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EX MERCURY TREASURER INDICTED IN ACCOUNTING FRAUD SCHEME

CHICAGO -- The former treasurer of the now-defunct Mercury Finance Company was indicted for allegedly participating in a corporate accounting fraud scheme for slightly more than a year, ending about the same time that Mercury's stock collapsed in January 1997, Patrick J. Fitzgerald, United States Attorney for the Northern District of Illinois, announced today. The defendant, **Bradley Vallem**, and others attempted to inflate and maintain the price of the company's common stock to obtain and keep sufficient financing to fund Mercury's daily operations and to obtain personal benefits in the form of salaries, bonuses and stock options, according to a 10-count federal grand jury indictment returned late yesterday.

Vallem, 49, of 206 Lonsdale, Prospect Heights, was treasurer and an assistant vice president of Mercury, which was based in Lake Forest, Ill. He was charged with nine counts of wire fraud affecting a financial institution and one count of bank fraud, and he will be arraigned at a later date in U.S. District Court.

According to the indictment, Vallem and others, including an individual identified in the indictment as Mercury's "Corporate Officer A;" James Doyle, Mercury's deceased chief financial officer; and Lawrence Borowiak, the company's accounting manager who reported to Doyle, made and caused to be made material misstatements and omissions, and created and caused to be created materially false pretenses, about Mercury's financial condition. Mercury, which was engaged in the subprime lending business, at the time was a publicly-held company with its stock listed and traded on the New York Stock Exchange. The company extended loans directly to customers and acquired installment loans previously extended to customers by dealers of used automobiles. Mercury's customers generally were higher risk borrowers known as subprime borrowers.

According to the indictment, In April 1996, Vallem allegedly provided Mercury's outside auditors with a fraudulently altered list of Mercury's short term debt in order to convince the auditors that the debt had genuinely been reduced by $30 million, knowing that this list did not reflect $30 million that Mercury owed Mellon Bank. Vallem also allegedly signed and caused to be filed with the Securities and Exchange Commission three quarterly reports, known as Form 10Q, which falsely represented that Mercury's short-term debt had been reduced by $30 million.

In January 1997, when Mercury's outside auditors became aware that the company's reported short-term debt was $30 million too low, Doyle and Borowiak, with Vallem's knowledge and approval, corrected the debt reporting but avoided reducing earnings by recording $30 million in phony accounts receivable. In mid-January 1997, Vallem and his co-schemers provided a confidential memo that contained materially false financial information to more than 20 financial institutions that had already extended credit or were prospective lenders, the indictment alleges. By the end of January 1997, Mercury had fraudulently obtained and maintained nearly $1.5 billion in loan commitments and lines of credit from financial institutions.

By early January 1997, Mercury had approximately 177,700,000 shares of common stock outstanding with a market value of over $2 billion. When Mercury's accounting fraud was discovered, shareholders lost nearly $2 billion in the market value of its common stock. In addition, purchasers of Mercury's commercial paper lost over $40 million, and lenders separately lost over

$40 million in loans extended to the company.

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. According to the indictment, Mercury made this announcement without disclosing that these earnings were fraudulently inflated through, among other things, the recording of non-existant accounts receivable and other fictitious accounting entries, the misclassification of uncollectible loans as performing assets and the manipulation of earnings figures to meet earnings projections.

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 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 indictment alleges that the share price fell to $1 e and it closed the day at $2 c 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. Mercury eventually further restated its 1996 earnings to reflect a loss of about $30 million rather than the original profit of about $120.7 million.

Borowiak, 52, of Mundelein, pleaded guilty in October to securities fraud, admitting that he engaged in insider trading of Mercury’s stock. He is cooperating with the government’s ongoing investigation and is scheduled to be sentenced in February.

Mr. Fitzgerald announced the charges with Thomas J. Kneir, Special Agent-in-Charge Chicago Filed Division of the Federal Bureau of Investigation, and Mary E. Keefe, Regional

Administrator of the Securities and Exchange Commission of Chicago. The government is being represented by Assistant U.S. Attorney Edward Kohler and Special Assistant U.S. Attorney Gregory von Schaumburg.

If convicted, each count of wire fraud and bank fraud carries a maximum penalty of 30 years in prison and a $1 million fine. As an alternative maximum fine, the Court may order a fine totaling twice the gross loss of any victim or twice the gain to the defendant, whichever is greater. Restitution is mandatory. The Court, however, would determine the appropriate sentence to be imposed under the United States Sentencing Guidelines.

The public is reminded that an indictment contains only charges and is not evidence of guilt. The defendant is presumed innocent and is entitled to a fair trial at which the United States has the burden of proving guilt beyond a reasonable doubt.

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