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EX MERCURY FINANCE ACCOUNTING MANAGER PLEADS GUILTY IN INSIDER TRADING SCHEME

CHICAGO -- The former manager of the accounting department at the defunct Mercury Finance Company pleaded guilty today in Federal Court to engaging in insider trading of the company's stock in 1997 just before it announced drastically lower net earnings for the two previous years. In agreeing to fully cooperate with the government, the defendant, **Lawrence Borowiak**, pleaded guilty to one count of securities fraud, admitting that he sold more than 45,000 shares of Mercury's common stock for approximately $675,000 and avoided losses totaling approximately $580,000 when the stock's price sank, announced Patrick J. Fitzgerald, United States Attorney for the Northern District of Illinois.

Borowiak, 52, of Mundelein, Il., was the manager of Mercury's accounting department and an assistant vice president of Lake Forest-based Mercury. He was indicted by a federal grand jury on five counts of securities fraud in December 2001. Under the terms of his plea agreement, if approved by the Court, he is facing a sentence of between 12 and 30 months in prison. U.S. District Judge Robert W. Gettlemen set sentencing for Feb. 7, 2003, when he will also decide whether or not to approve the plea agreement. Borowiak also agreed to a restitution ordered of $585,000, and he agreed to immediately disgorge at least $57,000 remaining in brokerage accounts stemming from his inside trading transactions.

In pleading guilty, Borowiak admitted that he engaged in a fraud scheme when he sold 45,018 Mercury common shares on Jan. 27 and Jan. 28, 1997, when he was in possession of, did not publicly disclose, and used material non-public information about Mercury's financial condition. At the time Borowiak sold the stock, he knew about: accounting irregularities at Mercury Finance; fraudulent concealment of accounting irregularities from Mercury Finance's outside auditors; the disappearance of Mercury Finance's chief financial officer; and, information the defendant had received on Jan. 24, 1997, from Mercury Finance's treasurer that the outside auditors were questioning the company's earnings figures, that the trading in Mercury Finance's stock would be halted, and that the stock would resume trading at a price substantially less than before the trading halt.

Mercury, at the time, was a publicly-traded stock on the New York Stock Exchange. It was in the sub-prime lending business, extending loans directly to customers and acquiring installment loans previously extended to customers by used automobile dealers. Mercury's customers generally were higher risk borrowers known as sub-prime borrowers, according to Borowiak's plea agreement.

On Jan. 23, 1997, Mercury announced net earnings of $120.7 million for 1996, surpassing 1995's net earnings of $98.9 million. The announcement drove Mercury's common stock price to a 52-week high of $16 per share. The share price closed at $14f on Jan. 28, 1997.

On Jan. 29, 1997, Mercury issued a press release stating that accounting irregularities had been discovered, that its principal accounting officer had disappeared, and its net earnings for 1996 were actually about $56.7 million, less than half of the amount previously reported. The company also revised its 1995 net earnings, dropping the amount to $76.9 million from the previously announced $98.9 million. Based on the company's announcement, Mercury's stock trading was suspended on Jan. 29, 1997. When it resumed on Jan. 31, 1997, the share price fell to $1e and it closed the day at $2c on a trading volume of 42 million shares, making Mercury's common stock the most actively traded that day on the New York Stock Exchange.

Borowiak admitted that he exercised control over four securities brokerage accounts containing Mercury common stock held by himself and his immediate family. As a result of selling 45,018 shares on Jan. 27 and Jan 28, when the share price was still high, Borowiak engaged in illegal insider trading to avoid losing $580,000 when the share price dropped, while concealing his knowledge of the damaging information that was about to become public.

In his plea agreement, Borowiak admitted additional conduct – which is public for the first time – that beginning no later than 1994 and continuing through at least January 1997, he participated in a scheme to defraud Mercury's shareholders, lenders, commercial paper purchasers, creditors and others by assisting in falsely portraying the financial condition of Mercury and in concealing the steps taken to falsify its financial condition.

As an example, beginning as early as 1985, Borowiak, at the direction of others, artificially adjusted accounts payable for the purpose of manipulating Mercury's earnings to meet publicly announced projections. At times when earnings were better than projected, Borowiak was directed to and did artificially inflate accounts payable to lower earnings. At times when earnings were lower than projected, defendant Borowiak was directed to and did artificially decrease accounts payable to increase earnings. At no time were these manipulations disclosed to the public.

As another example, as a part of the Borowiak responsibilities, he was required to make entries to the general ledger at Mercury. In or about early 1996, Borowiak was directed to and did increase Mercury's income and receivables by $31,850,000, without seeing any support for the entry. Shortly after making the entry, Borowiak knew the outside auditors were questioning the entry.

In or about April 1996, the defendant was directed to make another unsupported entry, which he recognized was related to the earlier $31,850,000 entry. This entry reduced the commercial paper account by $30 million and also reduced accounts receivables by the same amount. Borowiak knew that this had the effect of eliminating most of the earlier questioned receivable entry while not reducing this $30 million increase in income caused by the earlier entry.

In or about May 1996, one of the employees Borowiak supervised told him that she had altered a bank statement to show $30 million being deposited into the account. The employee had cut and pasted the falsified bank statement at the direction of the chief financial officer. Borowiak knew this altered bank statement was prepared for the auditors in connection with the $30 million unsupported entry he had recently made.

In or about January 1997, Borowiak was directed to and did increase the commercial paper account by $30 million while at the same time increasing the receivables by $30 million. In short, the $31.85 million entry and the $30 million entries that Borowiak was instructed to make and did make were fraudulent and had the effect of artificially inflating Mercury Finance's income by $31.85 million

Borowiak took other steps to assist in the accounting fraud. For instance, Borowiak knew that Mercury Finance had a publicly disclosed policy of charging off as a bad debt any account still owed the company on an automobile loan after the automobile was repossessed and sold. By the end of 1996, Borowiak knew that Mercury had approximately $26 million in an account called "Repos Sold". The evidence shows that all of this should have been charged off pursuant to company policy. Nonetheless, defendant Borowiak was directed to and did, in early 1997, eliminate the $26 million in the Repos Sold account and at the same time did increase receivables by $26 million. In other words, Borowiak made debts that he knew were at least partially uncollectible appear to be valuable assets.

Borowiak further assisted in concealing the transformation of these charge offs to valuable assets by intentionally providing the outside auditors with a repossessions report which he knew did not reflect the $26 million in repossessions sold.

Patrick J. Fitzgerald, United States Attorney for the Northern District of Illinois commended Thomas J. Kneir, Special Agent-in-Charge of the Chicago Office of the Federal Bureau of Investigation, and Mary E. Keefe, Regional Administrator of the Securities and Exchange Commission in Chicago, for their offices' outstanding assistance in the investigation and prosecution of this corporate fraud case. The investigation is continuing, they said. The government is being represented by Assistant U.S. Attorney Edward Kohler and Special Assistant U.S. Attorney Gregory von Schaumburg.

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