors the fact that the Company was engaged in settlement talks with the Multi-State AG Working Group. As late as September 2, 2002 and despite the fact that settlement talks had been ongoing for months, defendants falsely stated that they were not aware of any pending enforcement actions or settlement talks. During the settlement negotiations, moreover, Household sought to broker a deal concealing the extent of its practices from the public and minimize the impact of the Company’s predatory practices on its stock price. As the Iowa Attorney General observed following a settlement meeting, Household was “very concerned about Wall Street reaction – very, very.”

In addition to their attempts to conceal Household's predatory lending practices from investors, defendants sought to conceal internal documents related to its predatory lending practices. In early May 2001, facing lawsuits and increasing regulatory pressure for its deceptive sales practices, Household began a systematic destruction of incriminating documents. The "blitz purge" started with a May 7, 2001 directive to destroy "any old EZPay solicitations, communications or enrollment forms." Then, recognizing that "[u]nauthorized sales materials expose [Household] to significant risk," senior management issued an order to "[p]urge all unapproved sales materials." The list of approved materials, however, was not created until June 16, 2001 more than a month after the purge began.

On the same day the list of approved materials was distributed, Robert O'Han, Regional General Manager of HFC branches instructed his district general managers to hold a conference call "with every BMS and DSM" on Monday, June 18, 2001 to orchestrate the destruction of all unapproved sales materials by the "end of business" on Tuesday, June 19, 2001. O'Han emphasized the need for the document destruction to look like "a methodical review of in branch materials that companies do periodically" as opposed to a "fire drill."

On Monday, June 18, 2001, the district general managers confirmed that they would purge all unapproved sales materials from all branch offices by the close of business, at the latest, on Wednesday, June 20, 2001. As part of the purge, employees were directed to "delete all letters written to customers that were on [their] computers," including documents like HOLPs. On June 20, 2001, Household management decided to "delete reference to 'anything that could be perceived as predatory' and 'prepayment penalties.'" Among the evidence related to Household's predatory lending that was destroyed were paper copies of customer loan files. The shredded documents were hauled off in trucks.

Since the record-breaking \$484 million Multi-State AG settlement, Household has publicly admitted to a “total overhaul of the corporate culture” at Household as a result of the changes mandated due to the settlement, including precluding last minute changes in loan terms, automating the loan process, so branch employees had no leeway to overcharge customers or land them in bad loans, automating compliance with federal disclosure laws so that the GFE was generated automatically, refusing to make loans without income verification, and most significantly, changing the corporate culture to make it more focused on what the customers want. Lead Plaintiffs incorporate by reference their responses to all prior interrogatories served by the defendants in this litigation.

INTERROGATORY NO. 138 [37]:

Identify the particular facts Plaintiffs contend would have been necessary and sufficient, if disclosed by Defendants, to inform the market that Household was “Improperly ‘Reaging’ or ‘Restructuring’ Delinquent Accounts,” as alleged and set forth in Part VI.B of the Complaint. (AC ¶¶50, 107-133).

RESPONSE TO INTERROGATORY NO. 138 [37]:

Lead Plaintiffs hereby incorporate all the General Objections above, as if fully set forth herein. Lead Plaintiffs also object to this interrogatory because it is incomprehensible, unintelligible and inconsistent as drafted. Lead Plaintiffs object to this interrogatory because it is compound and contains numerous subparts. Lead Plaintiffs also object that this interrogatory is overly broad, unduly burdensome, harassing and vexatious in that it inquires into no fewer than 27 paragraphs of Lead Plaintiffs’ Complaint. In addition, this interrogatory poses counterfactual hypothetical questions that are vague and ambiguous. Lead Plaintiffs object to this interrogatory because it fails to specify a time period for which a response is sought. Lead Plaintiffs further object to this interrogatory on the grounds that it seeks information protected by the attorney work product doctrine. Lead Plaintiffs further object on the grounds that this interrogatory prematurely calls for expert opinion and analysis. Expert discovery has not yet commenced.

Additionally, Lead Plaintiffs object to this interrogatory on the grounds that it cannot be fully answered until discovery has been substantially completed. Although the fact-discovery cut-off is scheduled for January 31, 2007, defendants are still producing responsive documents notwithstanding their improper and evasive certification that their document production is complete. Defendants have also failed to log documents on privilege logs despite improperly withholding and/or redacting responsive documents in violation of Fed. R. Civ. P. 26. Lead Plaintiffs further object to this interrogatory because defendants have failed to provide evidence of the documents that were destroyed throughout the entire Company pursuant to the "purge" that occurred in mid-2001; the knowing destruction of relevant documents by certain of the defendants related to Andrew Kahr as well as the destruction of documents and spoliation of other relevant evidence that occurred both during and after the Class Period. Lead Plaintiffs' ability to fully respond to this interrogatory is limited due to defendants' spoliation of evidence. Lead Plaintiffs' response, thus, is based upon such facts as are currently known to them.

Further, defendants have objected to producing documents and/or deposition testimony from a number of witnesses that defendants have identified as having knowledge of facts relevant to this litigation. In addition, the Individual Defendants have refused to respond to the discovery propounded on them by the Class, directing the Class instead to wait until after their depositions to obtain information relevant to this litigation from the Individual Defendants. Three of the Individual Defendants have yet to be deposed. Additionally, the depositions of Household's primary auditors during the Class Period have yet to occur. Further, expert discovery has not yet begun. Lead Plaintiffs will provide responses based upon such facts as are currently known to them. Lead Plaintiffs reserve the right, as necessary and appropriate, to supplement, amend, modify or revise their response to this interrogatory consistent with their obligations under Fed. R. Civ. P. 26(e).

Apparently recognizing the validity of Lead Plaintiffs' aforementioned objections, the Court in its January 10, 2007 Order rewrote defendants' inartfully drafted interrogatories as follows:

Identify the particular facts Household failed to disclose to the market regarding its purportedly "Improper[] Reaging or Restructuring [of] Delinquent Accounts" as alleged in Part VI.B of the Complaint.

Subject to and specifically incorporating the foregoing General and Specific Objections and without waiving them, Lead Plaintiffs further respond to this interrogatory as follows:

Lead Plaintiffs note that as Household is a public company traded on a public exchange, defendants had an obligation to disclose to investors true facts relating to Household's business operations and the impact of such operations on the Company's publicly-reported financial statements. Misrepresentations about the core business operations of a company necessarily impact the financial performance of the company. During the Class Period, defendants falsely told the market that Household used "risk-based pricing and effective collection efforts" that gave them "a reasonable basis for predicting the asset quality of new accounts." In fact, Household's reported delinquency and charge-off statistics were manipulated by the Company's aggressive and improper reaging practices and other accounting manipulation. Each time Household reaged a delinquent loan, the loan no longer appeared in a delinquency bucket, but instead appeared as current on Household's books. Such loans were reported to investors as current and were not counted among Household's disclosed delinquency statistics. Thus, defendants manipulated Household's financial statistics by reporting as current loans that should have been classified as 2+ delinquent. By falsely presenting an increased number of "current" accounts and decreased 2+ delinquency numbers, thereby reducing charging-offs, defendants made Household's balance sheet and credit quality appear more favorable to investors than it actually was.

During the Class Period, Household reported 2+ delinquency figures in Household's financial statements and elsewhere. The SEC found that the 2+ delinquency rate was "one of the

critical measures of Household's financial performance." Household's disclosures of its 2+ delinquency rate throughout the Class Period were not accompanied by statements indicating the impact of Household's reage policies and practices on the delinquency numbers. Household failed to disclose to investors the true nature of its account management policies and practices, including its widespread practice of reaging or restructuring loans in order to manage delinquencies. Defendants also failed to disclose that the policies and practices varied based upon business units and sometimes from time to time within business units. Household characterized its delinquency manipulations as custom solutions to customers who were facing temporary payment difficulties, when in fact, Household had elaborate automated and automatic restructure criteria to present delinquent accounts from rolling in to the over 60-day or 2+ bucket. Further, defendants did not disclose any restructure statistics until after 1Q02.

Even after Household began to publicly disclose that it did in fact reage delinquent loans and provided high-level restructure statistics, these disclosures failed to present an accurate description of the Company's practices or the true purpose, scope and impact of Household's reaging programs. Certain analysts continued to remain skeptical of Household's true credit quality despite these disclosures. As the SEC found, and Household admitted, Household chose to disclose its restructure policies in a way that connoted strict controls, rather than in a way that accurately described the true "loose" policies. Household represented in its SEC filings that delinquent loans were reaged only "if a predetermined number of consecutive payments ha[d] been received and there [was] evidence that the reason for the delinquency ha[d] been cured." This representation was false.

For example, the parent company Household, which was the company traded on the public exchange, had numerous business units, each of which had different policies with respect to reaging. Indeed, the reaging policies for Household's respective business units were not uniform during the Class Period and neither was the reporting of the reage and restructure data associated with each

business unit. Household failed to disclose that the general statement included in its public disclosures regarding reaging was false and misleading because it contained material omissions.

Household's disclosures regarding its reage or restructure policies also failed to present an accurate description of the minimum payment requirements. Although Household's publicly-stated policy conveyed that reages or restructures only occurred if a predetermined number of consecutive payments had been received, Household frequently reaged or restructured accounts where one or no payments were received. The SEC found Household's disclosures to be false and misleading because of Household's practices.

Household's reage or restructure policy disclosures were also false and misleading since they failed to disclose Household's policy of automatically restructuring loans. The SEC found that with automatic restructures, no communication with the customer was required to determine whether the cause of delinquency was cured, despite Household's publicly-stated disclosure that reages or restructures only occurred when there was evidence that the reason for the delinquency has been cured. The American Institute of Certified Public Accountant's ("AICPA") *Audit and Accounting Guide – Audits of Finance Companies* – cautions that renewals without evidence of increased ability or willingness to repay may diminish the reliability of aging schedules. See 2.114-2.118 of AICPA *Audit and Accounting Guide Audits of Finance Companies With Conforming Changes* as of May 1, 2000. A KPMG "benchmark" study, commissioned by defendants, demonstrated that Household's competitors did not manipulate their financial statistics by automatically reaging loans in the manner done by Household – the overwhelming majority did not automatically reage accounts under any circumstances.

Defendants also concealed Household's practice of manually restructuring loans without evidence that the delinquency had been cured. In certain instances, loans were restructured even

when the customer expressed that they had no intention of paying and specifically asked that restructure be reversed.

Furthermore, the Company presented to investors false and inaccurate statistics related to the Company's reaging activities, including reage volume and recidivism. Household also presented new reaging policies to investors as though they were long-standing and presented statistics along with new policies to imply that those statistics had been derived under the current policies, when in fact they had not.

Furthermore, although defendants publicly characterized Household's reaging practices as a service to help its customers, defendants had no basis for that claim. Defendants knew, for example, that multiple restructures only increased the likelihood of customer bankruptcies. Defendants also failed to disclose that Household changed its reaging policies in order to manipulate Household's financial performance. For example, twice in 2002, Mortgage Services implemented or was about to implement a more conservative reaging policy before reversing this decision because of concerns about the impact on delinquency numbers. These facts directly contradict defendants' public statements that Household's stated reaging and charge-off "policies have been consistently applied and there have been no significant changes to any of [the] policies during any of the periods reported."

Household also failed to disclose numerous other facts regarding its reaging policies and practices, including that: Household reaged and restructured loans for the purpose of manipulating credit quality statistics; Household had inadequate internal controls with respect to its reage policies; Household sold delinquent loans from its bank entities to its non-bank entities to avoid more the stringent restructure requirements applicable to the bank entities; Household applied more liberal reage policies to its Beneficial "legacy" portfolio; Household studies indicated a positive correlation between accounts reaged in the late stages of delinquency and recidivism; Household had no

evidence of any positive correlation between reaging and cash flow; and Household had provided false reage statistics to the market and its regulators.

In addition, although this interrogatory only seeks information regarding reaging and restructuring, Lead Plaintiffs wish to highlight that Household failed to disclose its numerous other manipulations of the Company's reported credit quality matrices, through other means, including but not limited to: forbearances, skip-a-pays, extensions, credit counseling accommodations, modifications, rewrites and deferments. Household also manipulated its 2+ delinquency numbers using grace period adjustments and by manipulating the date on which the delinquency is measured. Additionally, Lead Plaintiffs incorporate by reference their responses to all prior interrogatories served by defendants in this litigation.

INTERROGATORY NO. 139 [38]:

Identify the particular facts Plaintiffs contend would have been necessary and sufficient, if disclosed by Defendants, to inform the market of Household's "Improper Accounting of Costs Associated With Various Credit Card Co-Branding, Affinity and Marketing Agreements" as alleged and set forth in Part VI.C of the Complaint. (AC ¶¶50, 134-155).

RESPONSE TO INTERROGATORY NO. 139 [38]:

Lead Plaintiffs hereby incorporate all the General Objections above, as if set fully forth herein. Lead Plaintiffs also object to this interrogatory because it is incomprehensible, unintelligible and inconsistent as drafted. Lead Plaintiffs object to this interrogatory because it is compound and contains numerous subparts. Lead Plaintiffs also object that this interrogatory is overly broad, unduly burdensome, harassing and vexatious in that it inquires into no fewer than 22 paragraphs of Lead Plaintiffs' Complaint. In addition, this interrogatory poses hypothetical questions that are vague and ambiguous. Lead Plaintiffs object to this interrogatory because it fails to specify a time period for which a response is sought. Lead Plaintiffs further object to this interrogatory on the grounds that it seeks information protected by the attorney work product doctrine. Lead Plaintiffs

further object on the grounds that this interrogatory prematurely calls for expert opinion and analysis. Expert discovery has not yet commenced.

Additionally, Lead Plaintiffs object to this interrogatory on the grounds that it cannot be fully answered until discovery has been substantially completed. Although fact-discovery cut-off is scheduled for January 31, 2007, defendants are still producing responsive documents notwithstanding their improper and evasive certification that their document production is complete. Defendants have also failed to log documents on privilege logs despite improperly withholding and/or redacting responsive documents in violation of Fed. R. Civ. P. 26. Further, defendants have objected to producing documents and/or deposition testimony from a number of witnesses that defendants have identified as having knowledge of facts relevant to this litigation. In addition, the Individual Defendants have refused to respond to the discovery propounded on them by the Class, directing the Class instead to wait until after their depositions to obtain information relevant to this litigation from the Individual Defendants. Three of the Individual Defendants have yet to be deposed. Lead Plaintiffs will provide responses based upon such facts as are currently known to them. Lead Plaintiffs reserve the right, as necessary and appropriate, to supplement, amend, modify or revise their response to this interrogatory consistent with their obligations under Fed. R. Civ. P. 26(e).

Apparently recognizing the validity of Lead Plaintiffs' aforementioned objections, the Court in its January 10, 2007 Order rewrote defendants' inartfully drafted interrogatories as follows:

Identify the particular facts Household failed to disclose to the market regarding its purported "Improper Accounting of Costs Associated With Various Credit Card Co-Branding, Affinity and Marketing Agreements" as alleged in Part VI.C of the Complaint.

Subject to and specifically incorporating the foregoing General and Specific Objections and without waiving them, Lead Plaintiffs further respond to this interrogatory as rewritten by the Court's January 10, 2007 Order as follows:

Lead Plaintiffs note that each of the Individual Defendants as well as the Company itself was responsible for insuring that the information released to the investing public about Household's financial condition was accurate and fairly represented the true financial condition of the Company. The accounting policies adopted by a reporting entity can affect significantly the presentation of its financial position, cash flows, and results of operations. Accordingly, the usefulness of financial statements for purposes of making economic decisions about the reporting entity depends significantly upon the user's understanding of the accounting policies followed by the entity. Accounting Principles Board Opinion ("APB") No. 22, ¶7. Pursuant to APB No. 22, information about the accounting policies adopted by a reporting entity is essential for financial statement users. When financial statements are issued purporting to present fairly financial position, cash flows, and results of operations in accordance with GAAP, a description of all significant accounting policies of the reporting entity should be included as an integral part of the financial statements. APB No. 22, ¶8.

Thus, defendants were responsible for ensuring that the accounting policies applied by the Company complied with GAAP and fairly and accurately represented the financial position of the Company.

For almost a decade, Household improperly accounted for expenses associated with Household's credit card co-branded, affinity and marketing agreements. GAAP required Household to write-off expenses either as incurred or to amortize them over a certain period of time, but Household spread these expenses over longer periods, thereby overstating Household's income. Household's \$600 million (pre-tax) restatement lowered previously reported earnings by \$386 million. By restating, Household admits that the overstatements of both earnings and EPS were material. APB No. 20. Without the accounting manipulations, Household would not have met or exceeded analysts' expectations and would have failed to post "record" financial results quarter after

quarter. For example, in April 1992, Household entered into a co-branded credit card agreement with General Motors (“GM”), which called for Household to pay an up-front fee (origination cost) for each new credit card account booked. Household amortized origination costs over the life of the agreement at the time. On May 20, 1993, Accounting for Individual Credit Card Acquisitions (“EITF 93-1”), became the authoritative GAAP rule and required payments made to a third party, such as GM here, for credit card accounts acquired “one at a time” to be amortized over one year, if no significant fee is charged to the cardholder (as was the case here).

Even before EITF 93-1 was finalized, Household pushed its auditors to account for a significant portion of the fee paid to GM in a manner which was outside of any of the accounting literature. Upon its issuance, Household took the position that EITF 93-1 was to be applied prospectively only and that the GM agreement was grandfathered in the pre-EITF 93-1 accounting treatment. Thus, Household continued to amortize the origination costs for newly acquired credit card accounts over the life of the GM agreement, spreading the costs over a longer period than the one year permitted under EITF 93-1. However, the testimonial and documentary evidence obtained thus far demonstrates that even if the original contract could be grandfathered, defendants knew that the multiple modifications of the GM agreement required treatment under EITF 93-1 beginning January 1994

Defendants’ continued disregard of EITF 93-1 after its passage demonstrates their intent to violate GAAP. Although defendants knew that the GM partnership agreement should be accounted for under EITF 93-1, defendants continued to account for the partnership as though EITF 93-1 never existed. Because Household paid origination costs every time a new credit card was acquired, defendants knew that EITF 93-1 should have been applied, but intentionally or with conscious recklessness disregarded this significant accounting literature.

Also, sometime in June 1999, Household entered into a credit card marketing agreement with Kessler Financial Services (“KFS”) whereby Household was reimbursed for marketing (advertising) expenses and mass collective mailings in return for a share of revenue from those mailings over a 3-year period. SFAS No. 91 requires that such marketing costs be expensed for as incurred. SFAS 91, ¶7. Household improperly treated these marketing/advertising expenses as “revenue-sharing” payments and accounted for them over a 3-year period, in violation of GAAP. Defendants knew that the accounting was a violation of GAAP because amortization over life of loans acquired not consistent with economies used to base payment to KFS on, yet allowed it anyway.

Further, defendants implemented accounting policies with respect to the AFL-CIO and Union Privilege affinity credit card agreement the Company had with the respective parties. Until 1999, Household amortized the premium over the contract life. In 1999, however, in violation of GAAP, defendants arbitrarily increased the amortization period for the premium from 10 years to 15 years, spreading the cost of the premium over a longer period of time. This resulted in the overstatement of net income throughout 1999, 2000, 2001 and the first half of 2002. In 4Q01, the Office of the Comptroller of the Currency had begun questioning Household’s accounting treatment for certain prepaid assets related to the AFL-CIO and Union Privilege contracts. For instance, for the AFL-CIO contract, defendants should have been recognizing periodic expense using a method that was systematic and rational and that recognized the expense in relationship to the average revolving receivable balance. While for the Union Privilege contract, rather than recognizing servicing and licensing fee expenses each month and recording overpayments as an asset, defendants should have recognized the two elements separately under the accounting principles applicable to the respective elements that made up the fee. Lead Plaintiffs also incorporate by reference their responses to all prior interrogatories served by the defendants in this litigation.

INTERROGATORY NO. 140 [39]:

If Plaintiffs contend that the following disclosure contained in Household's March 23, 2002 10-K was insufficient to inform the market of Household's restructure policies and practices, identify any facts Plaintiffs contend would have been necessary and sufficient, if included in the disclosure, to inform the market of Household's restructure policies and practices:

Our policies for consumer receivables permit reset of the contractual delinquency status of an account to current, subject to certain limits, if a predetermined number of consecutive payments has been received and there is evidence that the reason for the delinquency has been cured. Such reaging policies vary by product and are designed to manage customer relationships and maximize collections.

RESPONSE TO INTERROGATORY NO. 140 [39]:

Lead Plaintiffs hereby incorporate all the General Objections above, as if set forth fully herein. Lead Plaintiffs also object to this interrogatory because it is incomprehensible, unintelligible and inconsistent as drafted. This interrogatory poses hypothetical questions that are vague and ambiguous as to the terms "March 23, 2002 10-K" and "restructure policies and practices." Lead Plaintiffs object to this interrogatory because it is compound. Lead Plaintiffs also object that this interrogatory is overly broad, unduly burdensome, harassing and vexatious. Lead Plaintiffs object to this interrogatory because it fails to specify a time period for which a response is sought. Lead Plaintiffs further object to this interrogatory on the grounds that it seeks information protected by the attorney work product doctrine. Lead Plaintiffs further object on the grounds that this interrogatory prematurely calls for expert opinion and analysis. Expert discovery has not yet commenced.

Additionally, Lead Plaintiffs object to this interrogatory on the grounds that it cannot be fully answered until discovery has been substantially completed. Although the fact-discovery cut-off is scheduled for January 31, 2007, defendants are still producing responsive documents notwithstanding their improper and evasive certification that their document production is complete. Defendants have also failed to log documents on privilege logs despite improperly withholding and/or redacting responsive documents in violation of Fed. R. Civ. P. 26. Lead Plaintiffs further object to this interrogatory because defendants have failed to provide evidence of the documents that

were destroyed throughout the entire Company pursuant to the “purge” that occurred in mid-2001; the knowing destruction of relevant documents by certain of the defendants related to Andrew Kahr as well as the destruction of documents and spoliation of other relevant evidence that occurred both during and after the Class Period. Lead Plaintiffs’ ability to fully respond to this interrogatory is limited due to defendants’ spoliation of evidence. Lead Plaintiffs’ response thus, is based upon such facts as are currently known to them.

Further, defendants have objected to producing documents and/or deposition testimony from a number of witnesses that defendants have identified as having knowledge of facts relevant to this litigation. In addition, the Individual Defendants have refused to respond to the discovery propounded on them by the Class, directing the Class instead to wait until after their depositions to obtain information relevant to this litigation from the Individual Defendants. Three of the Individual Defendants have yet to be deposed. Additionally, the depositions of Household’s primary auditors during the Class Period have yet to occur. Further, expert discovery has not yet begun. Lead Plaintiffs will provide responses based upon such facts as are currently known to them. Lead Plaintiffs reserve the right, as necessary and appropriate, to supplement, amend, modify or revise their response to this interrogatory consistent with their obligations under Fed. R. Civ. P. 26(e).

Subject to and specifically incorporating the foregoing General and Specific Objections and without waiving them, Lead Plaintiffs further respond to this interrogatory as follows:

Lead Plaintiffs incorporate and adopt in whole their response to Interrogatory No. 139 [38].

Lead Plaintiffs also incorporate by reference their response to all prior interrogatories served by defendants in this litigation.

INTERROGATORY NO. 141 [40]:

State whether Plaintiffs contend that the following disclosure contained in Household’s March 19, 2003 8-K accurately informed the market of Household’s restructure policies and practices:

Our account management policies and practices for consumer receivables include collection strategies that permit us to reset the contractual delinquency status of an account to current in certain circumstances. We are amending our disclosures of our restructure policies to include the following disclosures: (1) in numerous instances Household accepts one or zero payments prior to resetting the delinquency status, and (2) in many instances, we restructure delinquent accounts automatically. In the case of automatic restructures, no prior contact is required with the customer to determine if the cause of delinquency has been cured. These account management policies and practices vary from product to product and are continually being tested and refined and may change from time to time and period to period. The account management policies and practices include, but are not limited to, restructure or reaging of accounts, forbearance agreements, extended payment plans, modification arrangements, consumer credit counseling accommodations, loan rewrites and deferments.

RESPONSE TO INTERROGATORY NO. 141 [40]:

Lead Plaintiffs hereby incorporate all the General Objections above, as if fully set forth herein. Lead Plaintiffs further object to this interrogatory as vague and ambiguous – it fails to define the term “Household’s restructure policies and practices.” Lead Plaintiffs object to this interrogatory because it fails to specify a time period for which a response is sought. Lead Plaintiffs further object to this interrogatory on the grounds that it seeks information protected by the attorney work-product doctrine. Lead Plaintiffs further object on the grounds that this interrogatory prematurely calls for expert opinion and analysis. Expert discovery has not yet commenced.

Additionally, Lead Plaintiffs object to this interrogatory on the grounds that it cannot be fully answered until discovery has been substantially completed. Although the fact-discovery cut-off is scheduled for January 31, 2007, defendants are still producing responsive documents notwithstanding their improper and evasive certification that their document production is complete. Defendants have also failed to log documents on privilege logs despite improperly withholding and/or redacting responsive documents in violation of Fed. R. Civ. P. 26. Lead Plaintiffs further object to these interrogatories because defendants have failed to provide evidence of the documents that were destroyed throughout the entire Company pursuant to the “purge” that occurred in mid-2001; the knowing destruction of relevant documents by certain of the defendants related to Andrew

Kahr as well as the destruction of documents and spoliation of other relevant evidence that occurred both during and after the Class Period. Lead Plaintiffs' ability to fully respond to this interrogatory is limited due to defendants' spoliation of evidence. Lead Plaintiffs' response, thus, is based upon such facts as are currently known to them.

Further, defendants have objected to producing documents and/or deposition testimony from a number of witnesses that defendants have identified as having knowledge of facts relevant to this litigation. In addition, the Individual Defendants have refused to respond to the discovery propounded on them by the Class, directing the Class instead to wait until after their depositions to obtain information relevant to this litigation from the Individual Defendants. Three of the Individual Defendants have yet to be deposed. Additionally, the depositions of Household's primary auditors during the Class Period have yet to occur. Further, expert discovery has not yet begun. Lead Plaintiffs will provide responses based upon such facts as are currently known to them. Lead Plaintiffs reserve the right, as necessary and appropriate, to supplement, amend, modify or revise their response to this interrogatory consistent with their obligations under Fed. R. Civ. P. 26(e).

Subject to and specifically incorporating the foregoing General and Specific Objections and without waiving them, Lead Plaintiffs further respond to this interrogatory as follows:

Lead Plaintiffs do not contend that the above-quoted disclosure accurately and comprehensively informed the market of Household's restructure policies and practices during the Class Period.

Lead Plaintiffs incorporate by reference their responses to all prior interrogatories served by defendants in this litigation.

INTERROGATORY NO. 142 [41]:

If Plaintiffs contend that Defendants made affirmative misrepresentations regarding Household's alleged "Fraudulent Scheme" involving "Illegal Predatory Lending Practices" as set forth in Part VI.A of the Complaint (AC ¶¶50-106), identify each statement that Plaintiffs contend

was an affirmative misrepresentation and the reasons that Plaintiffs contend that each statement was false.

RESPONSE TO INTERROGATORY NO. 142 [41]:

Lead Plaintiffs hereby incorporate all the General Objections above, as if set forth fully herein. Lead Plaintiffs also object to this interrogatory because it suffers from the same infirmities plaguing all of defendants' interrogatories thus far – it is vague and ambiguous and fails to identify with particularity the information that defendants seek. Lead Plaintiffs object to this interrogatory because it is compound and contains numerous subparts. Lead Plaintiffs also object that this interrogatory is overly broad, unduly burdensome, harassing and vexatious in that it inquires into no fewer than 56 paragraphs of Lead Plaintiffs' Complaint. In addition, Lead Plaintiffs object to this interrogatory because it fails to specify a time period for which a response is sought.

Additionally, Lead Plaintiffs object to this interrogatory on the grounds that it cannot be fully answered until discovery has been substantially completed. Although the fact-discovery cut-off is scheduled for January 31, 2007, defendants are still producing responsive documents notwithstanding their improper and evasive certification that their document production is complete. Defendants have also failed to log documents on privilege logs despite improperly withholding and/or redacting responsive documents in violation of Fed. R. Civ. P. 26. Lead Plaintiffs further object to this interrogatory because defendants have failed to provide evidence of the documents that were destroyed throughout the entire Company pursuant to the "purge" that occurred in mid-2001; the knowing destruction of relevant documents by certain of the defendants related to Andrew Kahr as well as the destruction of documents and spoliation of other relevant evidence that occurred both during and after the Class Period. Lead Plaintiffs' ability to fully respond to this interrogatory is limited due to defendants' spoliation of evidence. Lead Plaintiffs' response, thus, is based upon such facts as are currently known to them.

Further, defendants have objected to producing documents and/or deposition testimony from a number of witnesses that defendants have identified as having knowledge of facts relevant to this litigation. In addition, the Individual Defendants have refused to respond to the discovery propounded on them by the Class, directing the Class instead to wait until after their depositions to obtain information relevant to this litigation from the Individual Defendants. Three of the Individual Defendants have yet to be deposed. Additionally, the depositions of Household's primary auditors during the Class Period have yet to occur. Further, expert discovery has not yet begun. Lead Plaintiffs will provide responses based upon such facts as are currently known to them. Lead Plaintiffs reserve the right, as necessary and appropriate, to supplement, amend, modify or revise their response to this interrogatory consistent with their obligations under Fed. R. Civ. P. 26(e).

Subject to and specifically incorporating the foregoing General and Specific Objections and without waiving them, Lead Plaintiffs further respond to these interrogatories as follows:

Lead Plaintiffs respond to this interrogatory (or more aptly "interrogatories") by stating as an initial matter that in its detailed and particularized Complaint, Lead Plaintiffs have identified all the false and misleading statements made during the Class Period, including the source of the statement (press release, SEC filing, presentation made to analysts, etc.), the date of the statement, and the circumstances in which the statement was made. Indeed, Judge Guzman found that Lead Plaintiffs had met this requirement of the Private Securities Litigation Reform Act in the Complaint itself by "identifying who made particular statements, when, how they were misleading, and the results of the statements." *See Lawrence E. Jaffe Pension Plan v. Household Int'l, Inc.*, No. 02 C 5893, 2004 U.S. Dist. LEXIS 4659, at *15-*26 (N.D. Ill. Mar. 19, 2004).

Additionally, Lead Plaintiffs identify the following statements that were affirmative misrepresentations made either by the Company or the Individual Defendants:

- "We make good loans that not only are legal loans, but are beneficial for our customers."

- “It is absolutely against our policy to in any way quote a rate that is different than what the true rate is I can’t underscore that enough.”
- “It is our regulators’ and the attorney general’s job to investigate any complaints brought forth by consumers in their state, and we don’t find anything unique or surprising that they are doing their job....[W]e take proper steps to work with the department to uncover the facts and if necessary formulate an appropriate resolution for the borrower.” ...[some] “customers in Bellingham may have indeed been justified in their confusion about the rate of their loans” and claimed Household “took full and prompt responsibility” and is “satisfied that this situation was localized to the Bellingham branch.”
- “For 124 years, we’ve set the standard for responsible lending. And now we’re doing it again.”
- “Household employees ‘may’ have misrepresented mortgage terms to ‘some’ Whatcom County homeowners who refinanced their home loans at the Bellingham office of HFC.” “[t]he manager of that office was replaced.”
- “Household International supports Citigroup’s announcement today of its efforts to boost consumer protections at Associates First Capital. Their proposed changes are generally consistent with the stringent policies and procedures that have long been in place at Household International. Household’s long-standing view has been that unethical lending practices of any type are abhorrent to our company, employees, and most importantly our customers. So-called “predatory lending” practices undermine the integrity of the industry in which we compete.”
- The timing of these policies was not tied to actions by any fair-lending advocates and that the Company had been working on the announced changes for “quite some time. So, it really is a coincidence.”
- “Management has long recognized its responsibility for conducting the company’s affairs in a manner which is responsive to the interest of employees, shareholders, investors and society in general. This responsibility is included in the statement of policy on ethical standards which provides that the company will fully comply with laws, rules and regulations of every community in which it operates and adhere to the highest ethical standards. Officers, employees and agents of the company are expected and directed to manage the business of the company with complete honesty, candor and integrity.”
- “You simply cannot stay in business for 125 years by misleading your borrowers We do the right thing for our borrowers. We make good loans that not only are legal loans, but are beneficial for our customers.”
- “They have charged us in the past with being a predatory lender, but those allegations have almost uniformly proven false and misleading.”
- “Our position is that the accusations [regarding predatory lending] are baseless The loans are legal, they are compliant with state and federal laws and our own policies, and in

each instance they have benefits for each customer. . . . The loan[s] conform[] to the company's 'tangible benefits test.'"

- "All of [Household's] lending policies are in accord with federal and state regulations and requirements"
- "'Home Wrecker' (Sept. 2, p. 62) disregarded facts and instead crafted an inaccurate portrayal of William Aldinger's Household International and its consumer lending business. While one complaint is one too many, you neglected to mention that 99.99% of our consumer-lending customers do not have a complaint regarding their loan. FORBES neglected to say that our branches undergo three quality assurance audits a year and that more than 56,000 customer audit calls are made to ensure we meet the highest standards of responsible lending. FORBES did not give any credit to our industry-leading disclosures, such as our one-page, simple-language loan summary – in which customers are clearly communicated with about the terms of their contracts. We regret that FORBES didn't find these facts relevant. But at Household, our satisfied customers know the difference."
- [Predatory lending allegations] were "not a significant issue, not indicative of any widespread problem and certainly not a concern that it will spread elsewhere."
- "Our first take on [the allegations of predatory lending raised in the ACORN action] is that it is not a significant issue, not indicative of any widespread problem and certainly not a concern that it will spread elsewhere."
- Household's "position on predatory lending is perfectly clear. Unethical lending practices of any type are abhorrent to our company, our employees and most importantly our customers."
- On October 22, 1998, Household International reported "net income rose 20 percent to a third-quarter record of \$318.0 million, compared with \$264.7 million for the third quarter of 1997. Earnings per share increased 19 percent to a third-quarter record of \$.63 from \$.53 a year ago."
- On January 20, 1999, Household announced that it "achieved record net income and earnings per share for the fourth quarter ended December 31, 1998. Net income of \$349.9 million was up 71 percent from \$204.8 million recorded in Q497, and reported EPS of \$.71 was up 73 percent from \$.41 reported in Q497. . . . Receivables of the company's core consumer finance businesses, other than bankcard, grew 12 percent from a year ago and three percent sequentially. . . . The company's managed net interest margin widened to 8.03 percent, up from 7.92 percent in the prior quarter and 7.80 percent a year ago. The sequential quarter and year-over-year improvement resulted from higher yields on unsecured products and lower funding costs, partially offset by the effect of a shift in mix toward secured products."
- On April 22, 1999, Household "reported record first quarter operating income and operating earnings per share. Net operating income rose 34 percent to \$320.8 million, compared with net operating income of \$239.3 million a year ago. Earnings per share increased 38 percent to \$.65 from operating EPS of \$.47 a year ago."

- On July 22, 1999, Household “reported that second quarter net income rose 31 percent to a record \$326.9 million, compared with operating net income of \$249.4 million a year ago. Earnings per share increased 37 percent to a record \$.67, compared with operating EPS of \$.49 a year ago. Cash basis EPS for the quarter rose 28 percent.”
- On October 19, 1999, Household “reported that third quarter net income rose 26 percent to a record \$399.9 million, compared with \$318.0 million a year ago. Earnings per share increased 32 percent to a record \$.83, from \$.63 a year ago.”
- On January 19, 2000, Household “reported that fourth quarter earnings per share increased 30 percent to a record \$.92 from \$.71 a year ago. Fourth quarter net income rose 25 percent to a record \$438.8 million, compared with \$349.9 million a year ago. For the full year, Household reported record earnings per share of \$3.07, which was 33 percent over 1998 operating earnings per share. . . . Net income totaled \$1.5 billion, or 29 percent above the prior year’s operating net income. Credit quality improved from both the third quarter and a year ago. . . . Reserves to nonperforming loans were 100.1 percent at year end.”
- On March 28, 2000, in its FY99 Report on Form 10-K, Household reported “return on average common shareholders’ equity (“ROE”) rose to 23.5 percent in 1999 compared to 18.2 percent in 1998, excluding merger and integration related costs and the gain on sale of Beneficial Canada, and 17.3 percent in 1997. Our return on average owned assets (“ROA”) improved to 2.64 percent in 1999 compared to 2.29 percent in 1998, excluding the nonrecurring items, and 2.03 percent in 1997. Our return on average managed assets (“ROMA”) improved to 1.99 percent in 1999 compared to 1.60 percent in 1998, excluding the nonrecurring items, and 1.38 percent in 1997. Including the merger and integration related costs and the gain on sale of Beneficial Canada, ROE was 8.1 percent, ROA was 1.04 percent and ROMA was .72 percent in 1998. Our operating net income, ROA, ROMA and ROE have increased steadily over the past three years as a result of our focus on higher-return core businesses and improved efficiency. We expect this trend to continue as we focus on growth of these higher return core businesses.”
- On April 19, 2000, Household “reported that earnings per share rose 20 percent to a first quarter record of \$.78, from \$.65 a year ago. Net income increased to \$372.9 million, up 16 percent from \$320.8 million in the first quarter of 1999. Cash earnings for the quarter totaled \$415 million.”
- On July 19, 2000, Household “reported that earnings per share rose to a second quarter record \$.80, up 19 percent from \$.67 a year ago. Net income increased 17 percent to \$383.9 million, from \$326.9 million in the second quarter of 1999. Cash earnings per share for the quarter totaled \$.88. . . . The company’s managed receivables portfolio grew 22 percent from a year ago, reaching almost \$80 billion. The company added \$4.5 billion of receivables in the quarter, an increase of 6 percent. Revenues rose 20 percent compared to the year-ago quarter.”
- On October 18, 2000, Household “reported that third quarter earnings per share rose 13 percent to \$.94, compared to \$.83 a year ago. Net income also rose to a third quarter record of \$451.2 million, a 13 percent increase from \$399.9 million a year ago. Cash earnings per share for the quarter totaled \$1.02.”

- On January 17, 2001, Household “reported full year earnings per share of \$3.55, a 16 percent increase over \$3.07 a year ago and the highest earnings per share in the company’s 122-year history. Net income totaled \$1.7 billion, or 14 percent above the prior year. Net managed revenues for the full year increased 18 percent to \$8.9 billion, compared to \$7.5 billion in 1999. Household’s fourth quarter earnings per share rose 12 percent to a record \$1.03, from \$.92 a year ago. Fourth quarter net income rose 12 percent to an all-time high of \$492.7 million, compared with \$438.8 million a year ago.”
- On April 18, 2001, Household “reported that earnings per share rose 17 percent to a first quarter record of \$.91 from \$.78 a year ago. Net income increased to \$431.8 million, up 16 percent from \$372.9 million in the first quarter of 2000. This quarter marked the 11th consecutive quarter of record results.”
- On July 18, 2001, Household “reported record earnings per share of \$.93, up to 16 percent from a year ago. Net income rose 14 percent, to \$439.0 million, from \$383.9 million for the second quarter of 2000.”
- On October 17, 2001, Household “reported earnings per share of \$1.07 rose 14 percent from \$.94 the prior year. Net income increased 12 percent, to \$504 million, from \$451 million in the third quarter of 2000.”
- On January 16, 2002, Household “reported fourth quarter earnings per share of \$1.17, its fourteenth consecutive record quarter. Fourth quarter earnings per share rose 14 percent from \$1.03 the prior year. Net income in the fourth quarter increased 11 percent, to an all-time quarterly record of \$549 million. For the full year, Household reported earnings per share of \$4.08, representing a 15 percent increase from \$3.55 in 2000. Net income for 2001 totaled \$1.9 billion, also an all-time high, 13 percent above \$1.7 billion earned in 2000.”
- On April 17, 2002, Household “reported first quarter earnings per share of \$1.09, its fifteenth consecutive record quarter. First quarter earnings per share rose 20 percent from \$.91 the prior year. Net income in the first quarter increased 18 percent, to a record \$511 million.”
- On July 17, 2002, Household “reported second quarter earnings per share increased 16 percent to \$1.08, from \$.93 the prior year. These results mark Household’s sixteenth consecutive record quarter. Second quarter net income increased 17 percent, to a record \$514 million.”
- April 22, 1999 Press Release: “Strong loan growth in our consumer finance business, improved efficiency and higher income from our tax refund loan business led to the strongest first quarter in our 120 year history. . . . We have great momentum in this business. . . . 1999 is off to a very good start and we are on track to meet our earnings and growth targets.”
- July 22, 1999 Press Release: “Our results, a second quarter record, highlight the growth and improved profitability of our consumer finance businesses. . . . Business fundamentals are strong and reflect the positive trends we have seen since late last year. Our net interest margin percentage expanded substantially, credit quality improved and costs remained well under control. Receivable growth was strong in the consumer finance business. We have excellent momentum. . . . Growth in the HFC and Beneficial consumer finance branch

business continues to improve and also gives us an excellent platform from which to cross-sell many of our other products. Our 1,400 branches and 7,000 branch employees give us a real advantage as we focus on satisfying more of our customers' credit needs."

- October 19, 1999 Press Release: "Our quarter reflects excellent performance in all of our businesses, with the key drivers being accelerating internal receivable and revenue growth. Retail consumer finance growth was particularly strong. Looking ahead to the fourth quarter and into next year, we see great momentum across all businesses, but most notably in our HFC/Beneficial finance business. I am confident we will achieve our earnings goal for this year and we are well positioned for next year."
- January 19, 2000 Press Release: "We are very pleased to report another record quarter, the culmination of an absolutely outstanding year for Household. Growth and profitability in the quarter were excellent and exceeded our expectations. Revenues were particularly strong. . . . Our record earnings reflect an outstanding year in our consumer finance business, a dramatic turnaround in our MasterCard/Visa business, and strong results in all of our other businesses. We are particularly pleased with excellent receivable growth in 1999, particularly in our branches, while fully realizing all of the acquisition synergies of the Beneficial merger. We move into the new year with a real sense of excitement, great momentum throughout the company and strong competitive positions in each of our businesses."
- April 19, 2000 Press Release: "This was the strongest first quarter in our company's history, with all of our businesses performing well. Revenue and receivable growth were strong, and credit quality continued to improve. To build upon the momentum that is evident in these results, we increased our investment in marketing programs and e commerce initiatives. . . . The year is off to a great start. . . . We are seeing a continuation of the very positive business trends that emerged in the second half of 1999. We remain comfortable with our receivable, revenue and earnings per share growth targets for 2000."
- July 19, 2000 Press Release: "Our superb second quarter results were highlighted by outstanding receivables and revenue growth and a significant improvement in credit quality" "Our record performance reflects strong sales and marketing results in all of our businesses coupled with our continued focus on risk management and operational efficiency. . . . Our results to date include significant investments in people, technology and marketing to support future growth and profitability. While our plan calls for additional investment in the second half of the year, we are comfortable in our ability to achieve our 15 percent EPS growth target for 2000."
- October 18, 2000 Press Release: "Our strong third quarter results reflect a continuation of outstanding receivables and revenue growth. At the same time, we achieved year-over-year improvements in credit quality. . . . These positive trends give us a high degree of confidence in our ability to deliver 15 percent EPS growth for 2000."
- January 17, 2001 Press Release: "These strong fourth quarter results cap off a terrific year in which we delivered on all of our earnings and growth goals. . . . Growth and profitability in the quarter were excellent, while credit quality and our balance sheet remained strong. . . . Our record earnings per share reflect strong top-line growth and improved credit quality. At

the same time, we made significant investments in our technology and human capital that enhance our ability to achieve sustainable and consistent revenue and receivables growth. We have built a powerful franchise that is capable of delivering 13 to 15 percent annual earnings per share growth.”

- April 18, 2001 Press Release: “Our outstanding results reflect the sustainability and earnings power of our franchise. Receivables and revenues grew nicely in the quarter. At the same time, credit quality remained stable and we strengthened our balance sheet. We also repurchased 8.8 million shares in the quarter. . . . All of our businesses are performing well and have great momentum. . . . We are very comfortable with our ability to achieve our receivable and earnings per share growth targets for 2001. . . . I look forward to another record year.”
- July 18, 2001 Press Release: “We had a terrific quarter – our 12th consecutive quarter of record results. Given the softening economic environment, I am particularly pleased with our ability to consistently deliver strong, quality earnings. . . . Results for the quarter were excellent. . . . We enjoyed strong receivable and revenue growth compared to a year ago, with all of our businesses performing well. In addition, delinquency was stable in the quarter Our strong performance to date has positioned us well to achieve another record year in 2001.”
- October 17, 2001 Press Release: “Household’s performance this year has been outstanding, even as the economy has continued to weaken. . . . The third quarter was no exception. Receivable and revenue growth were strong, and credit performance was within our expectations. We further strengthened our balance sheet and continued to repurchase shares. . . . The strength of our franchise gives me confidence that we will achieve the high end of our earnings target of 13 to 15 percent EPS growth for the year.”
- January 16, 2002 Press Release: “Household’s fourth quarter results were simply outstanding . . . demonstrating the tremendous strength and earnings power of the Household franchise. Receivable and revenue growth exceeded our expectations while credit indicators weakened only modestly in a tough economic environment. Recognizing the importance of a strong balance sheet, we provided \$154 million in excess of owned chargeoffs, bringing our reserves to their highest level ever. . . . In 2001, we demonstrated that our business model generates superior results in a weak economy as well as in the strong economic periods of previous years. Exceptional revenue growth of 18 percent more than offset the increases in credit losses during the year. We further strengthened our balance sheet while investing in sales and marketing to position our franchise for sustainable growth in the future. We are well-positioned to deliver 13 to 15 percent EPS growth for 2002.”
- April 17, 2002 Press Release: “Household turned in a very strong first quarter,” “In addition to delivering record results this quarter, we strongly added to our capital and reserve levels and further enhanced liquidity. We remain committed to maintaining a strong balance sheet and maximum financial flexibility.” “Our credit quality performance was well within our expectations in light of the continued weakness in the economy” “We anticipate a very manageable credit environment for the remainder of the year.” “We are off to a great start, and I am comfortable with our ability to meet our 13 to 15 percent earnings per share growth target for 2002.”

- July 17, 2002 Press Release: “Our results this quarter were fueled by ongoing strong demand for our loan products. . . . Growth this quarter was strong, while we have maintained our conservative underwriting criteria. . . . The company’s operating performance has been very strong in the first half of 2002, and, although the economic environment is likely to remain uncertain, we believe our businesses are well-positioned for the remainder of the year.”
- July 17, 2002 Conference Call: “The impact on us of those changed laws has been virtually nil or minimal. That is because we already have in place our best practices. In many cases, our best practices exceed what these states have been asking or are in line with what these states are asking. . . . Now let’s talk about the lawsuits. We think straight out that the class action suits brought by Acorn (phonetic) in particular are just baseless, and we don’t see any long-term impact there. We think they are wrong. . . . On the AGS, obviously again, it is a political issue. There has been lots of talk. We will like we do on everything else focus on resolving that issue over the next six months or so, but I cannot go into any details except to say that I am confident that our best practices and our current model ultimately will prevail, and we will do what we do because we do not do predatory lending. . . . [T]he final message is lots of moving parts, lots of headline issues, but economically, we run a very strict model and a very good model for our customers, and we don’t think when we are sitting here talking to you next year there will be anything substantially different in the returns or practices. I am sorry for such a long answer.”
- August 14, 2002 Press Release: “Household’s results for the year-to-date have been fueled by strong demand for our loan products throughout our businesses. Our loan underwriting approach continues to be conservative in these times of economic uncertainty, and we remain committed to strong reserve and capital levels. The company’s operating performance in the first half of the year has been very strong, and our businesses are well-positioned for the remainder of the year. . . . Household has undergone a thorough review of our financial statements and related accounting policies in conjunction with our new auditors, KPMG LLP. As part of this review, we have determined to adopt certain revisions to the accounting treatment of our Mastercard/Visa co-branding and affinity credit card relationships, and a credit card marketing agreement with a third party. We are restating earnings to reflect the cumulative impact of the adjusted items over the period in which the adjustments are applicable as determined in consultation with our new auditors at KPMG. The restatement associated with these matters has the effect of reducing second quarter earnings per share by \$.01, or approximately 1 percent, and EPS for the six months ended June 30, 2002 by \$.06, or 2.8 percent, versus what was reported in the company’s earnings release of July 17, 2002. These changes are not expected to have any significant impact on our future results of operations.”

Lead Plaintiffs specifically incorporate by reference the reasons outlined in Responses to Interrogatory Nos. 137 [36] and 139 [38] for why the statements outlined above were false and misleading. Additionally, Lead Plaintiffs also incorporate by reference their responses to all prior interrogatories served by the defendants in this litigation.

INTERROGATORY NO. 143 [42]:

If Plaintiffs contend that Defendants made affirmative misrepresentations regarding Household's alleged "Fraudulent Scheme" involving "Improperly 'Reaging' or 'Restructuring' Delinquent Accounts," as set forth in Part VI.B of the Complaint (AC ¶¶50, 107-133), identify each statement that Plaintiffs contend was an affirmative misrepresentation and the reasons that Plaintiffs contend that each statement was false.

RESPONSE TO INTERROGATORY NO. 143 [42]:

Lead Plaintiffs hereby incorporate all the General Objections above, as if set forth fully herein. Lead Plaintiffs also object to this interrogatory because it suffers from the same infirmities plaguing all of defendants' interrogatories thus far – it is vague and ambiguous and fails to identify with particularity the information that defendants seek. Lead Plaintiffs object to this interrogatory because it is compound and contains numerous subparts. Lead Plaintiffs also object that this interrogatory is overly broad, unduly burdensome, harassing and vexatious in that it inquires into no fewer than 27 paragraphs of Lead Plaintiffs' Complaint. In addition, Lead Plaintiffs object to this interrogatory because it fails to specify a time period for which a response is sought.

Additionally, Lead Plaintiffs object to this interrogatory on the grounds that it cannot be fully answered until discovery has been substantially completed. Although the fact-discovery cut-off is scheduled for January 31, 2007, defendants are still producing responsive documents notwithstanding their improper and evasive certification that their document production is complete. Defendants have also failed to log documents on privilege logs despite improperly withholding and/or redacting responsive documents in violation of Fed. R. Civ. P. 26. Lead Plaintiffs further object to this interrogatory because defendants have failed to provide evidence of the documents that were destroyed throughout the entire Company pursuant to the "purge" that occurred in mid-2001; the knowing destruction of relevant documents by certain of the defendants related to Andrew Kahr as well as the destruction of documents and spoliation of other relevant evidence that occurred both during and after the Class Period. Lead Plaintiffs' ability to fully respond to this interrogatory is

limited due to defendants' spoliation of evidence. Lead Plaintiffs' response, thus, is based upon such facts as are currently known to them.

Further, defendants have objected to producing documents and/or deposition testimony from a number of witnesses that defendants have identified as having knowledge of facts relevant to this litigation. In addition, the Individual Defendants have refused to respond to the discovery propounded on them by the Class, directing the Class instead to wait until after their depositions to obtain information relevant to this litigation from the Individual Defendants. Three of the Individual Defendants have yet to be deposed. Additionally, the depositions of Household's primary auditors during the Class Period have yet to occur. Further, expert discovery has not yet begun. Lead Plaintiffs will provide responses based upon such facts as are currently known to them. Lead Plaintiffs reserve the right, as necessary and appropriate, to supplement, amend, modify or revise their response to this interrogatory consistent with their obligations under Fed. R. Civ. P. 26(e).

Subject to and specifically incorporating the foregoing General and Specific Objections and without waiving them, Lead Plaintiffs further respond to this interrogatory as follows:

- On March 28, 2000 in its FY99 Report on form 10-K Household falsely state: "our focus is to continue using risk-based pricing and effective collection efforts for each loan. We have a process that gives us a reasonable basis for predicting the asset quality of new accounts. This process is based on our experience with numerous marketing, credit and risk management tests. We also believe that our frequent and early contact with delinquent customers is helpful in managing net credit losses." This statement was repeated in Household's FY00 Report on Form 10-K, filed March 28, 2001.
- On March 13, 2002 in its FY01 Report on Form 10-K Household falsely stated: "Our credit and portfolio management procedures focus on risk-based pricing and effective collection efforts for each loan. We have a process which we believe gives us a reasonable basis for predicting the credit quality of new accounts. This process is based on our experience with numerous marketing, credit and risk management tests. We also believe that our frequent and early contact with delinquent customers, as well as policies designed to manage customer relationships, such as reaging delinquent accounts to current in specific situations, are helpful in maximizing customer collections. We have been preparing for an economic slowdown since late 1999. Throughout 2000 and 2001, we emphasized real estate secured loans which historically have a lower loss rate as compared to our other loan products, grew sensibly, tightened underwriting policies, reduced unused credit lines, strengthened risk model capabilities and invested heavily in collections capability by adding over 2,500

collectors. As a result, 2001 charge-off and delinquency performance has been well within our expectations.”

- “We believe our policies are responsive to the specific needs of the customer segment we serve. . . . Our policies have been consistently applied and there have been no significant changes to any of our policies during any of the periods reported. Our loss reserve estimates consider our charge-off policies to ensure appropriate reserves exist for products with longer charge-off lives. We believe our charge-off policies are appropriate and result in proper loss recognition.”
- In a December 3, 2001 *BusinessWeek* article, Household stated that the practice of reaging was an industry norm. Household also stated that collection rates improve after loans were “reaged”, that the Company’s charge-off policy followed industry standards closely, that applying bank regulatory rules would barely increase the amount of charge-offs and that total reserves were at the highest level in company history.
- “Vision has had an overwhelmingly positive effect on virtually every aspect of our consumer finance business. We have enjoyed faster and more profitable growth because our account executives are provided with greater numbers of qualified leads, prioritized by the Vision system. Our credit losses are minimized because of the real-time links to our underwriting system. . . .” Acceptance of *CIO* magazine’s prestigious “Enterprise Value Award,” February 2000.
- On March 13, 2002, Household filed a Form 10-K that disclosed Household’s restructuring policies. Specifically, the Management’s Discussion and Analysis of Financial Condition and Results of Operations portion of Household’s Form 10-K included the statement that “[o]ur policies for consumer receivables permit reset of the contractual delinquency status of an account to current, subject to certain limits, if a predetermined number of consecutive payments has been received and there is evidence that the reason for the delinquency has been cured.”

Household reiterated this false disclosure in its Form 10-Q for second quarter 2002, filed on August 14, 2002, its Form 10-K/A for fiscal year 2001, filed August 27, 2002, and its Form 10-Q for third quarter 2002, filed October 24, 2002. Beginning in April 2002, Household also disclosed inaccurate and misleading statistics related to restructures in SEC filings and elsewhere.

- At the April 9, 2002 Financial Relations Conference, defendants made numerous false statements regarding its reaging and restructuring policies. For example, defendants informed investors that Household’s policies were “appropriate for each customer segment; that the Company’s reage policies were [n]ot intended to defer credit loss recognition or to overstate net income; that the reage policies were in place to for the customer’s benefit; that customers who were reaged had indicated willingness and ability to pay; that Household’s reage policies had been “consistently applied and [were] appropriate for each product. Defendants also falsely assured investors at the April 9, 2002 conference that Household had in place strict restructuring controls. Household also presented inaccurate statistical data regarding restructures and assured investors that the Company was adequately reserved.

- “We service each customer with a focus to understand that customer’s personal financial needs. . . . Our policies are designed to be flexible to maximize the collectibility of our loans while not incurring excessive collection expenses on loans that have a high probability of being ultimately uncollectible. Cross-selling of products, proactive credit management, ‘hands-on’ customer care and targeted product marketing are means we use to retain customers and grow our business.
- On October 22, 1998, Household International reported net “income rose 20 percent to a third-quarter record of \$318.0 million, compared with \$264.7 million for the third quarter of 1997. Earnings per share increased 19 percent to a third-quarter record of \$.63 from \$.53 a year ago.”
- On January 20, 1999, Household announced that it achieved record net income and earnings per share for the fourth quarter ended December 31, 1998. Net income of \$349.9 million was up 71 percent from \$204.8 million recorded in Q497, and reported EPS of \$.71 was up 73 percent from \$.41 reported in Q497....Receivables of the company’s core consumer finance businesses, other than bankcard, grew 12 percent from a year ago and three percent sequentially. . . . The company’s managed net interest margin widened to 8.03 percent, up from 7.92 percent in the prior quarter and 7.80 percent a year ago. The sequential quarter and year-over-year improvement resulted from higher yields on unsecured products and lower funding costs, partially offset by the effect of a shift in mix toward secured products.
- On April 22, 1999, Household reported record first quarter operating income and operating earnings per share. Net operating income rose 34 percent to \$320.8 million, compared with net operating income of \$239.3 million a year ago. Earnings per share increased 38 percent to \$.65 from operating EPS of \$.47 a year ago.
- On July 22, 1999, Household reported that second quarter net income rose 31 percent to a record \$326.9 million, compared with operating net income of \$249.4 million a year ago. Earnings per share increased 37 percent to a record \$.67, compared with operating EPS of \$.49 a year ago. Cash basis EPS for the quarter rose 28 percent.
- On October 19, 1999, Household reported that third quarter net income rose 26 percent to a record \$399.9 million, compared with \$318.0 million a year ago. Earnings per share increased 32 percent to a record \$.83, from \$.63 a year ago.
- On January 19, 2000, Household reported that fourth quarter earnings per share increased 30 percent to a record \$.92 from \$.71 a year ago. Fourth quarter net income rose 25 percent to a record \$438.8 million, compared with \$349.9 million a year ago. For the full year, Household reported record earnings per share of \$3.07, which was 33 percent over 1998 operating earnings per share. Net income totaled \$1.5 billion, or 29 percent above the prior year’s operating net income. Credit quality improved from both the third quarter and a year ago. Reserves to nonperforming loans were 100.1 percent at year end.
- On March 28, 2000, in its FY99 Report on Form 10-K, Household reported return on average common shareholders’ equity (“ROE”) rose to 23.5 percent in 1999 compared to 18.2 percent in 1998, excluding merger and integration related costs and the gain on sale of Beneficial Canada, and 17.3 percent in 1997. Our return on average owned assets (“ROA”)

improved to 2.64 percent in 1999 compared to 2.29 percent in 1998, excluding the nonrecurring items, and 2.03 percent in 1997. Our return on average managed assets ("ROMA") improved to 1.99 percent in 1999 compared to 1.60 percent in 1998, excluding the nonrecurring items, and 1.38 percent in 1997. Including the merger and integration related costs and the gain on sale of Beneficial Canada, ROE was 8.1 percent, ROA was 1.04 percent and ROMA was .72 percent in 1998. Our operating net income, ROA, ROMA and ROE have increased steadily over the past three years as a result of our focus on higher-return core businesses and improved efficiency. We expect this trend to continue as we focus on growth of these higher return core businesses.

- On April 19, 2000, Household reported that earnings per share rose 20 percent to a first quarter record of \$.78, from \$.65 a year ago. Net income increased to \$372.9 million, up 16 percent from \$320.8 million in the first quarter of 1999. Cash earnings for the quarter totaled \$415 million.
- On July 19, 2000, Household reported that earnings per share rose to a second quarter record \$.80, up 19 percent from \$.67 a year ago. Net income increased 17 percent to \$383.9 million, from \$326.9 million in the second quarter of 1999. Cash earnings per share for the quarter totaled \$.88. . . . The company's managed receivables portfolio grew 22 percent from a year ago, reaching almost \$80 billion. The company added \$4.5 billion of receivables in the quarter, an increase of 6 percent. Revenues rose 20 percent compared to the year-ago quarter.
- On October 18, 2000, Household reported that third quarter earnings per share rose 13 percent to \$.94, compared to \$.83 a year ago. Net income also rose to a third quarter record of \$451.2 million, a 13 percent increase from \$399.9 million a year ago. Cash earnings per share for the quarter totaled \$1.02.
- On January 17, 2001, Household reported full year earnings per share of \$3.55, a 16 percent increase over \$3.07 a year ago and the highest earnings per share in the company's 122-year history. Net income totaled \$1.7 billion, or 14 percent above the prior year. Net managed revenues for the full year increased 18 percent to \$8.9 billion, compared to \$7.5 billion in 1999. Household's fourth quarter earnings per share rose 12 percent to a record \$1.03, from \$.92 a year ago. Fourth quarter net income rose 12 percent to an all-time high of \$492.7 million, compared with \$438.8 million a year ago.
- On April 18, 2001, Household reported that earnings per share rose 17 percent to a first quarter record of \$.91 from \$.78 a year ago. Net income increased to \$431.8 million, up 16 percent from \$372.9 million in the first quarter of 2000. This quarter marked the 11th consecutive quarter of record results.
- On July 18, 2001, Household reported record earnings per share of \$.93, up to 16 percent from a year ago. Net income rose 14 percent, to \$439.0 million, from \$383.9 million for the second quarter of 2000.
- On October 17, 2001, Household reported earnings per share of \$1.07 rose 14 percent from \$.94 the prior year. Net income increased 12 percent, to \$504 million, from \$451 million in the third quarter of 2000.

- On January 16, 2002, Household reported fourth quarter earnings per share of \$1.17, its fourteenth consecutive record quarter. Fourth quarter earnings per share rose 14 percent from \$1.03 the prior year. Net income in the fourth quarter increased 11 percent, to an all-time quarterly record of \$549 million. For the full year, Household reported earnings per share of \$4.08, representing a 15 percent increase from \$3.55 in 2000. Net income for 2001 totaled \$1.9 billion, also an all-time high, 13 percent above \$1.7 billion earned in 2000.
- On April 17, 2002, Household reported first quarter earnings per share of \$1.09, its fifteenth consecutive record quarter. First quarter earnings per share rose 20 percent from \$.91 the prior year. Net income in the first quarter increased 18 percent, to a record \$511 million.
- On July 17, 2002, Household reported second quarter earnings per share increased 16 percent to \$1.08, from \$.93 the prior year. These results mark Household's sixteenth consecutive record quarter. Second quarter net income increased 17 percent, to a record \$514 million.
- April 22, 1999 Press Release: "Strong loan growth in our consumer finance business, improved efficiency and higher income from our tax refund loan business led to the strongest first quarter in our 120 year history. . . . We have great momentum in this business." "1999 is off to a very good start and we are on track to meet our earnings and growth targets."
- July 22, 1999 Press Release: "Our results, a second quarter record, highlight the growth and improved profitability of our consumer finance businesses...." "Business fundamentals are strong and reflect the positive trends we have seen since late last year. Our net interest margin percentage expanded substantially, credit quality improved and costs remained well under control. Receivable growth was strong in the consumer finance business. We have excellent momentum." "Growth in the HFC and Beneficial consumer finance branch business continues to improve and also gives us an excellent platform from which to cross-sell many of our other products. Our 1,400 branches and 7,000 branch employees give us a real advantage as we focus on satisfying more of our customers' credit needs."
- October 19, 1999 Press Release: "Our quarter reflects excellent performance in all of our businesses, with the key drivers being accelerating internal receivable and revenue growth. Retail consumer finance growth was particularly strong. Looking ahead to the fourth quarter and into next year, we see great momentum across all businesses, but most notably in our HFC/Beneficial finance business. I am confident we will achieve our earnings goal for this year and we are well positioned for next year."
- January 19, 2000 Press Release: "We are very pleased to report another record quarter, the culmination of an absolutely outstanding year for Household. Growth and profitability in the quarter were excellent and exceeded our expectations. Revenues were particularly strong." "Our record earnings reflect an outstanding year in our consumer finance business, a dramatic turnaround in our MasterCard/Visa business, and strong results in all of our other businesses. We are particularly pleased with excellent receivable growth in 1999, particularly in our branches, while fully realizing all of the acquisition synergies of the Beneficial merger. We move into the new year with a real sense of excitement, great momentum throughout the company and strong competitive positions in each of our businesses."

- April 19, 2000 Press Release: "This was the strongest first quarter in our company's history, with all of our businesses performing well. Revenue and receivable growth were strong, and credit quality continued to improve. To build upon the momentum that is evident in these results, we increased our investment in marketing programs and e commerce initiatives." "The year is off to a great start. . . . We are seeing a continuation of the very positive business trends that emerged in the second half of 1999. We remain comfortable with our receivable, revenue and earnings per share growth targets for 2000."
- July 19, 2000 Press Release: "Our superb second quarter results were highlighted by outstanding receivables and revenue growth and a significant improvement in credit quality" "Our record performance reflects strong sales and marketing results in all of our businesses coupled with our continued focus on risk management and operational efficiency." "Our results to date include significant investments in people, technology and marketing to support future growth and profitability. While our plan calls for additional investment in the second half of the year, we are comfortable in our ability to achieve our 15 percent EPS growth target for 2000."
- October 18, 2000 Press Release: "Our strong third quarter results reflect a continuation of outstanding receivables and revenue growth. At the same time, we achieved year-over-year improvements in credit quality. . . . These positive trends give us a high degree of confidence in our ability to deliver 15 percent EPS growth for 2000."
- January 17, 2001 Press Release: "These strong fourth quarter results cap off a terrific year in which we delivered on all of our earnings and growth goals," "Growth and profitability in the quarter were excellent, while credit quality and our balance sheet remained strong. . . ." "Our record earnings per share reflect strong top-line growth and improved credit quality. At the same time, we made significant investments in our technology and human capital that enhance our ability to achieve sustainable and consistent revenue and receivables growth. We have built a powerful franchise that is capable of delivering 13 to 15 percent annual earnings per share growth."
- April 18, 2001 Press Release: "Our outstanding results reflect the sustainability and earnings power of our franchise. Receivables and revenues grew nicely in the quarter. At the same time, credit quality remained stable and we strengthened our balance sheet. We also repurchased 8.8 million shares in the quarter." "All of our businesses are performing well and have great momentum. . . . We are very comfortable with our ability to achieve our receivable and earnings per share growth targets for 2001." "I look forward to another record year."
- April 18, 2001 Press Release: "We had a terrific quarter – our 12th consecutive quarter of record results. Given the softening economic environment, I am particularly pleased with our ability to consistently deliver strong, quality earnings." "Results for the quarter were excellent. . . . We enjoyed strong receivable and revenue growth compared to a year ago, with all of our businesses performing well. In addition, delinquency was stable in the quarter" "Our strong performance to date has positioned us well to achieve another record year in 2001."

- October 17, 2001 Press Release: "Household's performance this year has been outstanding, even as the economy has continued to weaken," "The third quarter was no exception. Receivable and revenue growth were strong, and credit performance was within our expectations. We further strengthened our balance sheet and continued to repurchase shares." "The strength of our franchise gives me confidence that we will achieve the high end of our earnings target of 13 to 15 percent EPS growth for the year."
- January 16, 2002 Press Release: "Household's fourth quarter results were simply outstanding ...demonstrating the tremendous strength and earnings power of the Household franchise. Receivable and revenue growth exceeded our expectations while credit indicators weakened only modestly in a tough economic environment. Recognizing the importance of a strong balance sheet, we provided \$154 million in excess of owned chargeoffs, bringing our reserves to their highest level ever." "In 2001, we demonstrated that our business model generates superior results in a weak economy as well as in the strong economic periods of previous years. Exceptional revenue growth of 18 percent more than offset the increases in credit losses during the year. We further strengthened our balance sheet while investing in sales and marketing to position our franchise for sustainable growth in the future. We are well-positioned to deliver 13 to 15 percent EPS growth for 2002."
- April 17, 2002 Press Release: "Household turned in a very strong first quarter," "In addition to delivering record results this quarter, we strongly added to our capital and reserve levels and further enhanced liquidity. We remain committed to maintaining a strong balance sheet and maximum financial flexibility." "Our credit quality performance was well within our expectations in light of the continued weakness in the economy" "We anticipate a very manageable credit environment for the remainder of the year." "We are off to a great start, and I am comfortable with our ability to meet our 13 to 15 percent earnings per share growth target for 2002."
- July 17, 2002 Press Release: "Our results this quarter were fueled by ongoing strong demand for our loan products." "Growth this quarter was strong, while we have maintained our conservative underwriting criteria..." "The company's operating performance has been very strong in the first half of 2002, and, although the economic environment is likely to remain uncertain, we believe our businesses are well-positioned for the remainder of the year."
- July 17, 2002 Conference Call: The impact on us of those changed laws has been virtually nil or minimal. That is because we already have in place our best practices. In many cases, our best practices exceed what these states have been asking or are in line with what these states are asking. . . . Now let's talk about the lawsuits. We think straight out that the class action suits brought by Acorn (phonetic) in particular are just baseless, and we don't see any long-term impact there. We think they are wrong. . . . On the AGS, obviously again, it is a political issue. There has been lots of talk. We will like we do on everything else focus on resolving that issue over the next six months or so, but I cannot go into any details except to say that I am confident that our best practices and our current model ultimately will prevail, and we will do what we do because we do not do predatory lending. . . . [T]he final message is lots of moving parts, lots of headline issues, but economically, we run a very strict model and a very good model for our customers, and we don't think when we are sitting here talking to you next year there will be anything substantially different in the returns or practices. I am sorry for such a long answer.

- August 14, 2002 Press Release: “Household’s results for the year-to-date have been fueled by strong demand for our loan products throughout our businesses. Our loan underwriting approach continues to be conservative in these times of economic uncertainty, and we remain committed to strong reserve and capital levels. The company’s operating performance in the first half of the year has been very strong, and our businesses are well-positioned for the remainder of the year.” “Household has undergone a thorough review of our financial statements and related accounting policies in conjunction with our new auditors, KPMG LLP. As part of this review, we have determined to adopt certain revisions to the accounting treatment of our Mastercard/Visa co-branding and affinity credit card relationships, and a credit card marketing agreement with a third party. We are restating earnings to reflect the cumulative impact of the adjusted items over the period in which the adjustments are applicable as determined in consultation with our new auditors at KPMG. The restatement associated with these matters has the effect of reducing second quarter earnings per share by \$.01, or approximately 1 percent, and EPS for the six months ended June 30, 2002 by \$.06, or 2.8 percent, versus what was reported in the company’s earnings release of July 17, 2002. These changes are not expected to have any significant impact on our future results of operations.”

Lead Plaintiffs specifically incorporate by reference the reasons outlined in Responses to Interrogatory Nos. 138 [37] and 139 [38] for why the statements outlined above were false and misleading. Additionally, Lead Plaintiffs also incorporate by reference their responses to all prior interrogatories served by the defendants in this litigation.

INTERROGATORY NO. 144 [43]:

If Plaintiffs contend that Defendants made affirmative misrepresentations regarding Household’s alleged “Fraudulent Scheme” involving “Improper Accounting of Costs Associated With Various Credit Card Co-Branding, Affinity and Marketing Agreements” as set forth in Part VI.C of the Complaint (AC ¶¶50, 134-155), identify each statement that Plaintiffs contend was an affirmative misrepresentation and the reasons that Plaintiffs contend that each statement was false.

RESPONSE TO INTERROGATORY NO. 144 [43]:

Lead Plaintiffs hereby incorporate all the General Objections above, as if set forth fully herein. Lead Plaintiffs also object to this interrogatory because it suffers from the same infirmities plaguing all of defendants’ interrogatories thus far – it is vague and ambiguous and fails to identify with particularity the information that defendants seek. Lead Plaintiffs object to this interrogatory because it is compound and contains numerous subparts. Lead Plaintiffs also object that this interrogatory is overly broad, unduly burdensome, harassing and vexatious in that it inquires into no

fewer than 22 paragraphs of Lead Plaintiffs' Complaint. In addition, Lead Plaintiffs object to this interrogatory because it fails to specify a time period for which a response is sought.

Additionally, Lead Plaintiffs object to this interrogatory on the grounds that it cannot be fully answered until discovery has been substantially completed. Although the fact-discovery cut-off is scheduled for January 31, 2007, defendants are still producing responsive documents notwithstanding their improper and evasive certification that their document production is complete. Defendants have also failed to log documents on privilege logs despite improperly withholding and/or redacting responsive documents in violation of Fed. R. Civ. P. 26. Lead Plaintiffs further object to this interrogatory because defendants have failed to provide evidence of the documents that were destroyed throughout the entire Company pursuant to the "purge" that occurred in mid-2001; the knowing destruction of relevant documents by certain of the defendants related to Andrew Kahr; as well as the destruction of documents and spoliation of other relevant evidence that occurred both during and after the Class Period. Lead Plaintiffs' ability to fully respond to this interrogatory is limited due to defendants' spoliation of evidence. Lead Plaintiffs' response, thus, is based upon such facts as are currently known to them.

Further, defendants have objected to producing documents and/or deposition testimony from a number of witnesses that defendants have identified as having knowledge of facts relevant to this litigation. In addition, the Individual Defendants have refused to respond to the discovery propounded on them by the Class, directing the Class instead to wait until after their depositions to obtain information relevant to this litigation from the Individual Defendants. Three of the Individual Defendants have yet to be deposed. Additionally, the depositions of Household's primary auditors during the Class Period have yet to occur. Further, expert discovery has not yet begun. Lead Plaintiffs will provide a response based upon such facts as are currently known to them. Lead

Plaintiffs reserve the right, as necessary and appropriate, to supplement, amend, modify or revise their response to this interrogatory consistent with their obligations under Fed. R. Civ. P. 26(e).

Subject to and specifically incorporating the foregoing General and Specific Objections and without waiving them, Lead Plaintiffs further respond to these interrogatories as follows:

Lead Plaintiffs respond to this interrogatory (or more aptly “interrogatories”) by stating as an initial matter that in its detailed and particularized Complaint, Lead Plaintiffs have identified all the false and misleading statements made during the Class Period, including the source of the statement (press release, SEC filing, presentation made to analysts, etc.), the date of the statement, and the circumstances in which the statement was made. Indeed, Judge Guzman found that Lead Plaintiffs had met this requirement of the Private Securities Litigation Reform Act in the Complaint itself by “identifying who made particular statements, when, how they were misleading, and the results of the statements.” *See Lawrence E. Jaffe Pension Plan v. Household Int’l, Inc.*, No. 02 C 5893, 2004 U.S. Dist. LEXIS 4659, at *15-*26 (N.D. Ill. Mar. 19, 2004).

Additionally, Lead Plaintiffs identify the following statements that were affirmative misrepresentations made either by the Company or the Individual Defendants:

- On October 22, 1998, Household reported “net income rose 20 percent to a third-quarter record of \$318.0 million, compared with \$264.7 million for the third quarter of 1997. Earnings per share increased 19 percent to a third-quarter record of \$.63 from \$.53 a year ago.”
- On January 20, 1999, Household announced that “it achieved record net income and earnings per share for the fourth quarter ended December 31, 1998. Net income of \$349.9 million was up 71 percent from \$204.8 million recorded in Q497, and reported EPS of \$.71 was up 73 percent from \$.41 reported in Q497. . . . Receivables of the company’s core consumer finance businesses, other than bankcard, grew 12 percent from a year ago and three percent sequentially. . . . The company’s managed net interest margin widened to 8.03 percent, up from 7.92 percent in the prior quarter and 7.80 percent a year ago. The sequential quarter and year-over-year improvement resulted from higher yields on unsecured products and lower funding costs, partially offset by the effect of a shift in mix toward secured products.”
- On April 22, 1999, Household reported “record first quarter operating income and operating earnings per share. Net operating income rose 34 percent to \$320.8 million, compared with

net operating income of \$239.3 million a year ago. Earnings per share increased 38 percent to \$.65 from operating EPS of \$.47 a year ago.”

- On July 22, 1999, Household reported that “second quarter net income rose 31 percent to a record \$326.9 million, compared with operating net income of \$249.4 million a year ago. Earnings per share increased 37 percent to a record \$.67, compared with operating EPS of \$.49 a year ago. Cash basis EPS for the quarter rose 28 percent.”
- On October 19, 1999, Household reported that “third quarter net income rose 26 percent to a record \$399.9 million, compared with \$318.0 million a year ago. Earnings per share increased 32 percent to a record \$.83, from \$.63 a year ago.”
- On January 19, 2000, Household reported that “fourth quarter earnings per share increased 30 percent to a record \$.92 from \$.71 a year ago. Fourth quarter net income rose 25 percent to a record \$438.8 million, compared with \$349.9 million a year ago. For the full year, Household reported record earnings per share of \$3.07, which was 33 percent over 1998 operating earnings per share. Net income totaled \$1.5 billion, or 29 percent above the prior year’s operating net income. . . . Credit quality improved from both the third quarter and a year ago. . . . Reserves to nonperforming loans were 100.1 percent at year end.”
- On March 28, 2000, in its FY99 Report on Form 10-K, Household reported “return on average common shareholders’ equity (“ROE”) rose to 23.5 percent in 1999 compared to 18.2 percent in 1998, excluding merger and integration related costs and the gain on sale of Beneficial Canada, and 17.3 percent in 1997. Our return on average owned assets (“ROA”) improved to 2.64 percent in 1999 compared to 2.29 percent in 1998, excluding the nonrecurring items, and 2.03 percent in 1997. Our return on average managed assets (“ROMA”) improved to 1.99 percent in 1999 compared to 1.60 percent in 1998, excluding the nonrecurring items, and 1.38 percent in 1997. Including the merger and integration related costs and the gain on sale of Beneficial Canada, ROE was 8.1 percent, ROA was 1.04 percent and ROMA was .72 percent in 1998. Our operating net income, ROA, ROMA and ROE have increased steadily over the past three years as a result of our focus on higher-return core businesses and improved efficiency. We expect this trend to continue as we focus on growth of these higher return core businesses.”
- On April 19, 2000, Household reported that “earnings per share rose 20 percent to a first quarter record of \$.78, from \$.65 a year ago. Net income increased to \$372.9 million, up 16 percent from \$320.8 million in the first quarter of 1999. Cash earnings for the quarter totaled \$415 million.”
- On July 19, 2000, Household reported that “earnings per share rose to a second quarter record \$.80, up 19 percent from \$.67 a year ago. Net income increased 17 percent to \$383.9 million, from \$326.9 million in the second quarter of 1999. Cash earnings per share for the quarter totaled \$.88. . . . The company’s managed receivables portfolio grew 22 percent from a year ago, reaching almost \$80 billion. The company added \$4.5 billion of receivables in the quarter, an increase of 6 percent. Revenues rose 20 percent compared to the year-ago quarter.”

- On October 18, 2000, Household reported that “[t]hird quarter earnings per share rose 13 percent to \$.94, compared to \$.83 a year ago. Net income also rose to a third quarter record of \$451.2 million, a 13 percent increase from \$399.9 million a year ago. Cash earnings per share for the quarter totaled \$1.02.”
- On January 17, 2001, Household reported “full year earnings per share of \$3.55, a 16 percent increase over \$3.07 a year ago and the highest earnings per share in the company’s 122-year history. Net income totaled \$1.7 billion, or 14 percent above the prior year. Net managed revenues for the full year increased 18 percent to \$8.9 billion, compared to \$7.5 billion in 1999. Household’s fourth quarter earnings per share rose 12 percent to a record \$1.03, from \$.92 a year ago. Fourth quarter net income rose 12 percent to an all-time high of \$492.7 million, compared with \$438.8 million a year ago.”
- On April 18, 2001, Household reported that “earnings per share rose 17 percent to a first quarter record of \$.91 from \$.78 a year ago. Net income increased to \$431.8 million, up 16 percent from \$372.9 million in the first quarter of 2000. This quarter marked the 11th consecutive quarter of record results.”
- On July 18, 2001, Household reported “record earnings per share of \$.93, up to 16 percent from a year ago. Net income rose 14 percent, to \$439.0 million, from \$383.9 million for the second quarter of 2000.”
- On October 17, 2001, Household reported “[e]arnings per share of \$1.07 rose 14 percent from \$.94 the prior year. Net income increased 12 percent, to \$504 million, from \$451 million in the third quarter of 2000.”
- On January 16, 2002, Household reported “fourth quarter earnings per share of \$1.17, its fourteenth consecutive record quarter. Fourth quarter earnings per share rose 14 percent from \$1.03 the prior year. Net income in the fourth quarter increased 11 percent, to an all-time quarterly record of \$549 million. For the full year, Household reported earnings per share of \$4.08, representing a 15 percent increase from \$3.55 in 2000. Net income for 2001 totaled \$1.9 billion, also an all-time high, 13 percent above \$1.7 billion earned in 2000.”
- On April 17, 2002, Household reported “first quarter earnings per share of \$1.09, its fifteenth consecutive record quarter. First quarter earnings per share rose 20 percent from \$.91 the prior year. Net income in the first quarter increased 18 percent, to a record \$511 million.”
- On July 17, 2002, Household reported “second quarter earnings per share increased 16 percent to \$1.08, from \$.93 the prior year. These results mark Household’s sixteenth consecutive record quarter. Second quarter net income increased 17 percent, to a record \$514 million.”

Lead Plaintiffs specifically incorporate by reference the reasons outlined in Responses to Interrogatory Nos. 137 [36], 138 [37] and 139 [38] for why the statements outlined above were false

and misleading. Additionally, Lead Plaintiffs also incorporate by reference their responses to all prior interrogatories served by the defendants in this litigation.

DATED: January 29, 2007

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DECLARATION OF SERVICE BY EMAIL AND BY U.S. MAIL

I, the undersigned, declare:

1. That declarant is and was, at all times herein mentioned, a citizen of the United States and employed in the City and County of San Francisco, over the age of 18 years, and not a party to or interested party in the within action; that declarant's business address is 100 Pine Street, Suite 2600, San Francisco, California 94111.

2. That on January 29, 2007, declarant served by electronic mail and by U.S. Mail to the parties the: **LEAD PLAINTIFFS' AMENDED RESPONSES AND OBJECTIONS TO HOUSEHOLD DEFENDANTS' [SEVENTH] SET OF INTERROGATORIES TO LEAD PLAINTIFFS PURSUANT TO THE COURT'S JANUARY 10 AND 19, 2007 ORDERS.** The parties' email addresses are as follows:

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I declare under penalty of perjury that the foregoing is true and correct. Executed this 29th day of January, 2007, at San Francisco, California.



MONINA O. GAMBOA