

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

MARC ABRAMS, On Behalf of Himself and All Others Similarly Situated,)	Case Number
)	
Plaintiff,)	<u>CLASS ACTION</u>
)	
vs.)	
)	
HOUSEHOLD INTERNATIONAL, INC., WILLIAM F. ALDINGER and DAVID A. SCHOENHOLZ,)	
)	
Defendants.)	
_____)	<u>DEMAND FOR JURY TRIAL</u>

COMPLAINT FOR VIOLATION OF THE FEDERAL SECURITIES LAWS

INTRODUCTION

1. This is an action on behalf of purchasers of Household International, Inc. ("Household" or the "Company") publicly traded securities during the period from October 23, 1997 to August 14, 2002 (the "Class Period"). Household is principally a non-operating holding company engaged in three reportable segments: consumer, credit card services and international. The consumer segment includes consumer lending, mortgage services, retail services and auto finance businesses. The credit card services include the domestic MasterCard and Visa credit card business. The Company's international segment includes foreign operations in the United Kingdom and Canada.

2. During the Class Period, defendants caused Household's shares to trade at artificially inflated levels through the issuance of false and misleading financial statements by, among other things, failing to properly amortize its co-branding agreements, its expenses associated with its marketing initiatives together with its affinity agreements. In addition, the defendants improperly "re-aged" Household's accounts, thereby concealing the Company's actual delinquency ratios.

JURISDICTION AND VENUE

3. The claims asserted arise under §§10(b) and 20(a) of the Securities Exchange Act of 1934 ("1934 Act"). Jurisdiction is conferred by §27 of the 1934 Act. Venue is proper pursuant to §27 of the 1934 Act as defendant Household and/or the individual defendants conduct business in and the wrongful conduct took place in this District.

THE PARTIES

4. Plaintiff Marc Abrams purchased Household publicly traded securities as detailed in the attached Certification and was damaged thereby.

5. Defendant Household is principally a non-operating holding company engaged in three reportable segments: consumer, credit card services and international. The consumer segment includes consumer lending, mortgage services, retail services and auto finance businesses. The credit card services include the domestic MasterCard and Visa credit card business. The Company's international segment includes foreign operations in the United Kingdom and Canada.

6. Defendant William F. Aldinger ("Aldinger") was CEO and Chairman of Household. Aldinger assisted in the preparation of the false financial statements and repeated the contents therein to the market.

7. Defendant David A. Schoenholz ("Schoenholz") was President and COO of Household. Schoenholz signed the Form 10-Qs and 10-Ks which contained Household's false 1997-2002 results.

8. Defendants Aldinger and Schoenholz are the "Individual Defendants." They are liable for the false statements pleaded in ¶¶15-35, as those statements were "group-published" information.

BACKGROUND AND SUMMARY

9. Household is principally a non-operating holding company engaged in three reportable segments: consumer, credit card services and international. The consumer segment includes consumer lending, mortgage services, retail services and auto finance businesses. The credit card services include the domestic MasterCard and Visa credit card business. The Company's international segment includes foreign operations in the United Kingdom and Canada.

Restatement

10. On August 14, 2002, the same day the Company CEO and COO (as the Company's principal financial officer) were required to certify the veracity of their financial statements, Household announced the restatement of its financial statements since 1994. Specifically, consultations with its new auditor, KPMG, concerning the amortization of various credit card co-branding, marketing and affinity agreements led Household to restate earnings by \$386 million. *See* below. Household will now amortize its co-branding agreement over one year (previously over life of contract); expense marketing initiatives as incurred (previously over life of agreement); and will amortize affinity agreements over ten years (previously over thirteen years).

Earnings Impact of Restatement by Period

\$ millions	Q2, 6/02	Q2, 6/01	1H 2002	2001	2000	1999	1994- 1998	Total
Restatement Amount	\$6.1M	\$20.0M	\$26.1M	\$75.9M	\$70.1M	\$58.1M	\$155.8M	\$386.0M

Other Accounting Manipulations

11. Household also manipulated its reported results during the Class Period by "re-aging" delinquent accounts. Account re-aging refers to the practice of resetting to current, accounts that would otherwise be delinquent. This manipulated the reserve ratio of non-performing assets and reserve ratio to charge-offs and caused assets to be overstated and charged-offs to be understated.

12. Household's reported credit quality deteriorated year-over-year in the June 2002 quarter. Specifically, as shown below, the managed delinquency ratio at 4.53% was up 26 basis points from the year-ago period while improving 10 basis points sequentially from the March 2002 period. The managed net charge-off ratio amounted to 4.26%, 55 basis points higher than the year-ago period and 17 basis points higher than the March 2002 quarter. The Company's re-aging policies caused these figures to understate Household's delinquency and charge-off experience.

Managed Delinquency and Net Charge-Off Ratios, Quarterly Trend

%	Q2, 6/02	Q2, 6/01	Q1, 3/02	Q1, 3/01	Q4, 12/01	Q4, 12/00	Q3, 9/01	Q3, 9/00
Delinquency Ratio	4.53	4.27	4.63	4.25	4.46	4.20	4.43	4.21
Net Charge-Off Ratio	4.26	3.71	4.09	3.56	3.90	3.41	3.74	3.47

13. Household also created an earnings boost from pension income in fiscal 2001. Specifically, while companies typically record a periodic pension *expense* to reflect the amount of future employee benefits earned during a period (and sometimes as a result of under-funded pension plans), Household has recorded *income* from the Company's pension plan in each of the past three years.

14. As shown below, Household's pension assumptions led it to recognize approximately \$38 million of pension income in fiscal 2001, compared with approximately \$33 million of pension income in 2000, and \$26 million of pension income in 1999. Absent this boost, reported earnings for 2001 would have been reduced by \$0.05 per share, to \$3.86 from the reported \$3.91.

Pension Expense (Income) and Significant Pension Assumptions, Annual Trend (\$ millions)

(\$ millions, except %)	2001	2000	1999
Pension Expense (Income)	(38.2)	(33.3)	(26.0)
<i>Discount Rate Assumption</i>	7.50%	8.25%	8.00%
<i>Expected Rate of Return on Plan Assets</i>	10.0%	10.0%	10.0%

Reported Earnings for 2001, Adjusted to Exclude Pension Income

(\$ millions, except %)	Reported	Adjustment	CFRA-Adjusted
Net Income	1,848	(25)	1,823
EPS	\$3.91	(\$0.05)	\$3.86

**FALSE AND MISLEADING STATEMENTS
DURING THE CLASS PERIOD**

15. On October 23, 1997, Household issued a press release entitled, "Household Reports All-Time Record Results." The press release stated in part:

Household International today reported record net income of \$187.2 million for the third quarter, up 34 percent from \$139.9 million for the year-ago quarter. Earnings per share rose 23 percent to a quarterly record of \$1.70, compared with \$1.38 a year earlier.

Household said nine-month net income and earnings per share also increased to all-time record levels. Nine-month earnings per share of \$4.50 rose 22 percent, while nine-month net income increased 25 percent to \$469 million.

William F. Aldinger, Household's chairman and chief executive officer, said "We are pleased to announce another record quarter. Contributing to our good results were wider margins, higher average managed receivables, and a continued focus on efficiency, which more than offset the impact of higher credit losses."

16. On January 21, 1998, Household issued a press release entitled, "Household EPS Grows More Than 20 Percent for 6th Consecutive Year." The press release stated in part:

Household International today reported all-time record net income and earnings per share for the fourth quarter and year ended December 31, 1997. Full-year earnings per share of \$6.50 rose 22 percent and net income increased 27 percent to \$686.6 million.

Quarterly earnings per share totaled \$1.98, a 22 percent increase from \$1.62 for the fourth quarter of 1996, on a greater number of average shares outstanding. Net income rose 33 percent to an all-time quarterly record of \$217.6 million, compared with \$163.6 million a year earlier.

William F. Aldinger, Household's chairman and chief executive officer, said, "Household achieved another year of earnings per share growth in excess of 20 percent – the sixth consecutive year that we've done so. We grew revenues 18 percent and kept expenses essentially flat. We absorbed increased chargeoffs consistent with industry-wide trends and further strengthened our credit loss reserves. We also improved our return on managed assets. Our return on equity exceeded 18 percent, even though we significantly increased our capital levels. Overall, it was a terrific year."

Mr. Aldinger added, "1997 was not only a record year, it was a year of investing in the long-term growth of our company. We acquired the consumer finance business of Transamerica Corporation and ACC Consumer Finance, an industry leader in non-prime auto finance. We expect both acquisitions to contribute to another record year in 1998."

17. On April 7, 1998, the Company issued a press release entitled, "Household International and Beneficial Corporation to Merge in \$8.6 Billion Stock Transaction." The press release stated in part:

Household International and Beneficial Corporation today announced a definitive merger agreement that will create one of the country's leading consumer finance and credit card companies.

Under the terms of the agreement, which has been unanimously approved by both companies' boards of directors, Beneficial shareholders will receive 1.0222 shares of Household common stock for each share of Beneficial common stock in a fixed exchange ratio. Based on Household's closing price on Monday, April 6, the transaction is valued at \$150 per Beneficial share, or a total of over \$8.6 billion. The transaction will be accounted for as a pooling of interests and is expected to be tax free to Beneficial shareholders.

The companies will have combined pro forma 1997 managed revenues of over \$7 billion, a market capitalization of \$24 billion, managed receivables of \$62 billion and over 30 million customer accounts. The company will continue to be called Household International.

18. On April 23, 1998, the Company issued a press release entitled, "Household International Reports First Quarter Net Income Up 30%, To a Record \$170 Million." The press release stated in part:

Household International today reported first quarter net income rose 30 percent to a record \$170.3 million, compared with \$131.5 million for the first quarter of 1997. Earnings per share increased 18.5 percent to a record \$1.54 from \$1.30 a year ago.

William F. Aldinger, Household's chairman and chief financial officer, said, "Our first quarter results reflect improving fundamentals in our two largest businesses. The strong growth in earnings was driven by an expanded net interest margin, higher receivables and improved efficiency. New accounts originated in our credit card business were nearly double the level of a year ago, the result of increased marketing initiatives over the past months. Our HFC branch network turned in a

very solid quarter in terms of new loan production however, the continued acceleration in refinancings continued to temper portfolio growth. Credit performance showed some positive signs in the quarter. Total dollars of delinquency declined in each of the last two months of the quarter. In the MasterCard/Visa portfolio, chargeoffs related to personal bankruptcies declined for the second consecutive quarter."

On April 7, 1998, the company and Beneficial Corporation announced a definitive merger agreement.

Commenting on the merger agreement, Aldinger added, "The past several months have been a truly exciting time for Household. Building on our internal growth, our decision to merge with Beneficial provides the opportunity to create significant additional shareholder value by further improving operating efficiency and increasing distribution for future growth. Together, the combined company will have the financial strength and market presence to be a more effective long-term competitor as the financial services industry consolidates. We look forward to completing the merger on a timely basis and expect a smooth transition."

19. On July 22, 1998, Household issued a press release entitled, "Household International Reports Second Quarter Income of \$249.4 Million and Earnings Per Share of \$.49, Before Merger Charge." The press release stated in part:

Household International today reported second quarter income of \$249.4 million and earnings per share of \$.49, for the combined operations of Household and Beneficial Corporation before costs related to the merger, completed on June 30, 1998, and related integration. Since the merger was accounted for as a pooling of interests, all prior and current period information reflect the combined company's results. In addition, earnings per share data have been restated to reflect Household's three-for-one common stock split effective June 1, 1998. Including the \$1 billion pretax merger charge. Household incurred a loss for the quarter of \$501.6 million, or \$1.03 per share. Net income for the second quarter of 1997 was \$238.6 million, and earnings per share were \$.50.

Before giving effect to the merger, Household's earnings per share would have been a second quarter of \$.61, a 24 percent increase over the year-ago quarter. Beneficial's earnings per share would have been \$.81 for the second quarter of 1998, compared to \$1.61 a year ago, which included \$.59 of securitization and other nonrecurring gains.

William F. Aldinger, Household's chairman and chief executive officer, said, "The most significant event this quarter, and perhaps in the history of the company, was the completion of the merger with Beneficial on June 30, 1998. The closing took place ahead of our original schedule, which will accelerate realization of the merger benefits."

Mr. Aldinger continued, "I am really excited about the company's prospects. The Beneficial acquisition strengthens many of our key businesses, provides significant opportunities to improve efficiency and gives us a platform for additional revenue growth."

20. On October 22, 1998, Household issued a press release entitled, "Household International Reports Record Third Quarter Results." The press release stated in part:

Household International today 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. Return on average common equity for the quarter was 20.5% while return on average managed assets reached 1.76%.

William F. Aldinger, Household's chairman and chief executive officer, said, "Our tight focus on our core markets, our conservative capital base and our disciplined approach to funding and liquidity management enabled Household to achieve record earnings for the quarter. The integration of our Beneficial acquisition is progressing exceptionally well as we lay the groundwork for significant cost savings and incremental revenue growth for the consumer finance business in 1999 and beyond. Our work in integrating Beneficial remains a top priority, along with our focus on improving performance in our credit card business and delivering long-term value for shareholders."

Commenting on Household's results for the quarter, Mr. Aldinger added, "The company's operating results were solid with 6 percent annualized receivable growth, margin expansion and improving efficiency. Credit quality was within expectations and reserve coverage remains conservative."

21. On January 20, 1999, Household issued a press release entitled, "Household International Reports Q4 and Full Year Results." The press release stated in part:

Household International today 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.

Cash basis operating EPS for Q498 was \$.79, up 61 percent from \$.49 in the comparable 1997 quarter. Return on average common equity for Q498 was 22.8 percent. Return on average managed assets for Q498 was 1.90 percent.

William F. Aldinger, Household's chairman and chief executive officer, said, "This year was highlighted by the successful acquisition of Beneficial Corporation, as well as strong performances by our US and UK consumer finance businesses and by our private label credit card and auto finance units. We also made significant progress in refocusing our US MasterCard/Visa business including our Household Bank branded portfolio. Fourth quarter results will provide good momentum for a successful 1999."

22. On April 22, 1999, Household issued a press release entitled, "Household International Reports Record First Quarter Results." The press release stated in part:

Household International today 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. Operating results for the first quarter of 1998 exclude the \$118.5 million after-tax

gain from the sale of Beneficial Corporation's Canadian operations. Including the gain, first quarter 1998 net income was \$357.8 million, and earnings per share was \$.71.

Cash basis EPS for the quarter was \$.72, up 29 percent from operating cash EPS of \$.56 in the comparable 1998 quarter. Return on average common equity was 20.3 percent for the quarter, compared to 15 percent in the first quarter of 1998, and return on average managed assets improved to 1.75 percent, compared to 1.32 percent a year earlier. Household's return on average tangible common equity was 27.7 percent.

William F. Aldinger, Household's chairman and chief executive officer, said, "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. With the integration of Beneficial and HFC branch networks behind us, our consumer finance business has begun to realize the full benefits of the merger, while at the same time we are also capitalizing on the improved home equity lending environment. We have great momentum in this business."

Aldinger added, "Operating results for Household Tax Masters, our income tax refund application loan business, were significantly improved from last year and exceeded expectations. The number of electronic filings of tax returns increased 20 percent and refund processing with the IRS went smoothly."

Aldinger continued, "1999 is off to a very good start and we are on track to meet our earnings and growth targets."

23. On July 22, 1999, the Company issued a press release entitled, "Household International Reports Record Second Quarter Results." The press release stated in part:

Household International today 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.

24. On October 19, 1999, the Company issued a press release entitled, "Household International Reports Highest Quarterly Earnings." The press release stated in part:

Household International today 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.

William F. Aldinger, Household's chairman and chief executive officer said, "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." Specific highlights of the quarter include:

- Core receivables grew \$2.4 billion in the quarter, or 3.7 percent. All product lines grew in the quarter, with the strongest growth in home equity loans. Quarterly branch originated growth was the best in the company's history.
- Revenues, excluding securitization related income, grew 3.7 percent in the quarter, while operating expenses fell slightly. Compared to the year ago quarter, such revenues were up 6.6 percent while expenses were down 5.3 percent.
- Net interest margin percentage widened to 8.36 percent.
- Fee income rose 9.5 percent in the quarter.
- The efficiency ratio further improved to 32 percent, compared to 37 percent a year ago.
- Cash basis EPS for the quarter rose 25 percent to \$.90 per share, from \$.72 per share for the third quarter of 1998.

The company's return on managed assets expanded to 2.14 percent for the quarter and 1.89 percent year-to-date. Similarly, return on equity reached 25.3 percent for the quarter and 22.2 percent year-to-date.

25. On November 11, 1999, Household issued a press release entitled, "Household International Confirms Strength of Its Business and Earnings Growth Trends." The press release stated in part:

Household International, Inc. today issued the following statement:

Recent public comments by a major credit card issuer have apparently led to investor concerns about the sustainability of earnings in the consumer lending industry.

For Household International, any such concerns are misplaced as the company continues to turn in consistent and profitable results. In fact, Household International reported all time record earnings for the third quarter ended September 30, 1999, reflecting very strong receivables and revenue growth in all businesses. In particular, Household's U.S. bankcard business continues to show dramatically improved performance. These trends continue to be in place and the company fully expects to achieve its objectives for the fourth quarter.

26. On January 19, 2000, Household issued a press release entitled, "Household International Reports Best Quarter and Year in Its History." The press release stated in part:

Household International today 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.

The company's core loan portfolio increased 12.5 percent in 1999, with growth accelerating each quarter of the year. This trend of improving receivable growth reflects momentum in the consumer finance business for all products. The company's MasterCard/Visa business also showed improving receivable growth trends each quarter and finished the year with strong receivable and account growth.

William F. Aldinger, Household's chairman and chief executive officer, said "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."

Commenting on the full year results, Aldinger continued, "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."

27. On April 19, 2000, Household issued a press release entitled, "House International Reports Record First Quarter Results." The press release stated in part:

Household International today 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.

William F. Aldinger, Household's chairman and chief executive officer, said, "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."

During the quarter, the company took a number of important steps to further strengthen its franchise. In February, Household completed the acquisition of Renaissance Holdings, Inc., its partner in developing and implementing its non-prime bankcard strategy. And in March, the company acquired over \$2 billion in home equity receivables, 97 branch offices and 900 employees from the consumer finance subsidiary of Bank One Corporation. This acquisition expands the company's consumer finance branch distribution and adds many talented and experienced sales personnel. Both acquisitions complement Household's core strengths and will enhance organic growth.

28. On July 19, 2000, Household issued a press release entitled, "Household International Reports Strongest Second Quarter in Its History." The press release stated in part:

Household International today 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.

"Our superb second quarter results were highlighted by outstanding receivables and revenue growth and a significant improvement in credit quality," said William F. Aldinger, Household's chairman and chief executive officer.

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.

Aldinger continued, "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."

Aldinger concluded, "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."

29. On October 18, 2000, Household issued a press release entitled, "Household International Reports Highest Quarterly EPS in Its History; Ninth Consecutive Record Quarter."

The press release stated in part:

Household International today reported the highest quarterly earnings in its history. 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.

For the first nine months of 2000, earnings per share increased 17 percent over the prior year to \$2.52. Net income of over \$1.2 billion represented a 15 percent increase over the same year-ago period.

"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," said William F. Aldinger, Household's chairman and chief executive officer. "I am particularly pleased that Household is delivering record results while making significant investments in personnel, technology, sales incentives and marketing to support the growth in our franchise. These positive trends give us a high degree of confidence in our ability to deliver 15 percent EPS growth for 2000."

30. On January 17, 2001, Household issued a press release entitled, "Household International Reports Highest Full Year and Quarterly EPS in Its History; Tenth Consecutive Record Quarter." The press release stated in part:

Household International reported today 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.

"These strong fourth quarter results cap off a terrific year in which we delivered on all of our earnings and growth goals," said William F. Aldinger, Household's chairman and chief executive officer. "Growth and profitability in the quarter were excellent, while credit quality and our balance sheet remained strong. Since we merged with Beneficial, we have achieved 10 consecutive record quarters, which is a tribute to the contribution that acquisition has made to the performance of the company."

Commenting on the full year results, Aldinger continued, "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."

31. On April 18, 2001, Household issued a press release entitled, "Household Reports Record First Quarter Results." The press release stated in part:

Household International today 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.

William F. Aldinger, Household's chairman and chief executive officer, said "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," Aldinger added. "Our tax refund lending business enjoyed a very successful tax season and exceeded our expectations. This business contributed \$.15 to our first quarter earnings per share, an increase of 25 percent over the \$.12 contribution in the year-ago quarter.

"We are very comfortable with our ability to achieve our receivable and earnings per share growth targets for 2001." Aldinger concluded, "I look forward to another record year."

32. On July 18, 2001, Household issued a press release entitled, "Household Reports Record Second Quarter Results; 12th Consecutive Record Quarter ." The press release stated in part:

Household International today 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.

William F. Aldinger, Household's chairman and chief executive officer, said, "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," Aldinger added. "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, while chargeoffs rose modestly, consistent with our expectations. We further strengthened our balance sheet and passed the halfway point in our share repurchase goal for the year.

"Our strong performance to date has positioned us well to achieve another record year in 2001," Aldinger concluded.

33. On October 17, 2001, Household issued a press release entitled, "Household Reports Highest Quarterly Net Income in its 123-year History." The press release stated in part:

Household International today reported the highest quarterly net income in the company's 123-year history and its thirteenth consecutive record quarter. 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.

"Household's performance this year has been outstanding, even as the economy has continued to weaken," said William F. Aldinger, chairman and chief executive officer. "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.

"All of our businesses contributed to our excellent results this quarter," Aldinger added. "Our product diversity and variety of distribution channels give us the flexibility to react to changes in the credit environment and consumer demand.

"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," Aldinger concluded.

34. On January 16, 2002, the Company issued a press release entitled, "Household Reports Record Quarterly and Full-Year Net Income." The press release stated in part:

Household International today 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.

"Household's fourth quarter results were simply outstanding," said William F. Aldinger, chairman and chief executive officer, "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."

Commenting on the full-year's results, Aldinger added, "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."

35. On July 17, 2002, Household issued a press release entitled, "Household Reports Record Second Quarter Results on Strong Receivables Growth." The press release stated in part:

Household International today 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.

"Our results this quarter were fueled by ongoing strong demand for our loan products," said William F. Aldinger, Household's chairman and chief executive officer. "Growth this quarter was strong, while we have maintained our conservative underwriting criteria. Recognizing that the U.S. economy has yet to demonstrate a sustained rebound, we continued to maintain strong levels of reserves and capital. In addition, we continued our focus on liquidity management during the quarter, given the potential for volatility in the capital markets."

Aldinger concluded, "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."

36. On August 14, 2002, Household issued a press release entitled, "Household International Certifies Accuracy of SEC Filings in 2002." The press release stated in part:

Household International, Inc. announced today that the company's chairman and chief executive officer, William F. Aldinger, and its president and chief operating officer, David A. Schoenholz (as the company's principal financial officer), had certified under oath to the accuracy of the company's most recent SEC filings. Copies of the signed certifications are available on the company's website at www.household.com.

Commenting on the company's recent results, Aldinger said, "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."

Aldinger continued, "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."

HOUSEHOLD'S FALSE FINANCIAL REPORTING DURING THE CLASS PERIOD

37. In order to inflate the price of Household's stock, defendants caused the Company to falsely report its results for 1997-2002 failure to properly record expenses. The Company subsequently admitted that it had failed to record expenses, and will restate its results, eliminating \$386 million in improperly reported earnings for the period.

Restatement

38. On August 14, 2002, the same day the Company CEO and COO were required to certify the veracity of their financial statements, Household announced the restatement of its financial statements since 1994. Specifically, consultations with its new auditor, KPMG, concerning the amortization of various credit card co-branding, marketing and affinity agreements led Household to restate earnings by \$386 million. *See below.* Household will now amortize its co-branding agreement over one year (previously over life of contract); expense marketing initiatives as incurred (previously over life of agreement); and will amortize affinity agreements over ten years (previously over thirteen years).

Earnings Impact of Restatement by Period

\$ millions	Q2, 6/02	Q2, 6/01	1H 2002	2001	2000	1999	1994- 1998	Total
Restatement Amount	\$6.1M	\$20.0M	\$26.1M	\$75.9M	\$70.1M	\$58.1M	\$155.8M	\$386.0M

Other Accounting Manipulations

39. Household also manipulated its reported results during the Class Period by "re-aging" delinquent accounts. Account re-aging refers to the practice of resetting to current, accounts that would otherwise be delinquent. This manipulated the reserve ratio of non-performing assets and reserve ratio to charge-offs and caused assets to be overstated and charge-offs to be understated.

40. Household's reported credit quality deteriorated year-over-year in the June 2002 quarter. Specifically, as shown below, the managed delinquency ratio at 4.53% was up 26 basis points from the year-ago period while improving 10 basis points sequentially from the March 2002 period. The managed net charge-off ratio amounted to 4.26%, 55 basis points higher than the year-ago period and 17 basis points higher than the March 2002 quarter. The Company's re-aging policies caused these figures to understate Household's delinquency and charge-off experience.

Managed Delinquency and Net Charge-Off Ratios, Quarterly Trend

%	Q2, 6/02	Q2, 6/01	Q1, 3/02	Q1, 3/01	Q4, 12/01	Q4, 12/00	Q3, 9/01	Q3, 9/00
Delinquency Ratio	4.53	4.27	4.63	4.25	4.46	4.20	4.43	4.21
Net Charge-Off Ratio	4.26	3.71	4.09	3.56	3.90	3.41	3.74	3.47

41. Household also created an earnings boost from pension income in fiscal 2001. Specifically, while companies typically record a periodic pension *expense* to reflect the amount of future employee benefits earned during a period (and sometimes as a result of under-funded pension plans), Household has recorded *income* from the Company's pension plan in each of the past three years.

42. As shown below, Household's pension assumptions led it to recognize approximately \$38 million of pension income in fiscal 2001, compared with approximately \$33 million of pension income in 2000, and \$26 million of pension income in 1999. Absent this boost, reported earnings for 2001 would have been reduced by \$0.05 per share, to \$3.86 from the reported \$3.91.

Pension Expense (Income) and Significant Pension Assumptions, Annual Trend (\$ millions)

(\$ millions, except %)	2001	2000	1999
Pension Expense (Income)	(38.2)	(33.3)	(26.0)
<i>Discount Rate Assumption</i>	7.50%	8.25%	8.00%
<i>Expected Rate of Return on Plan Assets</i>	10.0%	10.0%	10.0%

Reported Earnings for 2001, Adjusted to Exclude Pension Income

(\$ millions, except %)	Reported	Adjustment	CFRA-Adjusted
Net Income	1,848	(25)	1,823
EPS	\$3.91	(\$0.05)	\$3.86

43. The 1997-2002 results were included in Form 10-Qs filed with the SEC. The results were also included in press releases disseminated to the public.

44. Household has now admitted that it inappropriately recorded transactions included in its 1997-2002 results, and has restated those results to remove millions in improperly reported revenues, such that its 1997-2002 financial statements were not a fair presentation of Household's results and were presented in violation of Generally Accepted Accounting Principles ("GAAP") and SEC rules.

45. GAAP are those principles recognized by the accounting profession as the conventions, rules and procedures necessary to define accepted accounting practice at a particular time. SEC Regulation S-X (17 C.F.R. §210.4-01(a)(1)) states that financial statements filed with the SEC which are not prepared in compliance with GAAP are presumed to be misleading and inaccurate, despite footnote or other disclosure. Regulation S-X requires that interim financial statements must also comply with GAAP, with the exception that interim financial statements need not include disclosure which would be duplicative of disclosures accompanying annual financial statements. 17 C.F.R. §210.10-01(a).

46. Pursuant to GAAP, expenses should be recorded as incurred and intangible assets should be amortized over the period in which the entity will receive economic benefits from the costs.

47. During the Class Period, Household improperly failed to record expenses even though it incurred and used excessively long amortized periods for intangible assets, causing expenses to be understated and earnings to be overstated.

48. On August 14, 2002, Household issued a press release entitled, "Household International Certifies Accuracy of SEC Filings in 2002." The press release stated in part:

Household International, Inc. announced today that the company's chairman and chief executive officer, William F. Aldinger, and its president and chief operating officer, David A. Schoenholz (as the company's principal financial officer), had certified under oath to the accuracy of the company's most recent SEC filings. Copies of the signed certifications are available on the company's website at www.household.com.

Commenting on the company's recent results, Aldinger said, "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."

Aldinger continued, "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."

49. In addition, the Company revealed that its other periods were also false:

\$ millions	Q2, 6/02	Q2, 6/01	1H 2002	2001	2000	1999	1994-1998	Total
Restatement Amount	\$6.1M	\$20.0M	\$26.1M	\$75.9M	\$70.1M	\$58.1M	\$155.8M	\$386.0M

50. The fact that Household will restate its financial statements for the 1997-2002 is an admission that the financial statements originally issued were false and that the overstatement of revenues and income was material. Pursuant to GAAP, as set forth in Accounting Principles Board Opinion ("APB") No. 20, the type of restatement announced by Household was to correct for material errors in its previously issued financial statements. *See* APB No. 20, ¶¶7-13. The restatement of past financial statements is a disfavored method of recognizing an accounting change as it dilutes confidence by investors in the financial statements, it makes it difficult to compare financial statements and it is often difficult, if not impossible, to generate the numbers when restatement occurs. *See* APB No. 20, ¶14. Thus, GAAP provides that financial statements should only be restated in limited circumstances, *i.e.*, when there is a change in the reporting entity, there is a change in accounting principles used or to correct an error in previously issued financial statements. Household's restatement was not due to a change in reporting entity or a change in accounting principle, but rather to errors in previously issued financial statements. Thus, the restatement is an admission by Household that its previously issued financial results and its public statements regarding those results were false.

51. Due to these accounting improprieties, the Company presented its financial results and statements in a manner which violated GAAP, including the following fundamental accounting principles:

(a) The principle that interim financial reporting should be based upon the same accounting principles and practices used to prepare annual financial statements was violated (APB No. 28, ¶10);

(b) The principle that financial reporting should provide information that is useful to present and potential investors and creditors and other users in making rational investment, credit and similar decisions was violated (FASB Statement of Concepts No. 1, ¶34);

(c) The principle that financial reporting should provide information about the economic resources of an enterprise, the claims to those resources, and effects of transactions, events

and circumstances that change resources and claims to those resources was violated (FASB Statement of Concepts No. 1, ¶40);

(d) The principle that financial reporting should provide information about how management of an enterprise has discharged its stewardship responsibility to owners (stockholders) for the use of enterprise resources entrusted to it was violated. To the extent that management offers securities of the enterprise to the public, it voluntarily accepts wider responsibilities for accountability to prospective investors and to the public in general (FASB Statement of Concepts No. 1, ¶50);

(e) The principle that financial reporting should provide information about an enterprise's financial performance during a period was violated. Investors and creditors often use information about the past to help in assessing the prospects of an enterprise. Thus, although investment and credit decisions reflect investors' expectations about future enterprise performance, those expectations are commonly based at least partly on evaluations of past enterprise performance (FASB Statement of Concepts No. 1, ¶42);

(f) The principle that financial reporting should be reliable in that it represents what it purports to represent was violated. That information should be reliable as well as relevant is a notion that is central to accounting (FASB Statement of Concepts No. 2, ¶¶58-59);

(g) The principle of completeness, which means that nothing is left out of the information that may be necessary to insure that it validly represents underlying events and conditions was violated (FASB Statement of Concepts No. 2, ¶79); and

(h) The principle that conservatism be used as a prudent reaction to uncertainty to try to ensure that uncertainties and risks inherent in business situations are adequately considered was violated. The best way to avoid injury to investors is to try to ensure that what is reported represents what it purports to represent (FASB Statement of Concepts No. 2, ¶¶95, 97).

52. Further, the undisclosed adverse information concealed by defendants during the Class Period is the type of information which, because of SEC regulations, regulations of the national stock exchanges and customary business practice, is expected by investors and securities

analysts to be disclosed and is known by corporate officials and their legal and financial advisors to be the type of information which is expected to be and must be disclosed.

FIRST CLAIM FOR RELIEF

For Violation of §10(b) of the 1934 Act and Rule 10b-5 Against All Defendants

53. Plaintiff incorporates ¶¶1-52 by reference.

54. During the Class Period, defendants disseminated or approved the false statements specified above, which they knew or recklessly disregarded were materially false and misleading in that they contained material misrepresentations and failed to disclose material facts necessary in order to make the statements made, in light of the circumstances under which they were made, not misleading.

55. Defendants violated §10(b) of the 1934 Act and Rule 10b-5 in that they:

- (a) Employed devices, schemes, and artifices to defraud;
- (b) Made untrue statements of material facts or omitted to state material facts necessary in order to make statements made, in light of the circumstances under which they were made not misleading; or
- (c) Engaged in acts, practices, and a course of business that operated as a fraud or deceit upon plaintiff and others similarly situated in connection with their purchases of Household publicly traded securities during the Class Period.

56. Plaintiff and the Class have suffered damages in that, in reliance on the integrity of the market, they paid artificially inflated prices for Household publicly traded securities. Plaintiff and the Class would not have purchased Household publicly traded securities at the prices they paid, or at all, if they had been aware that the market prices had been artificially and falsely inflated by defendants' misleading statements.

57. As a direct and proximate result of these defendants' wrongful conduct, plaintiff and the other members of the Class suffered damages in connection with their purchases of Household publicly traded securities during the Class Period.

SECOND CLAIM FOR RELIEF

For Violation of §20(a) of the 1934 Act Against All Defendants

58. Plaintiff incorporates ¶¶1-57 by reference.

59. The executive officers of Household prepared, or were responsible for preparing, the Company's press releases and SEC filings. The Individual Defendants controlled other employees of Household. Household controlled the Individual Defendants and each of its officers, executives and all of its employees. By reason of such conduct, defendants are liable pursuant to §20(a) of the 1934 Act.

CLASS ACTION ALLEGATIONS

60. Plaintiff brings this action as a class action pursuant to Rule 23 of the Federal Rules of Civil Procedure on behalf of all persons who purchased Household publicly traded securities (the "Class") on the open market during the Class Period. Excluded from the Class are defendants, directors and officers of Household and their families and affiliates.

61. The members of the Class are so numerous that joinder of all members is impracticable. The disposition of their claims in a class action will provide substantial benefits to the parties and the Court. During the Class Period Household had more than 454 million shares of stock outstanding, owned by thousands of persons.

62. There is a well-defined community of interest in the questions of law and fact involved in this case. Questions of law and fact common to the members of the Class which predominate over questions which may affect individual Class members include:

- (a) Whether the 1934 Act was violated by defendants;
- (b) Whether defendants omitted and/or misrepresented material facts;
- (c) Whether defendants' statements omitted material facts necessary to make the statements made, in light of the circumstances under which they were made, not misleading; and
- (d) Whether defendants knew or recklessly disregarded that their statements were false and misleading.

PRAYER

WHEREFORE, plaintiff prays for judgment as follows: declaring this action to be a proper class action; awarding damages, including interest; and such other relief as the Court may deem proper.

JURY DEMAND

Plaintiff demands a trial by jury.

DATED: August __, 2002

MILLER FAUCHER AND CAFFERTY LLP
MARVIN MILLER

30 North LaSalle Street, Suite 3200
Chicago, IL 60602
Telephone: 312/782-4880
312/782-4485 (fax)

MILBERG WEISS BERSHAD
HYNES & LERACH LLP
WILLIAM S. LERACH
DARREN J. ROBBINS
401 B Street, Suite 1700
San Diego, CA 92101
Telephone: 619/231-1058
619/231-7423 (fax)

CAULEY, GELLER, BOWMAN
& COATES, LLP
PAUL J. GELLER
HOWARD K. COATES, JR.
JACK REISE
One Boca Place, Suite 421A
2255 Glades Road
Boca Raton, FL 33431
Telephone: 561/750-3000
561/750-3364 (fax)

SCHIFFRIN & BARROWAY, LLP
MARC A. TOPAZ
Three Bala Plaza East, Suite 400
Bala Cynwyd, PA 19004
Telephone: 610/667-7706
610/667-7056 (fax)

Attorneys for Plaintiff