UNITED STATES BANKRUPTCY COURT
DISTRICT OF COLORADO

In re MERCURY COMPANIES, INC. Debtor.	Bankruptcy Case No. 08-23125 Chapter 11

DISCLOSURE STATEMENT FOR CHAPTER 11 PLAN OF MERCURY COMPANIES, INC. DATED JULY 14, 2010

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TABLE OF CONTENTS

Page

I. INTRODUCTION 1

A. Overview 1

B. Brief Explanation of Chapter 11 1

C. Disclaimers and Limitations 2

D. Definitions 2

E. Classification and Treatment of Claims 3

F. Parties Entitled to Vote on the Plan 3

G. Voting Procedures and Confirmation Hearing 4

H. Effect of Confirmation of the Plan 4

I. Approval of the Disclosure Statement 4

II. HISTORY AND ORGANIZATION OF THE DEBTOR 4

A. History of the Debtor's Business 4

B. Events Leading to Commencement of the Chapter 11 Case 6

C. Steps Taken During Chapter 11 Case 10

III. DESCRIPTION OF THE PLAN 17

A. Description of the Plan and Means of Implementation 17

B. Treatment of Claims and Equity Interests 18

C. Sources of Information for Disclosure Statement; Financial Reporting 19

D. Anticipated Litigation, and Liquidation of Assets 19

E. Feasibility and Distributions to Creditors 20

F. Federal Income Tax Consequences to Creditors 20

IV. MISCELLANEOUS PLAN PROVISIONS 22

A. Objections to Claims and Settlements 22

B. Post Confirmation Committee 23

C. Other Provisions 23

V. RISK FACTORS 23

VI. LIQUIDATION ALTERNATIVE AND POTENTIAL PLAN RECOVERY 24

I. INTRODUCTION

A. Overview

Mercury Companies, Inc. ("Mercury" or the "Debtor"), submits this disclosure statement ("Disclosure Statement") to provide information allowing its creditors and shareholders to make an informed vote on the Chapter 11 Plan of Mercury Companies, Inc., attached hereto as Exhibit A (the "Plan"). This Disclosure Statement describes the Plan, explains Mercury's pre-bankruptcy operating and financial history; the events leading up to the commencement of Mercury's Chapter 11 Case; and significant steps Mercury has taken during the Chapter 11 case to preserve value, generate cash, and negotiate settlements.

Mercury has made significant progress in liquidating assets, generating cash, and resolving disputes. As a result, the Plan is fairly simple. Upon the Effective Date of the Plan, Mercury will set $25 million cash aside in a fund for distribution to general unsecured creditors. The fund will not be burdened with any future administrative or operational costs. Distributions from the fund will be made as quickly as possible *pro rata* to undisputed claims appearing on the claims register as of that time, subject to hold backs with respect to disputed claims. Meanwhile, Mercury will continue the process of resolution of disputed claims so that money from the fund will be distributed only to creditors whose claims are properly allowed.

Mercury estimates that at the conclusion of the claims resolution process the total allowed general unsecured claims will be approximately $35 million. The initial $25 million should be sufficient to pay unsecured creditors approximately 70 percent of their claims (although it will not be paid all at once because of the need to reserve for disputed claims). Mercury's remaining activities will generate more cash so that eventually creditors should receive greater distributions.

If the Plan is confirmed, the first distribution can be made on or soon after the Effective Date of the Plan which the Debtor expects to be in 2010. Because the Plan provides for substantial distribution in cash to creditors and can facilitate that distribution more quickly and efficiently than any other legal mechanism, the Debtor believes that the Plan is in the best interest of creditors.

B. Brief Explanation of Chapter 11

In Chapter 11, a debtor may reorganize its business or liquidate its assets under the protection of the Bankruptcy Court. To facilitate this process, all efforts to collect pre-petition claims from a debtor and any secured creditor's attempts to foreclose on or seize property of the debtor are stayed during the pendency of the proceeding. In this case, Mercury filed a petition for Chapter 11 relief on August 28, 2008 (the "Petition Date").

Since filing this Chapter 11 Case, Mercury has operated as debtor-in-possession pursuant to §§ 1107 and 1108 of the Bankruptcy Code. Mercury has operated its few remaining businesses and liquidated its assets in the ordinary course under Bankruptcy Court supervision. Mercury is, and has acted as, a fiduciary to protect the interests of creditors and other parties in interest in this case. If confirmed by the Bankruptcy Court, the Plan will be the means by which

Mercury will make payments to creditors and continue the process of generating cash and resolving claims.

C. Disclaimers and Limitations

The Disclosure Statement and accompanying Plan are for Mercury only and do not address the independent liabilities of any other entity. Mercury's subsidiaries that are in bankruptcy, Arizona Title Agency, Inc., Financial Title Company, Lender's Choice Title Company, Lender's First Choice Agency, Inc., and Texas United Title Inc., d/b/a United Title of Texas have not yet proposed resolution of their bankruptcy cases and are therefore not covered by Mercury's Plan.

The information contained in this Disclosure Statement is included for purposes of soliciting acceptances of, and obtaining confirmation of, the Plan and may not be relied upon for any other purpose.

Creditors should note that amendments beneficial to one or more classes of claims without further impairment of other classes may be made to the Plan prior to confirmation. Amendments of that nature may be approved by the Bankruptcy Court at the confirmation hearing without re-solicitation of creditors and equity interest holders.

The descriptions of the Plan contained in this Disclosure Statement are summaries and are qualified in their entirety by reference to the Plan. Each creditor is encouraged to analyze the terms of the Plan carefully.

The statements contained in this Disclosure Statement are believed to be accurate as of the date of its filing unless another time is specified in the Disclosure Statement. They should not be construed as implying that there has been no change in the facts set forth since the date the Disclosure Statement was prepared and the materials relied upon in preparation of the Disclosure Statement were compiled. Counsel for Mercury makes no representation as to the accuracy of the information contained in this Disclosure Statement.

This Disclosure Statement has been neither approved nor disapproved by the Securities and Exchange Commission (the "SEC") or any state securities regulator, and neither the SEC nor any state securities regulator has passed upon the accuracy or adequacy of the statements contained in this Disclosure Statement.

D. Definitions

1. Defined Terms In the Plan. Various terms are defined in Article II of the Plan. These defined terms are also used in the Disclosure Statement and have the same meaning in this Disclosure Statement as set forth in the Plan.

2. Other Terms. The words "herein," "hereof," "hereto," "hereunder," and others of similar inference refer to the Disclosure Statement as a whole and not to any particular section, subsection, or clauses contained in the Disclosure Statement unless otherwise specified herein. A term used herein or elsewhere in the Disclosure Statement that is not defined herein or in the Plan shall have the meaning ascribed to that term, if any, in the Bankruptcy Code or the Bankruptcy Rules. The headings in the Plan are only for convenience of reference and shall not limit or otherwise affect the provisions of the Plan.

3. **Exhibits**. All exhibits to the Plan and Disclosure Statement are incorporated into and are a part of the Plan and Disclosure Statement as if set forth in full herein.

E. Classification and Treatment of Claims

Class	**Status**	**Treatment under Plan**	**Estimated Distribution**
Class 1 (Priority Claims)	Unimpaired	Payment in full on or before 28 days of the Effective Date	100%
Class 2 (Secured Claims)	Impaired	Retention of collateral in full satisfaction of Claim or payment of proceeds of collateral	100%
Class 3 (General Unsecured Claims)	Impaired	Establishment of a Class 3 Distribution Fund in the amount of $25 million with an initial Distribution to Holders of Allowed Claims on or before 28 days after the Effective Date. Additional funds will be added to the Class 3 Distribution Fund at Mercury's discretion, with subsequent Distributions to Holders of Allowed Class 3 Claims.	70+%
Class 4 (Equity Interests)	Impaired	Pro rata distribution of remaining Cash after payment of Allowed Class 1-3 Claims in Full	0+%

The estimated Distributions set forth above are based upon Mercury's estimates of the Allowed Claims in each class and the amount of Cash it will have after liquidation of its assets. There is no guaranty that each Class will receive the distribution estimate above.

F. Parties Entitled to Vote on the Plan

Under the provisions of the Bankruptcy Code, not all parties in interest are entitled to vote on the Chapter 11 Plan. Creditors whose Claims are not impaired by the Plan are deemed to accept the Plan under § 1126(f) of the Bankruptcy Code and are not entitled to vote. Under the Plan, only the Holders of Claims or Interests in Classes 2, 3 and 4 are entitled to vote on the Plan.

G. Voting Procedures and Confirmation Hearing

After approval of the Disclosure Statement by the Bankruptcy Court, Creditors and Equity Interest Holders will have an opportunity to vote on the Plan. Voting will be by class as set forth in the Plan and described later in this Disclosure Statement. For classes containing more than one Claim or Interest, a class is deemed to have accepted the Plan if at least one-half of the Creditors in number holding at least two-thirds of the aggregate amount of Claims voting elect to accept the Plan.

If you are entitled to vote to accept or reject the Plan, a Ballot is enclosed for the purpose of voting on the Plan. After carefully reviewing the Plan, this Disclosure Statement, and the detailed instructions accompanying your Ballot, please indicate your acceptance or rejection of the Plan by voting in favor of or against the Plan. For your vote to be counted, you must complete and sign your original Ballot and return it by _______________, which is the last date set by the Court to vote on the Plan.

The Bankruptcy Court has set a hearing on Confirmation of the Plan and to consider objections to Confirmation, if any, for ___________, 2010, at _____________. The Confirmation hearing will be held at the United States Bankruptcy Court for the District of Colorado, United States Custom House, 721 19th Street, Denver, Colorado 80202. At the hearing, the Bankruptcy Court will consider whether the Plan satisfies the requirements of the Bankruptcy Code.

H. Effect of Confirmation of the Plan

Confirmation of the Plan makes the Plan and its provisions binding on the Debtor, all Creditors, all Holders of Equity Interests, and other parties in interest, regardless of whether they have accepted or rejected the Plan. As a result, Creditors may receive payment on their claims only in accordance with the Plan. If confirmed, the Effective Date of the Plan will be the 28th day after entry of the Confirmation Order, unless such order is the subject of a stay by the Bankruptcy Court.

I. Approval of the Disclosure Statement

A decision by the Bankruptcy Court to approve this Disclosure Statement under Bankruptcy Code § 1125 is a finding that the Disclosure Statement contains information of a kind and in sufficient detail to enable a reasonable, hypothetical investor typical of holders of impaired claims to make an informed judgment about the Plan and is not a recommendation by the Bankruptcy Court either for or against the Plan.

II. HISTORY AND ORGANIZATION OF THE DEBTOR

A. History of the Debtor's Business

1. Formation and Description of the Business.

Mercury is a privately-held Colorado corporation. It was founded in 1947 as Security

Title Guaranty Co. in Jefferson County by Paul Hauptman. The company's primary business had been selling title insurance in Colorado. Jerrold Hauptman, his son, took over Mercury in 1978, when annual revenues were under $10 million. Jerrold Hauptman expanded the company throughout the 1980s by putting its subsidiaries under a holding company called United Title Company, which later became Mercury Companies, Inc. Mercury was a holding company for subsidiaries that were involved in the settlement services industry, including title services, escrow services, mortgage document preparation, settlement services, and software development and the real estate development business.

Mercury's expansion to other states began in 1995. Mercury either purchased or formed title agent subsidiaries in California, Arizona and Texas, and opened offices in Nevada, Florida, and Oregon. During the past two decades, Mercury grew rapidly through internal expansion and in response to the robust real estate market that fueled the settlement services industry.

Mercury became one of the largest participants in the title services industry in the United States. Mercury and its subsidiaries had gross revenues over $1 billion in 2007. However, as home sales and prices plummeted in 2007 and 2008, Mercury's business was materially impacted on volume and margins. As of the date of this Disclosure Statement, Mercury has wound down or sold the subsidiaries involved in the settlement services industry.

Mercury also owned Remington Holdings, Inc. ("Remington"), which was a holding company for subsidiaries that developed and constructed residential subdivisions in Colorado. Remington's active subsidiaries as of the Petition Date included Cottonwood Vista, Remington Homes, Inc., Mountain Shadows by Remington Homes, Inc., Eagle View by Remington Homes, Inc., Lake Front by Remington Homes, Inc., Dancing Willows by Remington Homes, Inc., and Saddle Brook by Remington Homes, Inc. During this Chapter 11, Mercury sold its interests in Remington as further described below.

2. Affiliates in Bankruptcy.

a. Subsidiaries in Bankruptcy

Six of Mercury's subsidiaries also filed Chapter 11 petitions in Colorado in 2008. They are: Arizona Title Agency, Inc. case number 08-26834: Financial Title Company case number 08-26827; Lenders Choice Title Company case number 08-26831; Lender's First Choice Agency, Inc. and Lenders Choice Title Co. case number 08-26829; and Texas United Title case number 08-26825, which are jointly administered with Mercury's. These subsidiaries were involved in the property settlement services industry, including title services, escrow services, mortgage document preparation, and settlement services software development. Since filing bankruptcy, they have either wound down or sold their operations.

One of the subsidiaries, Title Guaranty Agency of Arizona, Inc. (Case No. 08-26837) filed a voluntary dismissal of its Chapter 11 case on May 13, 2009.

b. Alliance Title Company, Inc.

Another subsidiary of Mercury, Alliance Title Company, Inc., filed a Chapter 7 petition in California in June 2008. The Alliance Title Company case is separate and distinct from Mercury's case. This Disclosure Statement and the Plan are not related to any matters regarding Alliance Title Company's bankruptcy case. Any persons seeking information on Alliance Title Company should contact the Chapter 7 trustee for Alliance Title Company directly regarding such matters.

B. Events Leading to Commencement of the Chapter 11 Case

1. Decline in the Settlement Services Industry Fueled by Softening Housing Market. Mercury's business of providing settlement services, including title services, escrow services, mortgage document preparation, and software development was dependent upon the housing markets in California, Colorado, Texas, Arizona and other locations nationwide. From the early 1990's through approximately 2006, housing conditions and the settlement services industry were financially strong, making Mercury's operations very profitable. However, beginning in 2006, the housing market began to soften and soon thereafter the financial markets began their descent. These well-known declines were caused by an excess of housing inventory, a decrease in affordability for new homes, higher interest rates, and then a general unavailability of credit in the housing markets due in part to losses in the subprime housing lending sector. Revenues declined and operations were not profitable for the non-Colorado subsidiaries.

2. Remington. Just as the decline in real estate markets effected the title closing business of Mercury resulting in decreased revenue and operating losses, the real estate decline also impacted Mercury's real estate subsidiaries. Remington and Remington's subsidiaries (described in Section II(A)(1) above) reflected investments by Mercury of at least $20 million in real estate holdings. In 2007, Mercury believed Remington and the Remington subsidiaries to have a value of approximately $20 million to Mercury. A dramatic decline in real estate values, especially for development projects like those owned by Remington and its subsidiaries, eliminated that perceived value. By the time Mercury was able to dispose of Remington and its subsidiaries, these assets had little value to Mercury. Mercury had guaranteed debts secured by the Remington properties and had contingent liabilities of approximately $35 million as a result.

3. English Class Action Judgment. On June 9, 2005, a class action lawsuit was filed against Mercury and several of its subsidiaries by Lisa English and Patricia Winegar, individually and as Class Representatives in the Superior Court of California, County of Fresno, Case No. 05 CE CG 01766, alleging failure by Mercury and such subsidiaries to pay overtime wages and provide meal periods and accurate wage statements (the "Class Action"). The parties reached a settlement whereby Mercury and the subsidiaries agreed to pay a settlement payment fixed in accordance with a formula set forth in the settlement agreement. The settlement agreement was approved by the Superior Court in the Class Action pursuant to a final judgment filed on June 10, 2008

Payment in the amount of $10,576,562.05 pursuant to the settlement was due on or about August 24, 2008. Counsel for the Class Representatives threatened to take immediate action to collect the judgment if not paid when due. Mercury was prepared to timely make the payment in satisfaction of the judgment, but the intervening events described below made payment impossible and the obligation remains unpaid. Mercury commenced its bankruptcy case on

August 28, 2008. Colorado counsel for the Class promptly filed a general unsecured claim in the amount of $10,576,562.05 based upon the final judgment. Additionally, Colorado counsel for the Class filed separate and duplicative claims on behalf of each individual Class member, and many individual class members also filed separate claims on their own behalf in the Mercury Bankruptcy Case.

4. Disputes with First American. Prior to the Petition Date, Mercury's Colorado Subsidiaries (Heritage Companies, Inc., Security Title Guaranty Co., Title America, Inc. and USA Digital Solutions, Inc. (the "Colorado Subsidiaries")) conducted most of their business as agents for The First American Corporation and its wholly owned subsidiary American Title Insurance Company (referred to individually or collectively as "First American"). Mercury and its Colorado Subsidiaries were parties to several underwriting agreements in which the Colorado Subsidiaries were to be the exclusive title insurance agents for First American in Colorado. In exchange, the Colorado Subsidiaries promised, with few exceptions, to sell only First American's title insurance policies in Colorado (collectively, the "Exclusivity Agreements"). First American was the Colorado Subsidiaries' largest underwriter. Additionally, First American invested approximately $100 million in preferred equity in Mercury, over several transactions.

On May 1, 2008, Mercury and the Colorado Subsidiaries filed a complaint against First American in the United States District Court for the District of Colorado. Mercury and the Colorado Subsidiaries alleged that First American used multiple title insurance companies as agents in Colorado and took steps to sell First American insurance policies directly to consumers in Colorado in violation of the Exclusivity Agreements. Mercury also alleged that First American breached a binding obligation to convert $15 million of debt to additional preferred shares of Mercury pursuant to a "Put Agreement". First American counterclaimed and sought a money judgment against Mercury.

5. Seizure of Working Capital by Comerica and Shutdown of Non-Colorado Subsidiaries. In April 2008 Mercury executed a Credit Agreement with Comerica Bank ("Comerica") securing a $45 million loan (the "Comerica Loan"). The Comerica Loan was secured by substantially all of Mercury's assets and the assets of its subsidiaries, including accounts receivable. Due to First American's refusal to purchase additional preferred shares of Mercury, pursuant to the "Put Agreement," Mercury was unable to timely complete the audit of its 2007 financial statements or provide the audited statements to Comerica. Mercury's failure to timely deliver audited year 2007 financial statements arguably created a technical default under the terms of the Comerica Loan. Without warning, Comerica called the entire Comerica Loan and swept approximately $40 million from Mercury's operating accounts. Comerica's surprise sweep left Mercury with virtually no working capital as of July 25, 2008.

Immediately, Mercury and most of its non-Colorado subsidiaries were without adequate operating funds, and Mercury was deprived of the funds intended for satisfaction of the English Class Action Judgment described above. The effect upon Mercury was devastating. Almost all of Mercury's subsidiaries, other than the Colorado Subsidiaries, were forced to cease operations and forced to lay off all of their employees without warning. The sudden, unexpected cessation of major operations in California triggered huge claims against Mercury and its California subsidiaries by the California State Labor Commissioner and by the United States Department of Labor.

6. Sale of Colorado Subsidiaries. Mercury's Colorado Subsidiaries had always been its most profitable assets and continued to have significant value. Despite Comerica's seizure of Mercury's operating cash, Mercury's Colorado Subsidiaries were in reasonably good shape and able to retain their staff and business operations. Mercury's Colorado Subsidiaries accounted for approximately 35% of the all title business in Colorado at the time. Though the sweep of Mercury's operating cash caused disruptions in the Colorado Subsidiaries' businesses, they were able to survive the July 2008 crisis and immediately began generating positive cash flow. However, in the last week of July and the first week of August 2008, Mercury was under threat on three major fronts. Comerica had just called the Comerica Loan and seized over $40 million in cash from Mercury's bank account; over $10 million was rapidly coming due on the English Class Action Judgment with a hostile judgment creditor; and the First American litigation with Mercury and its Colorado Subsidiaries was causing the Colorado Department of Insurance to have some concerns.

Mercury had other major problems at that time. System-wide, Mercury had just lost over 1000 employees. Mercury's staff at the holding company level was in turmoil. The Chief Financial Officer was in Northern Africa and left the Company on or about August 5, 2008. Upper management was reeling from an incessant barrage of threatening communications, and miscommunications, internally and externally, appeared to be suffering from shock and the internal channels of communication broke down. From the top, Mercury's financial picture looked much worse than it was. The Chief Executive Officer was led to believe that Mercury had little cash and could not make payroll for the Colorado Subsidiaries. In fact, Mercury still had available nearly $10 million from other accounts and from operations by the Colorado Subsidiaries after the sweep by Comerica. However, the disruption and panic caused by the traumatic events of the last week of July prevented that information from reaching upper management or its advisors.

Under the gun from all of these events, Mercury and First American began discussions to resolve their disputes. The discussions were not very friendly. First American sought, among other things, to force transition of Mercury's Colorado Subsidiaries to First American. Initial discussions centered around a possible purchase by First American of the stock of the Colorado Subsidiaries. First American was aware of Mercury's distress and believed it was in a dominant position. First American apparently believed Mercury had no choice but to sell to it and for whatever price it dictated. First American was a major Mercury shareholder and creditor and controlled the underwriting for all of the Colorado Subsidiaries' business. (As the discussions proceeded, First American changed the negotiations from a proposal to purchase the stock of the Colorado Subsidiaries to a demand that Mercury sell the operating assets of some of the Subsidiaries for consideration insufficient to pay the Subsidiaries' debts.)

Mercury's Board and Chief Executive Officer continued under the misperception that Mercury's financial position was irretrievable, but recognized their fiduciary duty to look for alternatives to the pressure from First American. On or about August 3, 2008, in the face of First American's intransigence, Mercury contacted Fidelity Title Insurance Company ("Fidelity"), a competitor of First American to solicit interest for a competing bid for the Colorado Subsidiaries. Fidelity, for its part, recognized the undue pressure placed upon Mercury by First American and the crisis resulting from Comerica's sudden grab of all of Mercury's cash. Fidelity immediately offered $5 million for the Colorado Subsidiaries before even coming to Colorado to conduct any investigation.

Fidelity promptly sent its general counsel and several other employees to Mercury's headquarters. Fidelity's team arrived at Mercury's headquarters about 9 a.m. on August 5, 2008. The Fidelity team made it clear to Mercury that they were there for the purpose of and intended to complete the $5 million deal that same day. Fidelity's team members were given free access to all Mercury personnel and information, but the perceived time pressures limiting opportunity for full due diligence. Fidelity wanted the Colorado Subsidiaries because of the Colorado Subsidiaries' strong position in the market place. It was clear the purchase would allow Fidelity to eliminate Mercury entirely as a competitor and prevented First American, another competitor, from controlling the Colorado title market.

By 3:30 p.m. on August 5, Mercury had sold its Colorado Subsidiaries and one other subsidiary to Fidelity under a Stock Purchase Agreement (the "<u>Fidelity Purchase Agreement</u>") for $5 million. By 5:30 pm of that day Fidelity took charge of the Colorado Subsidiaries. The transaction had been negotiated, executed and consummated all on August 5, 2008. The Fidelity Purchase Agreement called for Fidelity to purchase all of the stock of the Colorado Subsidiaries for $5 million and to take on the Colorado Subsidiaries' ongoing operational liabilities.[1] Mercury agreed to the sale of the Colorado Subsidiaries while in the midst of the many-pronged crisis caused by Comerica's sweep of all of Mercury's operating cash; the impending maturity of its obligations on the English Class Action Judgment; the litigation pressure from First American and the collapse of its California, Arizona and Texas operations. Fidelity was made aware of Mercury's precarious position and took full advantage of the opportunity to quickly purchase the Colorado Subsidiaries at the very low price of $5 million. Fidelity's cash offer of $5 million for the stock of the Colorado Subsidiaries was of interest to Mercury only because of the extreme distress it believed it was under at the time. Mercury would never have agreed to sell the Colorado Subsidiaries at so low a price had it not been under extreme duress.

The Fidelity Purchase Agreement did not call for the payment of the full purchase price immediately. Approximately $2.5 million was paid at the time of the closing after which Mercury was to provide certain post-closing schedules and Fidelity was to pay the remainder of the $5 million. Mercury has provided the schedules, but Fidelity has refused to pay the full purchase price.

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[1] The purchase actually comprised 12 companies because several of the Colorado subsidiaries covered by the Purchase Agreement had active subsidiaries of their own.

C. Steps Taken During Chapter 11 Case

1. Preliminary Matters. In the Chapter 11 case, Mercury has remained in possession of its assets and exercised the powers and duties of a trustee pursuant to the Bankruptcy Code. Mercury retained counsel and other professionals to help it carry out those duties. In addition, a committee of unsecured creditors (the "Committee") was appointed with the right to participate in the Chapter 11 case and be heard on any matter. The Committee also retained counsel. Because of the large number of creditors in this case, Mercury retained a claims agent, The Garden City Group, Inc., to receive and track proofs of claim. Proofs of claim and other information concerning Mercury's Chapter 11 Case and the cases of its subsidiaries in bankruptcy may be found at www.MercuryCompaniesbankruptcy.com.

2. Change of Management. Mercury, with approval from the Committee, appointed Tom Connolly to take over as CEO replacing Jerrold Hauptman. Mr. Connolly has extensive experience as a bankruptcy trustee, receiver and plan agent and extensive experience managing businesses through reorganizations, liquidations, resolution of claims and recovery of assets. Mr. Connolly has acted as the CEO and director of Mercury since January 2009 and has largely been responsible for guiding Mercury through the activities described below.

3. Closing of Corporate Headquarters. Mercury closed its corporate headquarters and moved to temporary office space. Mercury has reduced its staff and currently has 2 full time employees, all of whom work out of the new location.

4. Sale of Corporate Aircraft and Airplane Hangar. After obtaining Court approval, on December 31, 2008, Mercury sold its corporate aircraft and generated approximately $800,000 after payment of a secured claim, and on February 12, 2009, it sold its leased airplane hangar in Centennial, Colorado, and generated approximately $450,000.

5. Sales and Settlements Regarding Remington. In a series of transactions approved by the Court, Mercury liquidated its interests in Remington and sold substantial development real estate to entities owned or controlled by Paul R. Hauptman and Charles R. Hauptman, the brother and nephew of Jerrold Hauptman, respectively. The benefit to Mercury in these transactions was to relieve Mercury from approximately $34 million in unsecured guaranty claims owed to Colorado State Bank and to generate approximately $1 million cash to Mercury through various settlements.

One of the settlements approved by the Court resolved a dispute concerning bonds issued by Dancing Willows Metropolitan District to one of the Remington Subsidiaries in the approximate amount of $3,720,000 (the "Bonds"). Skyland Meadows Developments Ltd. ("Skyland") was entitled to receive one half of the Bonds when issued and claimed a right to the other half as a result of a settlement agreement it had executed with Paul R. Hauptman and Charles R. Hauptman and Remington . Skyland filed suit in Jefferson County, Colorado District Court, to secure its claim to the Bonds and asserting substantial damage claims. However, Mercury claimed a security interest in one half of the Bonds, which Skyland disputed. On June 23, 2009, Skyland and Mercury entered into a settlement agreement which the Court approved on September 15, 2009. The material part of the settlement provided that the Paul R

Hauptman and Charles R. Hauptman paid Mercury $400,000 on account of Mercury's disputed interest in the Bonds and Skyland received the Bonds.

6. Settlement with First American. The disputes with First American described in Section II(B)(4) above continued in to the Debtor's Chapter 11 case. After further litigation and extensive and careful negotiation, Mercury and First American entered into a Settlement Agreement which was approved by the Court on August 21, 2009.

Pursuant to the Settlement Agreement, First American surrendered its approximately $100 million of preferred equity ownership in Mercury and waived all other claims against Mercury. In exchange, Mercury released its affirmative claims against First American. The settlement also required First American to pay earned title and escrow fees to certain of Mercury's subsidiaries of approximately $670,000, which funds are now due to Mercury. By providing for substantial reduction in claims, elimination of litigation expense and uncertainty and bringing cash into the subsidiaries, the settlement was a significant step toward allowing resolution of other issues and distribution of funds to creditors pursuant to the Plan.

7. Settlement with California State Labor Commissioner. Just prior to the Petition Date, the State Labor Commissioner, Division of Labor Standards Enforcement, Department of Industrial Relations, State of California ("DLSE"), representing former California employees of Mercury's California subsidiaries Financial Title Company ("FTC"), Lenders Choice Title Company ("LCT") Lender's First Choice Agency, Inc. ("LFC"), and Alliance Title Company, Inc. ("Alliance"), commenced an action in the Superior Court in California, (the "State Labor Action") against Mercury, Alliance, FTC, LTC, LFC and Mercury's former chief executive officer, Jerrold Hauptman. Alliance (a Mercury subsidiary trust) had filed for Chapter 7 bankruptcy in California in June 2008. The State Labor Action was triggered by the sudden, unexpected termination of the employees of Mercury's California subsidiaries caused by Comerica's precipitous sweep of virtually all of Mercury's working cash.

In the State Labor Action, DLSE sought a judgment against the defendants, jointly and severally, for unpaid wages of $11.25 million; for California WARN Act violations of $3 million; for minimum wages and liquidated damages in respect thereof of $2 million; for expense reimbursements of $3 million; and for penalties of $10 million. In addition, DLSE sought an award of prejudgment interest, attorneys' fees and civil penalties. Thus, DLSE sought to recover damages in excess of $35 million under various legal theories, including joint employer liability and alter ego. DLSE asserted claims against Mercury for over $22 million of which approximately $6.5 million was claimed as a entitled to priority under Bankruptcy Code § 507(a)(4).

Significantly, the DLSE asserted the right to continue litigation of the State Labor Action against Mercury in California, notwithstanding the automatic stay applicable in Mercury's Bankruptcy case. The DLSE claimed that prosecution of the State Labor Action was an exercise of California's "police power" and exempt from the automatic stay of the Bankruptcy Code. Mercury disputed the DLSE's position in that regard and sought an injunction in Bankruptcy Court against prosecution of the State Labor Action. Mercury's motion for preliminary injunction was pending as the parties negotiated a settlement. If DLSE had been able to proceed against Mercury in California courts, Mercury would have had to retain California counsel and cost of defense alone was estimated to be $1 million.

After protracted negotiations, Mercury, its affected subsidiaries, and the DLSE reached a global settlement on November 26, 2009. The material terms of the settlement, as it related to Mercury, were as follows:

a. Comerica, in its sudden sweep of Mercury's bank account, had taken $353,558.22 that had been withheld from Mercury's employees' wages for deposit into the Mercury 401(k) Plan. Mercury agreed to treat the claim for the unpaid 401(k) contributions as a priority claim in Mercury's bankruptcy case pursuant to §§ 507(a)(4) or 507(a)(5). Mercury has already paid the claim in full.

b. Mercury took the following actions to enhance Alliance's Chapter 7 estate in an effort to put that estate in a condition sufficient to pay a significant dividend on its allowed employee wage claims:

i. Mercury's intercompany receivable claim against Investors Title Company ("Investors Title"), a subsidiary of Alliance, in the amount of $2,042,402.00 was offset against the claim of Investors Title against Mercury in the amount of $616,174.27;

ii. Mercury consented to the sale by Alliance of all or substantially all of the assets or stock of Investors Title by Alliance; and

iii. Mercury waived the remainder of its intercompany receivable claim against Investors Title in the amount of $1,426,227.73 and made a cash contribution to Alliance in the amount of $500,000.00.

c. Mercury obtained Bankruptcy Court approval substantively consolidating the Chapter 11 estates of LFC and LTC.

d. Mercury paid $1 million in cash to FTC in exchange for illiquid assets consisting of (i) $262,500.00 of payment deposit receivables set aside by FTC for the benefit of various entities in the State of California, and (ii) the $1.4 million claim of FTC against its insurer AIG for wrongdoing of a former employee (the "AIG-Hilton Claim").

e. Mercury, LFC, LTC and DLSE agreed on reduced amounts of the total allowed claims of the former California employees and the portions of such claims that would be allowed against the combined estates of LFC and LCT and against the estate of FTC as priority claims under Bankruptcy Code § 507(a)(4) and as general unsecured claims.

f. Mercury made additional cash contributions to the combined estates of LFC and LCT and/or the estate of FTC, after the downward adjustment described in the preceding paragraph, in an amount sufficient for the combined estates of LFC and LCT and the estate of FTC to pay the agreed wage priority claims and the associated employer's share of employment taxes. Mercury has so far paid approximately $350,000 in addition to $1 million described in paragraph (d) above over the amounts recovered from the assets obtained or detailed above to cover this shortfall. Mercury anticipates recovering most of its out of cash cost from the AIG-Hilton Claim.

g. DLSE for itself and for all of the California employees it represented released Mercury from all further claims and the State Labor Action was dismissed.

Resolution of the State Labor Action dispute relieved Mercury from the threat of substantial liability for California wages and penalties and ensured certainty for Mercury with respect to potential priority claims that could have significantly decreased the amount of funding available for distributions to General Unsecured Creditors.

8. Dispute with Fidelity.

Upon execution of the Fidelity Purchase Agreement as described above, Fidelity wired $1 million of the purchase price directly to Mercury. The next day Fidelity wired an additional $1,484,004 of the purchase price directly to Comerica to complete final payment of the Comerica Loan and secure release of Comerica's remaining liens on the shares and the assets of the Colorado Subsidiaries. After applying the two initial payments described, approximately $2.516 million of the purchase price remained owing to Mercury.

Fidelity had agreed to pay the full $5 million purchase price for the stock of the Colorado Subsidiaries after only a few hours review of the purchased entities' books and records. In the Fidelity Purchase Agreement, Fidelity, as "Buyer", represented and warranted to Mercury, as "Seller" that,

> 5.2 Buyer has had the opportunity to ask questions of and receive answers or obtain additional information concerning the financial and other affairs of the Purchased Companies and their subsidiaries, and Buyer has asked such questions and received satisfactory answers.
>
> 5.3 Buyer is familiar with the business in which the Purchased Companies are engaged, and is fully aware of the problems and risks involved in making investments of this type and is capable of evaluating the merits and risks of this investment.

Fidelity was required to hold the unpaid $2.516 million balance of the purchase price in escrow and pay Mercury the escrowed balance within 14 days of satisfactory completion by Mercury of certain post-closing schedules. The Fidelity Purchase Agreement provided that: "Buyer will promptly review the Schedules upon delivery, and Buyer and Seller will work together in good faith to revise the Schedules to the extent appropriate based on Buyer's review as soon as practicable but in no event later than the 14th day following delivery of the Schedules. Upon Buyer's indication of satisfaction with the Schedules, which indication will not be unreasonably withheld, and the accuracy of Seller's representations and warranties contained herein, Buyer will pay the balance of the Purchase Price to Seller". Fidelity represented under oath and in written correspondence that it had, in fact, placed the balance in escrow.

Mercury promptly delivered the required post-closing schedules and Fidelity proposed some changes which were made. Notwithstanding Mercury's delivery of the schedules and the accuracy of Mercury's representations and warranties, Fidelity has failed and refused to pay the remainder of the purchase price. Fidelity has refused to "work together in good faith" with Mercury to revise the schedules to Fidelity's satisfaction and has instead unreasonably withheld its indication of satisfaction and final payment. Fidelity's refusal to perform its obligation under the Fidelity Purchase Agreement followed Mercury's bankruptcy.

Fidelity's unwarranted refusal to pay the remainder of the purchase price caused Mercury's new management to thoroughly review and investigate the circumstances of the entire transaction. New management's investigation indicated that, notwithstanding all of the shocks visited upon Mercury in the last week of July 2008, Mercury did not have to sell the Colorado Subsidiaries to ensure their survival. The Colorado Subsidiaries, at the time of the sale to Fidelity, controlled a significant portion of the Colorado title market, had their own operating bank accounts holding over $2.25 million in cash and had other assets of a book value of more than $9 million. Upon investigation during the Chapter 11 case, Mercury believes that the true value of the Colorado Subsidiaries was at least $20 million. The sale of the Colorado Subsidiaries to Fidelity has all of the characteristics of a classic fraudulent conveyance in which a distressed debtor under a false or real sense of impending collapse sells its most valuable assets because of a perceived need for immediate cash. The sale to Fidelity was on the eve of bankruptcy and either made while Mercury was insolvent or caused Mercury to become insolvent. The sale of the Colorado Subsidiaries to Fidelity would have been at about 25% of their real value had Fidelity honored its agreement and actually paid the contract price. As it were, Fidelity has only paid $2.5 million or about 10% of the value of the Colorado Subsidiaries.

Mercury's investigation of the Fidelity transaction revealed another curious event which occurred in connection with the sale to Fidelity which both illustrates Mercury's actual financial ability to have retained the Colorado Subsidiaries for the benefit of all creditors and the internal disarray at Mercury at the time of the sale. The Fidelity Purchase Agreement contained a provision that as of the August 5 closing date all intercompany accounts representing receivables and payables between Mercury and the Colorado Subsidiaries were eliminated and released without payment. The actual Fidelity Purchase Agreement was never shared with Mercury's accounting staff. On August 8, three days after all intercompany obligations had been released, Mercury staff unfamiliar with the Fidelity Purchase Agreement transferred $1.68 million in cash from Mercury's bank account to the bank accounts of the Colorado Subsidiaries in payment of an intercompany obligation. The $1.68 million mistakenly paid on the discharged intercompany debt was in addition to the $2.25 million in the Colorado Subsidiaries' bank accounts which had been handed over to Fidelity on the closing date. The payment of the $1.68 million on August 8 was clearly an error, but such was the confusion and disarray at Mercury on the eve of the sale and following its bankruptcy filing that the erroneous payment was not discovered until much later. Mercury was under no debt obligation subsequent to the closing date to pay the intercompany obligation. Under the clear terms of the Fidelity Purchase Agreement, all intercompany receivables and payables had been released as of August 5, 2008. Mercury has requested repayment of the mistaken payment, but Fidelity has refused.

Further investigation by Mercury has revealed that Fidelity never placed the remainder of the purchase price in escrow, leading Mercury to the conclusion that Fidelity had not proceeded in good faith and never intended to pay the remainder of the purchase price. Mercury has requested that Fidelity honor its agreement, pay the remainder of the purchase price and return the erroneous $1.68 million payment. Fidelity has refused.

Fidelity asserts that the Colorado Subsidiaries had greater "dark office" liabilities than Fidelity had anticipated and therefore it is justified in refusing to pay the remainder of the purchase price. Fidelity's excuse is hard to square with its express assumption of the risks of the title business contained in the Fidelity Purchase Agreement, the lack of any representation to the contrary from Mercury, and Mercury's express warning to Fidelity that the Colorado Subsidiaries had "dark office" liability. Mercury's only financial representation and warranty was that the internal financial statements attached to the Fidelity Purchase Agreement "fairly present the financial condition and results of operations of the Purchased Companies" as of June 30, 2008. The financial statements did accurately reflected the financial condition and results of operations as of June 30, 2008, a month and 5 days before the closing. It was both patently obvious and the basis for the whole negotiation with Fidelity that the financial condition of Mercury and all of its subsidiaries including the Colorado Subsidiaries had changed drastically for the worse since the date of those financial statements. Nevertheless, Fidelity continues to assert surprise over the extent of lease liability and has continued to refuse to pay.

Mercury has had no choice but to commence an adversary proceeding against Fidelity in the Bankruptcy Court. Mercury's primary complaint against Fidelity is that it took advantage of the financial distress which had been caused primarily by the actions of Comerica and First American to lure Mercury into agreeing to sell the Colorado Subsidiaries for an unreasonably low purchase price. Even with the so called "dark office" liability complained of by Fidelity, the Colorado Subsidiaries were worth at least $20 million at the time of sale. It is Mercury's position that the sale was a classic fraudulent conveyance and, as a consequence, Fidelity must return the stock of the Colorado Subsidiaries in return for the $2.5 million it has so far paid. In the alternative, Mercury seeks damages against Fidelity in the approximate amount of $4.2 million alleging that Fidelity has breached the Fidelity Purchase Agreement and its duty of good faith and fair dealing by failing to pay the remainder of the purchase price and by failing to repay the $1.68 million mistakenly paid on a cancelled intercompany debt. The adversary proceeding is in the early stages of discovery and has not yet been set for trial.

9. English Class Action Claim

The English Class Action judgment discussed in Section II(B)(3) of this Disclosure Statement resulted in the filing of multiple, duplicative and overlapping claims in Mercury's Chapter 11 Case. Claims were filed by the class representative on behalf of the entire class, by individual class members in their own right, by class counsel on behalf of individual class members, and by the class representatives in their individual capacity for $25,000 bonuses awarded them in the Class Action. As a result, claims appearing on Mercury's claims register roughly triple the amount of Mercury's actual liability.

Mercury does not dispute the validity or amount of the class claim, and it will be treated as an Allowed Class 3 Claim. To avoid duplication, Mercury is in the process of objecting to the other claims filed in respect of the English Class Action, including claims filed by individuals who or members of the class and by class counsel on behalf of such individuals. Mercury is negotiating a stipulation with class counsel and the class representatives to clarify allowance of claims. It is Mercury's intention that four basic claims will be allowed: (1) $5,743,229.05 for the members of the class, (2) $4,833,333.00 for class counsel, (3) $25,000 for Lisa English, class representative, and (4) $25,000 for Patricia Winegar, class representative. Such claims are classified as Class 3 Claims and shall be treated as such pursuant to the terms of the Plan.

10. Successful Prosecution of Tax Refund.

Prior to the events leading up to the commencement of the Chapter 11 case, Mercury had been a profitable "C" corporation and had paid substantial federal income taxes. The events of 2007 and 2008 resulted in Mercury suffering substantial losses. Amendments to the federal tax code which took effect in 2009 permitted the carryback of losses further than had previously been the case. Mercury's new management immediately directed its accountants to study the new loss carryback rules and, if appropriate, prepare amended tax returns to claim recapture of income taxes previously paid. As a result, Mercury was able to obtain a refund of approximately $17 million.

11. Quantification of Claims in Mercury's Case

January 30, 2009, was set by the Bankruptcy Court as the deadline for filing proofs of claim in the Mercury bankruptcy cases. Proofs of claim filed against Mercury by that deadline totaled in excess of $200 million. Millions of dollars of additional claims were filed against Mercury's subsidiaries that are also in bankruptcy. In the opinion of Mercury, the large volume of claims vastly over stated Mercury's actual liabilities as of the Petition Date. Many of the Claims filed are disputed as to liability by Mercury, others are contingent guaranty claims which might never mature, and still others are duplicates or over-lap with other Claims already filed. Mercury has undertaken and continues to undertake significant effort to properly identify those Claims which should be allowed and to dispose of those that should not be allowed.

With respect to major disputed or contingent Claims, many of the actions described above have had the effect of reducing Mercury's liability exposure. The First American settlement released $15 million in promissory note liability and another $7 million in other Claims. The series of settlements and transactions related to Remington, in addition to generating over $1 million in cash, relieved Mercury from exposure on over $34 million in filed guaranty Claims. The settlement with the California Department of Labor cost Mercury nearly $2.3 million in cash, but eliminated Mercury's exposure to other statutory and penalty claims which could have exceeded $22 million. In addition, Mercury has analyzed and objected to numerous individual and duplicate claims. The objections have resulted in settlements and orders disallowing numerous inappropriate Claims and allowing other Claims in the reduced, but appropriate amounts. As a result of these efforts, The total universe of potentially allowable Claims in the Mercury Bankruptcy Case has been reduced from in excess of $200 million to no more than $86 million as of the date of this Disclosure Statement.

Mercury is continuing to review pending Claims and to raise objections where appropriate. The English Class Action Settlement, if approved, will eliminate over $20 million of the remaining pending Claims. Mercury believes there are significant other Claims among the $86 million still pending which are either unallowable duplicates, over stated in amount or not legally enforceable against Mercury. Mercury intends to continue the process of objecting to inappropriate Claims until it is satisfied that only properly Allowed Claims will be paid under the Plan. Mercury estimates, but cannot guarantee, that at the conclusion of the Claims review and objection process allowed general unsecured claims will total approximately $35 million.

D. Steps Remaining Prior to Final Distribution to Creditors.

Over the course of this Chapter 11 Case, Mercury has made substantial progress toward quantifying claims and generating cash for distribution for creditors. Nevertheless, issues will remain after the Effective Date of the Plan. The Plan proposes that Mercury, under Mr. Connolly's supervision, continue to take steps necessary to implement the Plan and to expeditiously provide for final distribution to creditors. Specific steps include:

* Continued prosecution of the Fidelity litigation described above. If Mercury recovers the Colorado Subsidiaries, Mercury would operate them until they can be sold in commercially reasonable sales for a fair price in order to increase distributions under the Plan to stakeholders.

* Notwithstanding sales of substantial assets, some residual assets remain to be liquidated if possible. These include interests in various title plants; deposits with governmental entities, and final payments due from Remington. Also, Mercury is continuing to attempt collection of the AIG-Hilton Claim which may require litigation.

* Continued resolution of claims, litigation or settlement of disputed claims, and elimination of duplicate claims.

* Continue periodic distributions to Class 3 creditors until entry of a Final Decree or until paid in full.

* Continuation of the winding up of the Debtor Subsidiaries, which may include separate Chapter 11 Plans for some or all of them, conversion to Chapter 7 or dismissal.

III. DESCRIPTION OF THE PLAN

A. Description of the Plan and Means of Implementation

The entire text of the Plan has been provided with this Disclosure Statement. The following is a brief summary of certain provisions of the Plan; however, this summary is not comprehensive. The Plan and not the Disclosure Statement is the legally operative document that controls the relationship between Mercury and its Creditors. Therefore, the Plan should be read carefully and independently of this Disclosure Statement. Creditors are urged to consult with counsel and other professionals in order to fully resolve any questions concerning the Plan.

B. Treatment of Claims and Equity Interests

The Plan provides that Administrative Claims, such as, professional fees and other expenses of administration will be paid in cash in full on the Effective Date or when allowed. Mercury estimates the aggregate amount of such Administrative Claims will be under $1 million as of the Effective Date of the Plan. The remaining Claims and Equity Interests are divided into 4 Classes.

Classes 1: Priority Claims Class 1 consists of Claims of creditors entitled to priority under the Bankruptcy Code. As a result of settlements and payments already made during the Chapter 11 Case, Mercury estimates there will few if any Claims in Class 1. Such Claims as may exist will be paid in full on or before 28 days after the Effective Date or when Allowed.

Class 2: Secured Claims. Mercury is unaware of any unpaid Secured Claims. To the extent any Secured Claim is properly presented, it will be paid out of the collateral securing such Claim, or the collateral will be surrendered.

Class 3: General Unsecured Claims. The Plan provides that Allowed Class 3 General Unsecured Claims shall be paid their *pro rata* share of distributions from the Class 3 Dividend Fund to be established on the Effective Date.

On the Effective Date, the Class 3 Dividend Fund shall be created and funded with $25 million from the Cash held by Mercury on that date. Mercury shall from time to time add additional amounts to the Class 3 Dividend Fund. The determination of when to add additional amounts shall be made in the discretion of Mercury after retaining sufficient funds for future operations and administration, including the funding of any post-Effective Date litigation, taxes, and employer contributions in respect of wage claims paid.

Mercury shall make the initial distribution from the Class 3 Dividend Fund on or before 28 days after the Effective Date. Mercury shall make periodic additional Distributions from the Class 3 Dividend Fund until the Class 3 Dividend Fund is exhausted, all Allowed Class 3 Claims have been paid in full, or a Final Decree has entered closing this Bankruptcy Case.

Distributions from the Class 3 Dividend Fund shall be based upon the total amount of Class 3 Claims pending at the time of such Distribution. The *pro rata* portion of any Distribution allocated on account of any Disputed Claim shall be withheld and remain in the Class 3 Dividend Fund until the Disputed Claim is Allowed or Disallowed. If any Disputed Claim is subsequently Allowed, the holder of the Claim shall promptly receive the withheld Distribution. If any Disputed Claim is finally Disallowed, the withheld Distribution shall remain in the Class 3 Dividend Fund for subsequent distribution to Allowed Class 3 Claims. The Class 3 General Unsecured Claims include Mercury's liability on the English Class Action Judgment.

The current aggregate amount of Class 3 Claims pending in the Chapter 11 case is approximately $86 million. As of the date of this Disclosure Statement, Mercury has pending numerous objections to Disputed Claims. Mercury believes that as a result of some of those objections the aggregate amount of pending claims will be less than $50 million by the Effective

Date. Consequently Mercury expects the initial distribution on Allowed, Undisputed Claims to be approximately 50 %. Mercury estimates the aggregate amount of the Allowed Class 3 Claims will finally be determined to be $35 million or less, allowing for subsequent distributions on Allowed Claims resulting in an aggregate payout of 70% or more.

Class 4: Equity Interests. The Allowed Class 4 Equity Interests shall receive in full and final satisfaction of their Interests their *pro rata* share of the Debtor's remaining Cash on hand, if any, after payment of Allowed Class 1 Claims, Class 2 Claims and Class 3 Claims in full. Mercury estimates that Interest holders will not receive any payment in the case.

C. Sources of Information for Disclosure Statement; Financial Reporting

Substantially all of the factual information utilized in this Disclosure Statement, including but not limited to the amount of Claims, was obtained from information provided by Mercury's books, records, Statement of Financial Affairs, and Schedules and the claims register maintained by The Garden City Group.

D. Anticipated Litigation, and Liquidation of Assets

1. Litigation with Fidelity. As previously discussed above, Mercury is currently in litigation with Fidelity, and is seeking to recover ownership of its Colorado Subsidiaries or, in the alternative, damages in excess of $4,165,000.00. The parties continue to litigate the Fidelity Action. Mercury anticipates the cost of the litigation will be several hundred thousand dollars and believes that prospects for success are good.

2. Litigation with AIG. Mercury may find it necessary to initiate litigation against AIG, its insurance carrier, in respect of the unresolved AIG-Hilton Claim in the approximate amount of $1,400,000. The insurance claim grows out of pre-petition misconduct by an FTC employee. Mercury anticipates the cost of litigation will be less than $100,000 and believes the prospects for success are good.

3. Claims Litigation. Although Mercury does not anticipate further litigation against Creditors, other than Claims objections, Mercury cannot fully predict what additional Causes of Action may arise.

4. Other Litigation. Mercury is continuing to evaluate other potential litigation claims it may hold, but has not identified any other litigation targets at this time. To the extent Mercury prevails on its litigation claims, the proceeds from such actions, net of fees and costs, shall be used to effectuate the Plan including making further contributions to the Class 3 Dividend Fund.

5. Liquidation of Assets. Mercury is continuing the process of liquidating its assets other than in the ordinary course of business and with Bankruptcy Court approval. As a result, most of the assets Mercury held as of the Petition Date have been sold or converted to Cash. Accordingly, as of the date of this Disclosure Statement, Mercury holds Cash in excess of $29 million, and owns certain subsidiaries with little to no value, as well as miscellaneous personal property such as office furniture, computer equipment, shelving, and similar assets, all of which have some value.

E. Feasibility and Distributions to Creditors

The Bankruptcy Code requires that a debtor demonstrate that confirmation of a plan is not likely to be followed by liquidation or the need for further financial reorganization unless the plan calls for liquidation. This Plan calls for the continued liquidation of Mercury and is, therefore, by definition feasible. Mercury has analyzed its ability to meet its obligations under the Plan. Based upon Mercury's current assets and its projection of Cash after liquidation of its remaining assets, Mercury will be able to meet its post-confirmation operating and litigation costs, make all payments required on Priority Claims, pay all Classes 1 and 2 Claims in full, fund the Class 3 Dividend Fund with the initial contribution of $25 million, and make subsequent contributions in the Class 3 Dividend Fund over time. Accordingly, Mercury believes that the Plan satisfies the feasibility requirement of the Bankruptcy Code.

The Plan contains a unique feature which enhances its feasibility. Pursuant to the Plan, the Class 3 Dividend Fund will be created and funded on the Effective Date and administered solely for the benefit of Class 3 Creditors. Mercury's initial contribution to the Class 3 Dividend Fund will be $25 million. Mercury will be responsible for and will pay all costs of administration of the fund, the employer's share of all employment taxes attributable to distributions from the fund and all fees payable pursuant to § 1930 of Title 28 of the United States Code with respect to all Plan distributions. Mercury estimates the cost of the employer's share of all employment taxes will be approximately $750,000.

F. Federal Income Tax Consequences to Creditors

Any tax advice contained in this Disclosure Statement is not intended or written to be used, and cannot be used, by any taxpayer for the purpose of avoiding tax-related penalties under the Internal Revenue Code of 1986, as amended. Any tax advice contained in this Disclosure Statement was written to support the promotion of the transactions described in this Disclosure Statement.

The following discussion is not intended as a substitute for professional tax advice, including the evaluation of recently enacted and pending legislation, since recent changes in the federal income taxation of reorganizations under the Bankruptcy Code are complex and lack authoritative interpretation. Mercury has not received, nor will it request, a ruling from the IRS as to any of the tax consequences of the Plan with respect to holders of Claims. Mercury assumes no responsibility for the tax effect that Confirmation and receipt of any distribution under the Plan may have on any given creditor or other party in interest. The brevity of the following discussion requires omission of matters that might affect one or more Holders of Claims against Mercury depending upon their circumstances. Accordingly, Mercury recommends that Creditors and other parties in interest consult with their own tax advisors concerning the federal, state and local tax consequences of the Plan.

Creditors may be required to report income or may be entitled to a deduction as a result of implementation of the Plan.

Withholding in General

Because many of the Claims in this case are for employment-related compensation, tax withholding rules apply. Any federal or state withholding taxes or other amounts required to be withheld under any applicable law shall be deducted and withheld from any Distributions under the Plan. All Persons holding Claims will be required to provide any information necessary to effect the withholding of such taxes.

Backup Withholding

Distributions made under the Plan attributable to interest, dividends, rents, royalties, payments to independent contractors for services, and broker payments may be subject to backup withholding if the Holder of a Claim (1) fails to furnish his, her or its social security number or other taxpayer identification number ("TIN"), (2) furnishes an incorrect TIN, (3) fails to report interest or dividends properly or (4) under certain circumstances, fails to provide a certified statement, signed under penalty of perjury, that the TIN provided is his, her or its correct number and that the Holder is not subject to backup withholding. Backup withholding in not an additional tax but rather an advance payment, which may be refunded to the extent it results in overpayment of tax. Certain persons are exempt from backup withholding, including corporations and financial institutions.

Withholding for Claims Relating to Wages

To the extent any Claim is for wages owed for services performed by employees, Mercury will withhold from the amount of Distributions and remit to applicable taxing authorities any applicable federal, state and local withholding and other taxes and charges, including the employees' share of federal and state income taxes and Social Security and Medicare taxes, all as required by law. Withholding will be at the 25% Federal rate for non-periodic payments. As a result, Holders of Claims relating to wages will receive Distributions which, net of applicable withholding, are substantially less than the Distribution amounts specified above.

Possibility of Excess Social Security Tax Withholding

Mercury is required to withhold and remit to the IRS the applicable amount of FICA and FUTA taxes on Distributions attributable to wages. Generally, payments representing back pay are subject to FICA and FUTA taxes in the tax year in which the back wages are actually paid, rather than in the years in which wages were earned. Federal tax law establishes a maximum amount that an employer is required to withhold with respect to each of FICA and FUTA taxes. If a Creditor who receives a Distribution from Mercury attributable to wages is currently employed by another employer, it is possible that the aggregate amount of FICA and FUTA Tax withholdings for such Creditor (withholdings by Mercury together with the withholdings by the

Creditor's current employer) will exceed the maximum amount that such Creditor is required to pay for the applicable tax year. A Creditor should be able to claim any such excess as a credit against the Creditor's income tax when he or she files his or her annual income tax return.

Non-Employee Claims

To the extent a Creditor receives, or expects to receive, less pursuant to the Plan than the Creditor's basis in the claim to which such amount relates, the Creditor may be permitted to claim a bad debt deduction. The amount, timing and character of the deduction will depend, among other things, upon the Creditor's tax accounting method for bad debts, the Creditor's tax status, the nature of the Creditor's claim, whether the creditor receives consideration in more than one year, and whether the creditor has previously taken a bad debt deduction or worthless security deduction with respect to the Creditor's claim. If the debt is not business related, a deduction is only available if the debt is worthless. A cash basis taxpayer can deduct a bad debt only if an actual cash loss has been sustained or if the amount deducted was included in income. All accrual-basis taxpayers must use the specific charge-off method to deduct business bad debts.

To the extent that a Creditor receives payment pursuant to the Plan in an amount in excess of the creditor's adjusted tax basis in the claim to which payment relates, the excess will be treated as income or gain to the creditor. A Creditor not previously required to include in its taxable income any accrued but unpaid interest on a claim may be treated as receiving taxable interest, to the extent the amount it receives pursuant to the Plan is allocable to such accrued but unpaid interest. A Creditor previously required to include in its taxable income any accrued but unpaid interest on a claim may be entitled to recognize a deductible loss, to the extent the amount of interest actually received by the creditor is less than the amount of interest taken into income by the creditor.

IV. MISCELLANEOUS PLAN PROVISIONS

A. Objections to Claims and Settlements

1. After the Effective Date, Objections to Claims may be made, and Objections to Claims made previous thereto shall be pursued, only by Mercury, in consultation with the Post Confirmation Committee.

2. After the Effective Date, Mercury may settle any Claim where the proposed Allowed Claim is to be less than $50,000.00 without notice and a hearing and without an order of the Bankruptcy Court. All other settlements shall be subject to notice and a hearing pursuant to § 102(1) of the Bankruptcy Code and a Final Order of the Bankruptcy Court approving the settlement.

3. Additional provisions concerning Objections to Claims are described further in Article VI of the Plan.

B. **Post Confirmation Committee.** The Post Confirmation Committee shall be formed on or before the Effective Date and shall consist of members of the Creditors' Committee who wish to serve. The Post Confirmation Committee shall be composed of up to three members who shall be designated in a pleading filed by the Creditors' Committee. Vacancies on the Post Confirmation Committee may be filled by majority vote of the remaining members of the Post Confirmation Committee from holders of Allowed Class 3 Claims. The duties of the Post Confirmation Committee shall include monitoring the post-confirmation actions of Mercury and making recommendations where appropriate. The Post Confirmation Committee shall have the authority to: (i) object to any settlement of a Claim or Cause of Action when the proposed settlement amount is above $50,000; (ii) petition the Bankruptcy Court to enforce any term of the Plan; and (iii) review the retention and payment by Mercury of professionals. Mercury shall provide to the Post Confirmation Committee information regarding its activities and the Estate from time to time as agreed upon by Mercury and the Post Confirmation Committee. The Post Confirmation Committee shall terminate upon the earlier of the absence of three members willing to serve, payment in full of the Allowed Class 3 General Unsecured Claims or entry of a final decree closing the Chapter 11 Case.

C. **Other Provisions.** Creditors and other parties in interest are directed to the Plan with respect to the provisions that are not specifically discussed in this Disclosure Statement.

V. RISK FACTORS

As with any plan or other financial transaction, there are certain risk factors which must be considered. It should be noted that all risk factors cannot be anticipated, that some events will develop in ways that were not foreseen and that many or all of the assumptions that have been used in connection with this Disclosure Statement and the Plan will not be realized exactly as assumed. Some or all of such variations may be material. While every effort has been made to be reasonable in this regard, there can be no assurance that subsequent events will bear out the analysis set forth herein. Not all possible risks can be, or are discussed in this Disclosure Statement. Under the Plan, some of the principal risks that Holders of Claims should be aware of, in Mercury's view, are as follows:

- Dilution of Distribution Based on Allowed Claims – No final determination has been made as to which Claims will be Disputed Claims, and it is possible that the number of Disputed Claims may be material and that the amounts allowed in respect of such Disputed Claims maybe materially in excess of the estimates of Allowed Claims used to develop the Plan and this Disclosure Statement. The Holders of Allowed Claims are subject to the risk of dilution if the amount of actual Allowed Claims exceeds such estimates. Accordingly, distributions to the Holders of Allowed Claims are at risk of being adversely affected by the total amount of Allowed Claims.

- Litigation Expenses – Litigation expenses, particularly with respect to litigation with Fidelity, may be substantial. These expenses will be funded from reserves separate and apart from the initial $25 million fund. Thus, while unexpectedly high expenses may limit distributions above the initial $25 million distribution, such expenses will not reduce the initial distribution.

- Uncertainties Related to Litigation – As described above, Mercury is currently pursuing litigation against Fidelity, and may soon be in litigation with AIG. The outcomes of the Fidelity litigation and AIG litigation are uncertain and may result in no recovery for Mercury's estate.

- Costs of Administering the Estates **-** Liquidation of the Estates' remaining assets and the disbursement of the proceeds of such liquidation will require certain administrative costs that may vary based on a variety of factors. Such administrative costs cannot be predicted with certainty and may affect recoveries under the Plan over and above the initial $25 million distribution.

VI. LIQUIDATION ALTERNATIVE AND POTENTIAL PLAN RECOVERY

An alternative to confirmation of the Plan would be liquidation of Mercury's assets by a trustee appointed in a case under Chapter 7 of the Bankruptcy Code. The Chapter 7 Trustee would make all of his own decisions with respect to the liquidation of the Estate, the hiring of professionals, the pursuit of any claims or litigation, and the payment or objection to Claims. A Chapter 7 trustee and his professionals at this late date would necessary duplicate much of the work already done by Mercury at additional expense. As a general matter, distributions in Chapter 7 cases are not made until all issues have been resolved and the trustee's Final Report approved. If the Chapter 11 Case were converted to Chapter 7, commencement of distributions would likely not occur prior to late 2011 or 2012. Pursuant to the Plan substantial distributions will be made before the end of 2010. In addition, if a Chapter 7 Trustee were appointed, the Chapter 7 Trustee would be paid pursuant to the provisions of § 326(a) of the Bankruptcy Code, which would add an additional Administrative Expense Claim of approximately $1 million. Conversion to Chapter 7 would result in the Court setting a new claims bar date opening up the possibility of additional claims being filed and insuring delay in distribution to creditors.

As of the date of this Disclosure Statement, Mercury has sufficient cash on hand to fund the initial $25 million contribution to the Class 3 Dividend Fund as well as reserves to fund the ongoing litigation and operate the Colorado Subsidiaries, should Mercury prevail in the Fidelity litigation. The Plan will expedite distributions to holders of Allowed Claims and prevent the additional expenses, such as the Chapter 7 Trustee's fee that would be incurred if the Chapter 11 Case were converted to a case under Chapter 7 of the Bankruptcy Code. The professionals employed by Mercury as well as its CEO are very familiar with Mercury's assets, and the business structure of Mercury's subsidiaries. Consequently, Mercury has formulated its Plan and liquidated its assets in a manner that it believes will provide the best possible return in the shortest possible time to creditors. Mercury believes that conversion to a Chapter 7 liquidation would result in further delay and a lower recovery to Creditors.

July 14, 2010

MERCURY COMPANIES, INC.

Debtor and Debtor-in-Possession

By: *s/Tom H. Connolly*
Title: Chief Executive Officer

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EXHIBIT A

PLAN OF REORGANIZATION
[TO BE ATTACHED]