CONSUMERS FINANCIAL CORP
Form 10-Q
May 20, 2003

SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

[X] QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934 FOR THE QUARTERLY PERIOD ENDED MARCH 31, 2003, OR

[ ] TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934 FOR THE TRANSITION PERIOD FROM _______ TO _______

Commission File Number: 0-2616

CONSUMERS FINANCIAL CORPORATION
(Exact name of registrant as specified in its charter)

| | |
|---|---|
| Pennsylvania<br>(State or other jurisdiction of incorporation or organization) | 23-1666392<br>(I.R.S. Employer Identification No.) |
| 1525 Cedar Cliff Drive, Camp Hill, PA<br>(Address of principal executive offices) | 17011<br>(Zip Code) |

717-730-6306
(Registrants telephone number, including area code)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to filing such requirements for the past 90 days.

Yes X No ___

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date.

| Class of Common Stock | Outstanding at May 10, 2003 |
|---|---|
| $.01 Stated Value | 5,276,781 shares |

CONSUMERS FINANCIAL CORPORATION AND SUBSIDIARY
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PART I. FINANCIAL INFORMATION

ITEM 1. CONSOLIDATED FINANCIAL STATEMENTS

CONSUMERS FINANCIAL CORPORATION AND SUBSIDIARY
CONSOLIDATED BALANCE SHEETS

| | MARCH 31, 2003 | DECEMBER 31, 2002 |
|---|---|---|
| | (Unaudited) | (See Note 2) |
| ASSETS | | |
| Current assets: | | |
| Cash and cash equivalents | $ 57,411 | $ 165,758 |
| Prepaid expenses | 29,420 | 30,420 |
| Total current assets | 86,831 | 196,178 |
| Furniture and equipment, net of accumulated depreciation | 2,782 | |
| Restricted cash held in escrow account | 314,945 | 314,225 |
| Prepaid insurance | 75,585 | 87,363 |
| Total assets | $ 480,143 | $ 597,766 |
| LIABILITIES, REDEEMABLE PREFERRED STOCK AND SHAREHOLDERS' EQUITY DEFICIENCY | | |
| Current liabilities: | | |
| Accounts payable | $ 40,314 | $ 32,168 |
| Other | 21,659 | 22,134 |
| Total current liabilities | 61,973 | 54,302 |
| Redeemable preferred stock: | | |
| Series A, 8 1/2% cumulative convertible, authorized 632,500 shares; issued and outstanding, 75,326 shares; redemption amount $753,260 | 740,688 | 739,949 |
| Shareholders' equity deficiency: | | |
| Common stock, $.01 stated value, authorized 10,000,000 shares; issued and outstanding 5,276,781 shares | 52,768 | 52,768 |
| Capital in excess of stated value | 8,938,865 | 8,938,865 |
| Deficit | (9,314,151) | (9,188,118) |
| Total shareholders' equity deficiency | (322,518) | (196,485) |
| Total liabilities, redeemable preferred stock and Shareholders' equity deficiency | $ 480,143 | $ 597,766 |

See Notes to Consolidated Financial Statements

CONSUMERS FINANCIAL CORPORATION AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF OPERATIONS AND COMPREHENSIVE LOSS
(UNAUDITED)

| | THREE MONTHS ENDED MARCH 31, 2003 | THREE MONTHS ENDED MARCH 31, 2002 |
|---|---|---|
| | | (See Note 2) |
| Non-operating revenues: | | |
| Net investment income | $ 888 | $ 19,638 |
| Miscellaneous | 29 | 15,803 |
| | 917 | 35,441 |
| Non-operating expenses: | | |
| Salaries and employee benefits | 23,822 | 43,616 |
| Professional fees | 42,640 | 39,844 |
| Other fees | 7,541 | 8,264 |
| Insurance | 11,779 | 12,506 |
| Taxes, other than income | 3,058 | 7,635 |
| Provision for loss on loan receivable | 27,500 | |
| Miscellaneous | 9,871 | 18,673 |
| | 126,211 | 130,538 |
| Loss before income taxes | (125,294) | (95,097) |
| Income taxes | -- | -- |
| Net loss | (125,294) | (95,097) |
| Other comprehensive loss, change in unrealized appreciation of debt securities | | (14,955) |
| Comprehensive loss | ($125,294) | ($110,052) |
| Per share data: | | |
| Basic and diluted loss per common share | ($0.03) | ($0.08) |
| Weighted average number of common shares outstanding | 5,276,781 | 2,576,781 |
| Cash dividends declared per common share | None | None |

See Notes to Consolidated Financial Statements

CONSUMERS FINANCIAL CORPORATION AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF CASH FLOWS
(UNAUDITED)

| | THREE MONTHS ENDED MARCH 31, 2003 | THREE MONTHS ENDED MARCH 31, 2002 |
|---|---|---|
| | | (See Note 2) |
| Cash flows from operating activities: | | |
| Net loss | ($125,294) | ($95,097) |
| Adjustments to reconcile net loss to cash flows used in operating activities: | | |
| Provision for loss on loan receivable | 27,500 | |
| Change in receivables | | (13,524) |
| Change in prepaid expenses | 12,778 | (37,176) |
| Change in other liabilities | 7,671 | 15,255 |
| Other | (556) | (353) |
| Total adjustments | 47,393 | (35,798) |
| Net cash used in operating activities | (77,901) | (130,895) |
| Cash flows from investing activities: | | |
| Repayment of mortgage loan | | 4,114 |
| Loan to majority shareholder | (27,500) | |
| Purchase of furniture and equipment | (2,946) | |
| Net cash provided by (used in) investing activities | (30,446) | 4,114 |
| Cash flows from financing activities: | | |
| Option agreement deposit | | 108,000 |
| Cash dividends to preferred shareholders' | | (96,180) |
| Net cash provided by financing activities | -- | 11,820 |
| Net decrease in cash | (108,347) | (114,961) |
| Cash and cash equivalents at beginning of period | 165,758 | 1,802,265 |
| Cash and cash equivalents at end of period | $ 57,411 | $ 1,687,304 |

See Notes to Consolidated Financial Statements



CONSUMERS FINANCIAL CORPORATION AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
THREE MONTHS ENDED MARCH 31, 2003 AND 2002
(UNAUDITED)

1. OVERVIEW AND BASIS OF PRESENTATION:

Since 1998, the Company has had no business operations, and its revenues and expenses have consisted principally of investment income on remaining assets and corporate and other administrative expenses. In March 1998, the Company's shareholders' approved a Plan of Liquidation and Dissolution (the Plan of Liquidation) pursuant to which the Company began liquidating its remaining assets and paying or providing for all of its liabilities. However, in February 2002, the Company entered into an option agreement with CFC Partners, Ltd., a New York investor group (CFC Partners), pursuant to which CFC Partners could obtain a majority interest in the Company's common stock. In August 2002, the option was exercised and 2,700,000 new common shares (approximately 51.2% of the total outstanding shares) were issued by the Company to CFC Partners. As a result of the acquisition of the Company, the Plan of Liquidation was discontinued. Immediately prior to the transaction with CFC Partners, the Company paid a substantial portion of its remaining assets to its preferred shareholders in connection with a tender offer to those shareholders (see Note 8).

The accompanying consolidated financial statements have been prepared assuming that the Company will continue as a going concern. However, as a result of the cumulative effect of the events discussed above, at March 31, 2003, the Company had only $57,411 in cash and cash equivalents and a shareholders' equity deficiency of $322,518. Furthermore, as of that date, the Company had no business operations and no sources of operating revenues. CFC Partners is currently pursuing various business opportunities for the Company, including strategic alliances, as well as the merger or combination of existing businesses with the Company. The new management of the Company is initially focusing on joint ventures with or acquisitions of companies in the real estate, construction management and medical technology businesses. However, there is no assurance that the Company's efforts in this regard will be successful.

The Company's ability to continue as a going concern is dependent on its success in developing new cash revenue sources or, alternatively, in obtaining short-term financing while its new businesses are being developed. The consolidated financial statements do not include any adjustments that might result from the outcome of this uncertainty.

The consolidated financial statements include the accounts of Consumers Financial Corporation and its former wholly-owned subsidiary, Consumers Life Insurance Company (Consumers Life) until June 19, 2002 when Consumers Life was sold.

In the opinion of management, the accompanying unaudited consolidated financial statements contain all adjustments (consisting only of normal recurring items) necessary to present fairly the Company's financial position as of March 31, 2003 and the results of its operations and its cash flows for the three months ended March 31, 2003 and 2002.

Certain information and footnote disclosures normally included in financial statements prepared in accordance with generally accepted accounting principles have been condensed or omitted. These financial statements should be read in conjunction with the financial statements and notes thereto included in the Company's 2002 Form 10-K.

The results of operations for the three months ended March 31, 2003 are not necessarily indicative of the results to be expected for the full year.



CONSUMERS FINANCIAL CORPORATION AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)
THREE MONTHS ENDED MARCH 31, 2003 AND 2002
(UNAUDITED)

2. RESTATEMENT OF FINANCIAL STATEMENTS:

In connection with the acquisition of the Company by CFC Partners on August 28, 2002 and the related termination of the Plan of Liquidation, the Company re-adopted accounting principles applicable to going-concern entities as of that date. The Company's consolidated financial statements had been prepared using a liquidation basis of accounting since March 25, 1998 when the Plan of Liquidation was approved by the Company's shareholders. In order to provide comparative financial information, the Company has restated its liquidation-basis financial statements for prior periods to conform to the current presentation which utilizes accounting principles applicable to going-concern entities. Accordingly, in the accompanying consolidated financial statements, the Statement of Changes in Net Assets in Liquidation for the three months ended March 31, 2002, as originally prepared on a liquidation basis of accounting, has been replaced by a Statement of Operations and a Statement of Cash Flows.

For the three months ended March 31, 2002, the Company originally reported an excess of expenses over revenues of $95,097.

3. ACQUISITION OF THE COMPANY:

On August 28, 2002, CFC Partners exercised its option to acquire 2,700,000 shares of the Company's common stock. The option was granted to CFC Partners through an option agreement dated February 13, 2002. The option price of $108,000 had previously been deposited by CFC Partners into an escrow account held by the Company. The newly issued shares represent approximately 51.2% of the outstanding common stock of the Company.

In connection with the issuance of the new shares to CFC Partners, the Board of Directors also terminated the Plan of Liquidation. The Board had previously determined that selling the Company for its value as a "public company shell" was a better alternative for the shareholders than the Plan of Liquidation, inasmuch as the common shareholders were not expected to receive any distribution in a liquidation of the Company. The preferred shareholders were given an opportunity to exchange their shares for cash in a tender offer completed by the Company on August 23, 2002 (see Note 8).

The new management of the Company is currently pursuing various business opportunities for the Company. Managements efforts have initially been focused on joint ventures with or acquisitions of companies in the real estate, construction management and medical technology businesses.

With respect to the real estate business, in April 2003, CFC Partners entered into agreements to acquire a garden apartment complex in Springfield, Illinois and a high-rise residential building in Chicago, Illinois. CFC Partners intends to assign all of its rights and obligations under these agreements to the Company. The Company is also negotiating the acquisition of several additional garden apartment complexes in other locations and is negotiating with a town in Long Island, New York to acquire property for the purpose of developing condominiums and townhouses.

In connection with its construction management business, the Company intends to manage all of its real estate development and other real estate activities and will selectively pursue the management of outside projects as well.





3. ACQUISITION OF THE COMPANY (CONTINUED):

With regard to the medical technology business, in April 2003, CFC Partners entered into a letter of intent with a leading radiologist and operator of several radiology centers in the metropolitan New York area to purchase, develop and operate positron emission tomography (PET) imaging centers, initially in the New York area. CFC Partners also intends to assign all of its rights and obligations in this joint venture to the Company.

4. LOAN RECEIVABLE

During the three months ended March 31, 2003, the Company made payments totaling $27,500 to certain individuals who had previously loaned funds to CFC Partners so that CFC Partners could purchase its majority interest in the Company's common stock. Since any obligation to repay these individuals, one of whom is a director of the Company, is the responsibility of CFC Partners and not the Company, CFC Partners has agreed to repay this amount to the Company. However, because CFC Partners currently has no ability to repay the amount borrowed, this loan has been fully reserved in the Company's consolidated financial statements through a charge to non-operating expenses.

5. RESTRICTED ASSETS

As required by the terms of the option agreement with CFC Partners, the Company deposited $331,434 (representing the tender price of $4.40 multiplied by the 75,326 shares of preferred stock not tendered) into a bank escrow account for the benefit of the remaining preferred shareholders. The funds in this account, including any earnings thereon, are restricted in that they may only be used by the Company to pay dividends or make other distributions to the preferred shareholders. At March 31, 2003 and December 31, 2002, these assets consisted entirely of money market funds.

6. INCOME TAXES:

The Company follows the asset and liability method of accounting for income taxes. Under this method, deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between financial statement carrying amounts of existing assets and liabilities and their respective tax bases. Valuation allowances are established, if necessary, to reduce the deferred income tax asset account to the amount that will more likely than not be realized.

At March 31, 2003 and December 31, 2002, the Company's only deferred tax assets consisted of (i) $67,995 and $2,038,000, respectively, arising from net operating loss carry forwards and (ii) $4,457,000 arising from a capital loss carry forward which results from the sale of the stock of Consumers Life. These deferred tax assets have been fully offset by a valuation allowance. The Company's deferred tax assets at March 31, 2003 do not include any net operating losses generated by Consumers Life since that subsidiary was sold in June 2002 and its prior losses are no longer available to offset future taxable income of the Company. At March 31, 2003 and December 31, 2002, the Company had no material deferred tax liabilities.

No provision for income taxes has been made in the consolidated financial statements because of the above referenced operating loss and capital loss carry forwards, which have been fully offset by a valuation allowance.





7. CONTINGENCIES:

Certain claims have been filed against the Company. In the opinion of management, based on opinions of legal counsel, adequate reserves, if deemed necessary, have been established for these matters, and their outcome will not have a significant effect on the financial condition or future operating results of the Company.

8. REDEEMABLE PREFERRED STOCK:

On August 23, 2002, the Company completed a tender offer to all of its preferred shareholders, pursuant to which it purchased 377,288 shares (approximately 83.4% of the shares outstanding) at $4.40 per share plus accrued dividends. The tender offer was completed in conjunction with and was a condition to the exercise of the option by CFC Partners. Since all of the Company's remaining assets would have been distributed to the preferred shareholders if the Company had been liquidated, the Board of Directors believed that the exercise of the option (and the related termination of the Plan of Liquidation) should not take place until the preferred shareholders had been given a chance to exchange their shares for cash.

The terms of the redeemable preferred stock require the Company to make annual payments to a sinking fund. Such payments were to have commenced on July

1, 1998. The preferred stock terms also provide that any purchase of preferred shares by the Company will reduce the sinking fund requirements by an amount equal to the redemption value ($10 per share) of the shares acquired. As a result of the Company's purchases of preferred stock in the open market and in the tender offer described above, no sinking fund payment for the preferred stock is due until July 1, 2006. However, in connection with the exercise of the option by CFC Partners, the Company deposited $331,434 into a bank trust account for the benefit of the remaining preferred shareholders (see Note 5).

Dividends at an annual rate of $.85 per share are cumulative from the original issue date of the preferred stock. Dividends are payable quarterly on the first day of January, April, July and October. The dividends payable on January 1 and April 1, 2003 have not been declared or paid by the Company. When the Company is in arrears as to dividends or sinking fund appropriations for the preferred stock, dividends to holders of the Company's common stock as well as purchases, redemptions or acquisitions by the Company of shares of the Company's common stock are restricted. If the Company is in default with respect to the payment of preferred dividends and the aggregate amount of the deficiency is equal to four quarterly dividends, the holders of the preferred stock shall be entitled, only while such arrearage exists, to elect two additional members to the then existing Board of Directors.

The difference between the fair value of the preferred stock at the date of issue and the mandatory redemption value is being recorded through periodic accretions with an offsetting charge to the deficit. Such accretions totaled $739 and $4,444 in the first quarter of 2003 and 2002, respectively.



CONSUMERS FINANCIAL CORPORATION AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)
THREE MONTHS ENDED MARCH 31, 2003 AND 2002
(UNAUDITED)

9. PER SHARE INFORMATION:

| | THREE MONTHS ENDED MARCH 31, 2003 | THREE MONTHS ENDED MARCH 31, 2002 |
|---|---|---|
| Net loss | ($125,294) | ($95,097) |
| Preferred stock dividend requirement | (16,007) | (96,180) |
| Accretion of carrying value of preferred stock | (739) | (4,444) |
| Numerator for basic loss per share - income (loss) attributable to common shareholders | (142,040) | (195,721) |
| Effect of dilutive securities | 0 | 0 |

| | | |
|---|---|---|
| Numerator for diluted loss per share | ($142,040) | ($195,721) |
| Denominator for basic loss per share - weighted average shares outstanding | 5,276,781 | 2,576,781 |
| Effect of dilutive securities | 0 | 0 |
| Denominator for diluted loss per share | 5,276,781 | 2,576,781 |
| Basic and diluted loss per common share | ($0.03) | ($0.08) |



ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

A review of the significant factors which affected the Company's financial condition at March 31, 2003 and its results of operations for the three months then ended is presented below. Information relating to the three months ended March 31, 2002 is also presented for comparative purposes. This analysis should be read in conjunction with the Consolidated Financial Statements and the related Notes appearing elsewhere in this Form 10-Q and in the Company's 2002 Form 10-K.

The Private Securities Litigation Reform Act of 1995 provides a "safe harbor" for forward-looking statements. This Form 10-Q may include forward-looking statements which reflect the Company's current views with respect to future events and financial performance. These forward-looking statements are identified by their use of such terms and phrases as "intends", "intend", "intended", "goal", "estimate", "estimates", "expects", "expect", "expected", "project", "projected", "projections", "plans", "anticipates", "anticipated", "should", "designed to", "foreseeable" future", "believe", "believes" and "scheduled" and similar expressions. Readers are cautioned not to place undue reliance on these forward-looking statements which speak only as of the date the statement was made. The Company undertakes no obligation to publicly update or revise any forward-looking statements, whether as a result of new information, future events or otherwise.

OVERVIEW

At a special meeting of shareholders held on March 24, 1998, the Company's preferred and common shareholders approved the sale of the Company's credit insurance and related products business, which was the Company's only remaining business operation. In connection with the sale of its in force credit insurance business, the Company also sold its credit insurance customer accounts and one of its life insurance subsidiaries. At the special meeting, the shareholders also approved a Plan of Liquidation and Dissolution (the Plan of Liquidation), pursuant to which the Company would be liquidated and dissolved.

The Plan of Liquidation permitted the Board of Directors to continue to consider other alternatives to liquidating the Company. Because the common shareholders would not receive a distribution under the plan of liquidation and dissolution, and the preferred shareholders would receive less than the full liquidation value of their shares, the Board of Directors determined that selling the Company for its value as a "public company shell" was a better alternative for the common and preferred shareholders than liquidating the Company. Accordingly, in August 2001, the Company sent request for proposal letters to several investor groups that had expressed an interest in acquiring the Company and issued a press release soliciting similar offers. In October 2001, the Board of Directors met to consider three offers which were received, one of which was from CFC Partners, Ltd. (CFC Partners). Following its review of each offer, the Board determined that the offer from CFC Partners was the best offer. In February 2002, the Company and CFC Partners entered into an option agreement which permitted CFC Partners to acquire a 51.2% interest in the Company at $.04 per share. The option held by CFC Partners was exercisable within 15 business days following the completion by the Company of a tender offer to the preferred shareholders. The completion of this tender offer was, in turn, dependent on the sale of the Company's remaining insurance subsidiary, since substantially all of the Company's assets were held by the subsidiary and state insurance laws would not permit the withdrawal of those assets.

In June 2002, the Company completed the sale of the insurance subsidiary. In July 2002, the Board of Directors approved a tender offer to the Company's preferred shareholders at a price of $4.40 per share, and on July 19, 2002, tender offer materials were mailed to the holders of the preferred stock. On August 23, 2002, the Company purchased 377,288 shares of preferred stock, or 83.4% of the total preferred shares outstanding, from those shareholders who elected to tender their shares.



On August 28, 2002, the Board of Directors terminated the Plan of Liquidation and authorized the issuance of 2,700,000 shares of common stock to CFC Partners. Donald J. Hommel, the president of CFC Partners, was also appointed as a Director of the Company to fill an existing vacancy on the Board. Following such appointment, the Company's officers resigned and the Board elected Mr. Hommel as the Company's President and Chief Executive Officer. In addition, James C. Robertson and John E. Groninger, who had been Directors of the Company for more than 30 years, also resigned.

On October 17, 2002, the Board of Directors appointed Shalom S. Maidenbaum, Esq. as an additional Director of the Company to fill an existing vacancy on the Board. In addition, the Directors elected Mr. Hommel as the Company's Treasurer and Mr. Maidenbaum as the Company's Vice President and Secretary. On March 13, 2003, the Board of Directors appointed William T. Konczynin as an additional Director to fill an existing vacancy.

As a result of the approval of the Plan of Liquidation, the Company adopted a liquidation basis of accounting for the period from March 25, 1998 to August 28, 2002. Under this basis of accounting, assets were stated at their estimated net realizable values and liabilities were stated at their anticipated settlement amounts. As a result of the transaction with CFC Partners and the related termination of the Plan of Liquidation, effective August 29, 2002, the Company re-adopted accounting principles applicable to going concern entities. Furthermore, as discussed in Note 2 of the notes to consolidated financial statements appearing elsewhere in this Form 10-Q, the Company has restated its liquidation-basis financial statements for prior periods to conform such statements to the current presentation.

At March 31, 2003, the Company had no business operations; however, the

Company's new management is currently pursuing various business ventures. Their initial focus is on joint ventures with or acquisitions of companies in the real estate, construction management and medical technology businesses. As discussed in Note 3 of the notes to consolidated financial statements appearing elsewhere in this Form 10-Q, in April 2003, CFC Partners entered into two agreements to acquire investment properties in Springfield and Chicago, Illinois. CFC Partners intends to assign all of its rights and obligations under these agreements to the Company. In addition, the Company is negotiating the acquisition of several other investment properties as well as the purchase of another property for residential development. The Company intends to manage all of its real estate development and other real estate activities through its construction management business and will selectively pursue the management of outside projects as well. In addition, in April 2003, CFC Partners entered into a letter of intent to purchase, develop and operate positron emission tomography (PET) imaging centers in the New York area. CFC Partners intends to assign all of its rights and obligations in this joint venture to the Company.

At March 31, 2003, the Company's shareholders' equity deficiency totaled $322,518 compared to a shareholders' equity deficiency of $196,485 at December 31, 2002. For the three months ended March 31, 2003 and 2002, the Company's net loss totaled $125,294 and $95,097, respectively.

## RESULTS OF OPERATIONS

A discussion of the material factors which affected the Company's results of operations for the three months ended March 31, 2003 and 2002 is presented below.

### THREE MONTHS ENDED MARCH 31, 2003

For the three months ended March 31, 2003, the Company reported a net loss of $125,294 ($.03 per share) compared to a net loss of $95,097 ($.08 per share) in the first quarter of 2002. Since the Company now has only a nominal amount of revenues, the current year net loss is primarily the result of expenses incurred while the Company is developing new businesses. During the first quarter of 2003, these costs consisted principally of salaries to two individuals, audit, legal and consulting fees, insurance and a $27,500 provision for loss on a receivable from the Company's majority shareholder.



### THREE MONTHS ENDED MARCH 31, 2002

The Company's net loss for the first quarter of 2002 was $95,097 ($.08 per share). The Company's revenues for the period totaled $35,441, of which $19,638 was investment income. The Company's average invested assets during the quarter were $2,660,000. The majority of these assets were distributed to the Company's preferred shareholders in August 2002 in connection with a tender offer to those shareholders. During the quarter, the Company incurred $43,616 in salaries and related benefits as well as audit, legal and other professional fees of $39,844. In addition to the net loss for the period, the Company also reported a loss of $14,955 as a result of a reduction in the unrealized appreciation of certain debt securities. This amount has been included in the calculation of comprehensive loss for the three months ended March 31, 2002.

For the three months ended March 31, 2002, the excess of expenses over revenues originally reported by the Company under the liquidation basis of accounting is equal to the net loss reported in the accompanying consolidated financial statements.

## FINANCIAL CONDITION

### CAPITAL RESOURCES

The Company currently has no commitments for any capital expenditures. However, if the Company develops certain planned strategic alliances or identifies a target company to be merged or otherwise combined with the Company, the Company's plans regarding capital expenditures and related commitments are likely to change.

For the three months ended March 31, 2003, the Company's cash and cash equivalents decreased by $108,347 (from $165,758 at the beginning of the year to $57,411 at March 31, 2003). The decrease is principally the result of the cash expenses paid by the Company during the period and the $27,500 loan made to CFC Partners, as discussed in Note 4 of the notes to consolidated financial statements appearing elsewhere in this Form 10-Q.

### LIQUIDITY

Historically, the Company's subsidiaries met most of their cash requirements from funds generated from operations, while the Company generally relied on its principal operating subsidiaries to provide it with sufficient cash funds to maintain an adequate liquidity position. While the Company was in liquidation, its principal sources of cash funds were investment income and proceeds from the sales of non-liquid assets. In connection with the acquisition of the Company by CFC Partners, substantially all of the Company's remaining liquid assets were used to complete a tender offer to the preferred shareholders in August 2002.

At March 31, 2003, the Company had only $57,411 in cash and cash equivalents. Furthermore, as of that date, the Company had no business operations and no sources of operating revenues and cash flows. As indicated above, the Company is currently pursuing various business opportunities, including strategic alliances, as well as the merger or combination of existing businesses with the Company. The Company's managements is initially focusing on joint ventures with or acquisitions of companies in the real estate, construction management and medical technology business segments. However, there is no assurance that the Company's efforts in this regard will be successful.



### REDEEMABLE PREFERRED STOCK

As previously indicated, on August 23, 2002, the Company completed a tender offer to all of its preferred shareholders, pursuant to which it purchased 377,288 shares (approximately 83.4% of the shares outstanding) at $4.40 per share plus $47,445 in accrued dividends. The tender offer was completed in conjunction with and was a condition to the exercise of the option by CFC Partners. Since all of the Company's remaining assets would have been distributed to the preferred shareholders if the Company had been liquidated, the Board of Directors believed that the exercise of the option (and the related termination of the Plan of Liquidation) should not take place until the preferred shareholders had been given a chance to exchange their shares for cash.

The terms of the redeemable preferred stock require the Company to make annual payments to a sinking fund. Such payments were to have commenced on July 1, 1998. The preferred stock terms also provide that any purchase of preferred shares by the Company will reduce the sinking fund requirements by an amount equal to the redemption value ($10 per share) of the shares acquired. As a result of the Company's purchases of preferred stock in the open market and in the tender offer, no sinking fund payment for the preferred stock is due until July 1, 2006. However, in connection with the exercise of the option by CFC Partners, the Company deposited $331,434 into a bank trust account for the benefit of the remaining preferred shareholders (see Note 5 of the notes to consolidated financial statements appearing elsewhere in this Form 10-Q).

The January 1, 2003 and April 1, 2003 dividends payable on the Company's redeemable preferred stock have not been declared or paid by the Company. When the Company is in arrears as to dividends or sinking fund appropriations for the preferred stock, dividends to holders of the Company's common stock as well as purchases, redemptions or acquisitions by the Company of shares of the Company's common stock are restricted. If the Company is in default with respect to the payment of preferred dividends and the aggregate amount of the deficiency is equal to four quarterly dividends, the holders of the preferred stock shall be entitled, only while such arrearage exists, to elect two additional members to the then existing Board of Directors.



ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURE ABOUT MARKET RISK

The requirements for certain market risk disclosures are not applicable to the Company because, at March 31, 2003 and December 31, 2002, the Company qualifies as a "small business issuer" under Regulation S-B of the Federal Securities Laws. A small business issuer is defined as any United States or Canadian issuer with revenues or public float of less than $25 million.

ITEM 4. CONTROLS AND PROCEDURES

The Company has not conducted any business operations since 1997 and was in the process of completing a plan of liquidation until August 2002, when CFC Partners acquired a majority interest in the Company. As discussed in Item 2 of this Form 10-Q, the Company's new management is pursuing various business opportunities for the Company. However, at March 31, 2003, the Company did not yet have any business operations. Further, for the three months ended March 31, 2003, the Company had a very limited number of transactions to record in its financial records.

The Company's management is responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-14 and 15d-14) for the Company. To the extent applicable to the Company's current non-operating status, appropriate disclosure controls and procedures are in place to ensure that material information relating to the Company is available and provided to the Company's management, including its chief executive officer and chief financial officer, particularly during the period in which the Company's periodic reports on Form 10-K and 10-Q are being prepared. Management, with the participation of the Company's chief executive officer and chief financial officer, has evaluated the effectiveness of the design and operation of the Company's disclosure controls and procedures as of a date within 90 days prior to the filing date of this Form 10-Q and believes, as a result of that evaluation, that such controls and procedures are effective in timely alerting the chief executive officer and chief financial officer of material information relating to the Company and required to be included in the Company's periodic

Securities and Exchange Commission filings.

The Company's chief executive officer and chief financial officer are not aware of any significant deficiencies in the design or operation of internal controls which could adversely affect the Company's ability to record, process, summarize and report financial data, nor are they aware of any fraud, whether or not material, that involves management or other employees who have a significant role in the Company's internal controls. Furthermore, there have not been any significant changes in internal controls or in other factors that could significantly affect internal controls subsequent to the date of the evaluation referred to above.

There were no significant changes in the Company's internal controls or, to the knowledge of the management of the Company, in other factors that could significantly affect these controls subsequent to the evaluation date.



## PART II. OTHER INFORMATION

### ITEM 1. LEGAL PROCEEDINGS

The registrant is not involved in any pending legal proceedings other than routine litigation incidental to the conduct of its previous business.

### ITEM 2. CHANGES IN SECURITIES

During the three months ended March 31, 2003, there have been no limitations or qualifications, through charter documents, loan agreements or otherwise, placed upon the holders of the registrant's common or preferred stock to receive dividends, except as described in Item 3 below.

### ITEM 3. DEFAULTS UPON SENIOR SECURITIES

The January 1, 2003 and April 1, 2003 dividends payable on the Company's redeemable preferred stock have not been declared or paid by the Company. The amount of these dividends totals $32,014. When the Company is in arrears as to dividends or sinking fund appropriations for the preferred stock, dividends to holders of the Company's common stock as well as purchases, redemptions or acquisitions by the Company of shares of the Company's common stock are restricted. If the Company is in default with respect to the payment of preferred dividends and the aggregate amount of the deficiency is equal to four quarterly dividends, the holders of the preferred stock shall be entitled, only while such arrearage exists, to elect two additional members to the then existing Board of Directors.

### ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

At a special meeting of shareholders held on January 9, 2003, the Company's common shareholders were asked to vote upon a proposal to reinstate the voting rights of the 2,700,000 shares of common stock of the Company owned by CFC Partners. Under Pennsylvania law, the shares issued to CFC Partners were not permitted to vote on any matters unless and until such voting rights were restored by the holders of a majority of the outstanding common shares of the Company, excluding the shares owned by CFC Partners. A total of 1,319,491 shares (or 50.99% of the outstanding shares entitled to vote) voted in favor of the proposal to reinstate the voting rights of the CFC Partners shares, 24,069 shares (.93%) voted against the proposal and 14,633 shares (.57%) voted to abstain with respect to this proposal. As a result, the shares of common stock held by CFC Partners now have full voting rights.

A second special meeting of shareholders was held on March 15, 2003, at which time the Company's common shareholders were asked to approve proposals to amend the Company's Articles of Incorporation to (i) effect a one-for-ten reverse stock split, (ii) increase the Company's authorized shares to 50 million and (iii) permit action upon the written consent of less than all shareholders of the Company, pursuant to the Pennsylvania Business Corporation Law. The March 15 meeting will be reconvened on a date to be determined so that the Company can comply with Regulation 14C of the Securities Exchange Act of 1934 as it relates to the dissemination of information required by Schedule 14C.

ITEM 5. OTHER INFORMATION

None



ITEM 6. EXHIBITS AND REPORTS ON FORM 8-K

(a) Exhibits:

Part I

(11) Statement re computation of per share earnings (iv)
(15) Letter re unaudited interim financial information (ii)
(18) Letter re change in accounting principles (ii)
(19) Report furnished to security holders (ii)
(23) Consents of accountants (ii)

Part II

(2) Plan of acquisition, reorganization, arrangement, liquidation or succession (i)
(3) Articles of incorporation and by-laws (i)
(4) Instruments defining the rights of security holders, including indentures (i)
(10) Material contracts (ii)
(22) Published report regarding matters submitted to a vote of security holders (ii)
(23) Consents of experts and counsel (excluding accountants) (ii)
(24) Power of attorney (ii)
(99.1) Certification of Chief Executive Officer (Section 906 of Sarbanes-Oxley Act) (iii)
(99.2) Certification of Chief Financial Officer (Section 906 of Sarbanes-Oxley Act) (iii)

(i) Information or document provided in previous filing with the Commission
(ii) Information or document not applicable to registrant
(iii) Information or document included as exhibit to this Form 10-Q. Any exhibits to such information or document are not included herein.
(iv) Information contained in consolidated financial statements or related notes

(b) Reports on Form 8-K

On January 21, 2003, the Company filed a Form 8-K to report that the common shareholders of the Company had voted in favor of a proposal to reinstate the voting rights of the 2,700,000 shares of common stock of the Company owned by CFC Partners. The special meeting of shareholders was held on January 9, 2003.



SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

CONSUMERS FINANCIAL CORPORATION
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Registrant

Date May 20, 2003 By /S/ Donald J. Hommel

Donald J. Hommel
President and Chief Executive Officer

Date May 20, 2003 By /S/ Donald J. Hommel

Donald J. Hommel
Chief Financial Officer



CERTIFICATION OF CHIEF EXECUTIVE OFFICER
PURSUANT TO 18 U.S.C. SECTION 1350, AS ADOPTED PURSUANT TO
SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002

I, Donald J. Hommel, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Consumers Financial Corporation;

2. Based on my knowledge, this quarterly report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this quarterly report;

3. Based on my knowledge, the financial statements, and other financial information included in this quarterly report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this quarterly report;

4. In my capacity as Chief Executive Officer and Chief Financial Officer, I am responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-14 and 15d-14) for the registrant and I have:

   a) designed such disclosure controls and procedures to ensure that material information relating to the registrant is made known to me by others, particularly during the period in which this quarterly report is being prepared;

   b) evaluated the effectiveness of the registrant's disclosure controls and procedures as of a date within 90 days prior to the filing date of this quarterly report (the "Evaluation Date"); and

   c) presented in this quarterly report the conclusions about the effectiveness of the disclosure controls and procedures based on an evaluation as of the Evaluation Date;

5. In my capacity as Chief Executive Officer and Chief Financial Officer, I have disclosed, based on the most recent evaluation, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent function):

   a) all significant deficiencies in the design or operation of internal controls which could adversely affect the registrant's ability to record process, summarize and report financial data and have identified for the registrant's auditors any material weaknesses in internal controls; and

   b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrants internal controls; and

6. In my capacity as Chief Executive Officer and Chief Financial Officer, I have indicated in this quarterly report whether or not there were significant changes in internal controls or in other factors that could significantly affect internal controls subsequent to the date of the most recent evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

Date May 20, 2003 By /S/ Donald J. Hommel

Chief Executive Officer



CERTIFICATION OF CHIEF FINANCIAL OFFICER
PURSUANT TO 18 U.S.C. SECTION 1350, AS ADOPTED PURSUANT TO
SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002

I, Donald J. Hommel, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Consumers Financial Corporation;

2. Based on my knowledge, this quarterly report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this quarterly report;

3. Based on my knowledge, the financial statements, and other financial information included in this quarterly report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this quarterly report;

4. In my capacity as Chief Executive Officer and Chief Financial Officer, I am responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-14 and 15d-14) for the registrant and I have:

a) designed such disclosure controls and procedures to ensure that material information relating to the registrant is made known to me by others, particularly during the period in which this quarterly report is being prepared;

b) evaluated the effectiveness of the registrant's disclosure controls and procedures as of a date within 90 days prior to the filing date of this quarterly report (the "Evaluation Date"); and

c) presented in this quarterly report the conclusions about the effectiveness of the disclosure controls and procedures based on an evaluation as of the Evaluation Date;

5. In my capacity as Chief Executive Officer and Chief Financial Officer, I have disclosed, based on the most recent evaluation, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent function):

a) all significant deficiencies in the design or operation of internal controls which could adversely affect the registrant's ability to record process, summarize and report financial data and have identified for the registrant's auditors any material weaknesses in internal controls; and

b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal controls; and

6. In my capacity as Chief Executive Officer and Chief Financial Officer, I have indicated in this quarterly report whether or not there were significant changes in internal controls or in other factors that could significantly affect internal controls subsequent to the date of the most recent evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

Date May 20, 2003 By /S/ Donald J. Hommel

Chief Financial Officer