CONSUMERS FINANCIAL CORP
Form 10-Q
November 14, 2001

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 SEPTEMBER 30, 2001, 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	23-1666392
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)

1513 Cedar Cliff Drive, Camp Hill, PA	17011
(Address of principal executive offices)	(Zip Code)

717-730-6306
(Registrant's 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 October 31, 2001
$.01 Stated Value	2,577,237 shares

CONSUMERS FINANCIAL CORPORATION AND SUBSIDIARY

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PART I. FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

CONSUMERS FINANCIAL CORPORATION AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF NET ASSETS IN LIQUIDATION

(IN THOUSANDS)	SEPTEMBER 30, 2001	DECEMBER 31, 2000
	(UNAUDITED)	
Assets		
Investments:		
Fixed maturities	$ 992	$ 95

Mortgage loans on real estate	26	5
Short-term investments	1,931	2,47
Total investments	2,949	3,47
Cash	3	
Accrued investment income	21	2
Reinsurance recoverable	4,922	7,86
Other receivables		30
Prepaid reinsurance premiums	7,311	13,46
Deferred policy acquisition costs	10	4
Other assets	52	12
Total assets	15,268	25,30
Liabilities and Redeemable Preferred Stock		
Liabilities:		
Future policy benefits	3,977	6,53
Unearned premiums	7,311	13,46
Other policy claims and benefits payable	945	1,36
Other liabilities	478	61
	12,711	21,98
Redeemable preferred stock:		
Series A, 8 1/2% cumulative convertible, authorized 632,500 shares; issued and outstanding 2001, 452,614 shares; 2000, 456,061 shares; net of $1,969 reduction in 2001 and $1,241 in 2000 to reflect estimated liquidation value	2,557	3,32
Total liabilities and redeemable preferred stock	15,268	25,30
Net assets in liquidation	$ 0	$

See Notes to Consolidated Financial Statements

CONSUMERS FINANCIAL CORPORATION AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF CHANGES IN NET ASSETS IN LIQUIDATION
(UNAUDITED)

(IN THOUSANDS)	NINE MONTHS ENDED SEPTEMBER 30, 2001	NINE MONTHS ENDED SEPTEMBER 30, 2000	THREE MONTHS ENDED SEPTEMBER 30. 2001	THRE ENDED SEPT
Revenues:				
Net investment income	$ 123	$ 237	$ 34	$

Net fees from sale of customer accounts		200		
Joint venture income (loss)	(3)	36		
Miscellaneous	94	139	7	
	214	612	41	
Expenses:				
Rent and related costs	17	40	5	
Salaries and employee benefits	133	196	45	
Professional fees	122	139	38	
Litigation settlement costs	216		216	
Provision for uncollectible fee income receivable		116		
Taxes, licenses and fees	39	48	11	
Miscellaneous	109	198	31	
	636	737	346	
Excess of expenses over revenues	(422)	(125)	(305)	
Adjustment of assets to estimated realizable value	(80)		(27)	
Adjustment of liabilities to estimated settlement amounts		62		
Change in unrealized appreciation of debt securities	41	22	39	
Preferred stock dividends	(289)	(294)	(96)	
Adjustment of preferred stock to estimated realizable value	728	705	376	
Increase in liability for under funded pension plan		(405)		
Increase from retirement of treasury shares-preferred	22	35	13	
Decrease in net assets for the period	0	0	0	
Net assets at beginning of period	0	0	0	
Net assets at end of period	$ 0	$ 0	$ 0	$

See Notes to Consolidated Financial Statements

CONSUMERS FINANCIAL CORPORATION AND SUBSIDIARY
(IN PROCESS OF LIQUIDATION)
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
NINE MONTHS ENDED SEPTEMBER 30, 2001 AND 2000
(UNAUDITED)

1. OVERVIEW AND BASIS OF ACCOUNTING:

The operating losses incurred by the Company from 1993 to 1997 significantly reduced its net worth and liquidity position. As a result, in

1998, the Company sold its core credit insurance and related products business, which had been its only remaining business operation, following the sales in 1994 and 1997 of all of its universal life insurance business and the 1996 sale of its auto auction business. Since the sale of its credit insurance business, the Company's revenues and expenses have consisted principally of (i) fee revenues received from Life of the South Corporation (LOTS), which acquired the Company's credit insurance business and its customer accounts, (ii) investment income on remaining assets and (iii) corporate expenses. However, see Note 4 for information concerning the discontinuation of the fee revenues .

On March 24, 1998, the Company's shareholders approved a Plan of Liquidation and Dissolution, as discussed in Note 2 below. Accordingly, the Company adopted a liquidation basis of accounting for periods subsequent to March 24, 1998. Under the liquidation basis of accounting, assets are stated at their estimated net realizable values and liabilities are stated at their anticipated settlement amounts. Prior to March 25, 1998, the Company reported the results of its operations and its asset and liability amounts using accounting principles applicable to going concern entities.

The consolidated financial statements include the accounts of Consumers Financial Corporation and its wholly-owned subsidiary, Consumers Life Insurance Company (Consumers Life).

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 consolidated net assets in liquidation as of September 30, 2001 and the consolidated changes in its net assets for the nine and three month periods ended September 30, 2001 and 2000.

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 2000 Form 10-K.

The changes in net assets for the nine and three month periods ended September 30, 2001 are not necessarily indicative of the changes to be expected for the full year.

2. PLAN OF LIQUIDATION AND RELATED MATTERS:

At a Special Meeting of Shareholders held on March 24, 1998, the Company's shareholders approved the sale of the Company's in force credit insurance business as well as a Plan of

2. PLAN OF LIQUIDATION AND RELATED MATTERS (CONTINUED):

Liquidation and Dissolution, (the Plan of Liquidation) pursuant to which the Company has been liquidating its remaining assets and providing for its

liabilities. If the Company proceeds with the Plan of Liquidation, it will eventually distribute its remaining cash to its preferred shareholders. The Company does not expect to be able to make any payment to its common shareholders under the Plan of Liquidation.

In August 2001, the Company announced that is was requesting proposals from several investor groups that had expressed an interest in acquiring a controlling interest in the Company's common stock. Following a review of the proposals which were received, the Company selected one investor group with whom it is now negotiating the terms of an option agreement. The option agreement would permit the investors to obtain a 51% interest in the Company's common stock through the issuance of authorized but unissued shares. The option would be exercisable only after the Company's preferred shareholders were given the opportunity either to receive a cash payment in exchange for their shares or to continue as shareholders of the Company. The Company is considering a transaction of this type in lieu of the Plan of Liquidation because it has the potential to produce future value for the common shareholders while protecting the rights of the preferred shareholders. As indicated above, the common shareholders are not expected to receive any distribution under the Plan of Liquidation. Since there is no assurance that this acquisition transaction will be completed, the Company continues to proceed with the Plan of Liquidation while it attempts to finalize the option agreement.

3. INCOME TAXES:

Deferred income taxes reflect the net tax effects of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes. At September 30, 2001 and December 31, 2000, the Company had no material deferred tax liabilities and only one material deferred tax asset relating to net operating loss carry forwards. This deferred tax asset, which totaled $1,963,000 and $1,869,000 at September 30, 2001 and December 31, 2000, respectively, has been fully offset by a valuation allowance.

4. COMMITMENTS AND CONTINGENCIES:

Reinsured risks would give rise to liability to the insurance subsidiary only in the event that the reinsuring companies are unable to meet their obligations under the indemnity reinsurance agreements which are in effect.

In November 1997, the Company and a third party reinsurer were sued by a former general agency with whom the Company had a partnership agreement. The partnership agreement

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(IN PROCESS OF LIQUIDATION)
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)
NINE MONTHS ENDED SEPTEMBER 30, 2001 AND 2000
(UNAUDITED)

4. COMMITMENTS AND CONTINGENCIES (CONTINUED):

provided that the agency would market universal life insurance business for the Company, pursuant to specific criteria established by the Company, and would also be entitled to a share of the profits, if any, which arose from the business produced. The claimant was seeking monetary damages to

compensate it for the Company's alleged failure to share profits and for other alleged losses resulting from the Company's rejection of policy applications involving unacceptable risks. The Company filed two counterclaims against this agency seeking damages for losses the Company sustained as a result of the agency's alleged breach of the partnership agreement and to recover an unpaid loan made to the agency. In December 2000, the trial for the Company's claim for recovery of the unpaid loan took place, and, in January 2001, the court awarded a $90,000 judgment in favor of the Company. In August 2001, the parties settled this matter through mediation. As a result of this settlement, the Company agreed to pay the agency $210,000 in cash and to mark as satisfied the $90,000 judgment the Company had previously been awarded. The $90,000 receivable had been fully reserved in the Company's financial statements.

During 1999, a dispute arose between the Company and LOTS relating to the payment of investment income on the assets which were transferred to LOTS in connection with the sale of the in force credit insurance business. Subsequent to the closing of the transaction, LOTS claimed that the Company owed it approximately $1,400,000 for investment earnings on the amount transferred. In October 1999, LOTS informed the Company that it would begin withholding from the Company the fee revenue payments which were contractually due to the Company from the sale of the credit insurance accounts. As of September 30, 2000, fee revenues totaling $421,000 had been withheld by LOTS. In October 2000, the parties settled this dispute. Pursuant to the terms of the settlement agreement, LOTS paid the Company $250,000 in settlement of all prior amounts withheld and in lieu of any future fee revenue payments. In addition, the Company agreed to permit LOTS to withdraw $500,000 from a contingency fund established by the parties at the time of the sale.

In connection with both the Plan of Liquidation and the potential sale of the Company, as discussed in Note 2, the Company intends to either sell Consumers Life and its insurance licenses or dissolve the subsidiary if a sale transaction cannot be completed. If the Company ultimately determines that it will dissolve Consumers Life, the subsidiary will incur a Phase III tax of approximately $149,000 for Federal income tax purposes This tax cannot be offset by Consumers Life's tax loss carry forwards, and will therefore require a cash payment to the Internal Revenue Service. The Company expects to decide by December 2001 whether it can sell the subsidiary or whether it must dissolve it.

Certain claims, suits and complaints arising in the ordinary course of business have been filed or are pending against the Company and its subsidiary. In the opinion of management, based on

4. COMMITMENTS AND CONTINGENCIES (CONTINUED):

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 net assets or changes in net assets of the Company and its subsidiary. The Company has taken certain income tax

positions in previous years that it believes are appropriate. If such positions were to be successfully challenged by the Internal Revenue Service, the Company could incur additional income taxes as well as interest and penalties. Management believes that the ultimate outcome of any such challenges will not have a material effect on the Company's financial statements.

5. REINSURANCE:

The sale of the credit insurance business of Consumers Life was completed pursuant to an indemnity reinsurance agreement with the reinsurer. The reinsurance transactions through which Consumes Life and its former subsidiaries sold their individual life insurance business included the use of both indemnity and assumption agreements. Consumers Life remains contingently liable for insurance risks ceded under indemnity agreements, while such risks are legally transferred to the reinsurer when assumption reinsurance agreements are utilized.

Effective December 31, 2000, Consumers Life converted one of its four remaining indemnity agreements to assumption reinsurance, thereby eliminating the contingent risk on that block of reinsured business. As of January 1, 2001, a similar conversion to assumption reinsurance was completed on another indemnity agreement. In October 2001, Consumers Life and its reinsurers executed agreements to convert the remaining two indemnity agreements to assumption reinsurance. These two transactions are subject to the approval of various state insurance regulators before they can become effective. The replacement of these indemnity agreements should not only facilitate the sale of the Consumers Life charter, but it will also permit the dissolution of Consumers Life in the event a sale of the subsidiary cannot be completed.

6. REDEEMABLE PREFERRED STOCK:

The terms of the Company's 8.5% redeemable preferred stock require the Company to make annual payments to a sinking fund. The first such payment was due in July 1998. The preferred stock terms also provide that any purchase of preferred shares by the Company will reduce the sinking fund requirements by the redemption value of the shares acquired. As a result of the Company's purchases of preferred stock prior to 1998, no sinking fund payment was due in 1998, and the requiConsumers Financial Corporation Page Form 10-Q September 30, 2001 red payment due for 1999 was reduced from $550,000 to $414,610. The purchase of 18,000 preferred shares in 1999, 7,400 shares in 2000, and 3,447 shares in 2001 has further reduced the 1999 sinking fund deficiency to $126,140. On July 1, 2000, an additional $550,000 sinking fund payment became due but was not paid. On July 1, 2001, another $550,000 sinking fund payment became due but was also not paid. Consequently, at

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6. REDEEMABLE PREFERRED STOCK (CONTINUED):

September 30, 2001, the total sinking fund deficiency was $1,226,140.

Because of the Company's inability to make the sinking fund payments, it may not pay any dividends to common shareholders and may not purchase, redeem or otherwise acquire any common shares.

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 net assets in liquidation at September 30, 2001 and the changes in its net assets in liquidation for the nine and three month periods ended September 30, 2001 is presented below. Information relating to 2000 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 2000 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 the 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 has been liquidating its remaining assets so that it can pay or provide for all of its liabilities. If the Company proceeds with the Plan of Liquidation, it will eventually distribute its remaining cash to its preferred shareholders. It is unlikely that any cash will be available for distribution to the common shareholders under the Plan of Liquidation.

In August 2001, the Company announced that is was requesting proposals from several investor groups that had expressed an interest in acquiring a controlling interest in the Company's common stock. Following a review of the proposals which were received, the Company selected one investor group with whom it is now negotiating the terms of an option agreement. The option agreement would permit the investors to obtain a 51% interest in the Company's common stock through the issuance of authorized but unissued shares. The option would be exercisable only after the Company's preferred shareholders were given the

opportunity either to receive a cash payment in exchange for their shares or to continue as shareholders of the Company. The Company is considering a transaction of this type in lieu of the Plan of Liquidation because it has the potential to produce future value for the common shareholders while protecting the rights of the preferred shareholders. As indicated above, the common shareholders are not expected to receive any distribution under the Plan of Liquidation. Since there is no assurance that this acquisition transaction will be completed, the Company continues to proceed with the Plan of Liquidation while it attempts to finalize the option agreement.

As a result of the approval of the Plan of Liquidation, the Company adopted a liquidation basis of accounting in its financial statements for periods subsequent to March 24, 1998. Under liquidation accounting rules, assets are stated at their estimated net realizable values and liabilities are stated at their anticipated settlement amounts. Prior to March 25, 1998, the Company reported the results of its operations and its asset and liability amounts using accounting principles applicable to going concern entities.

As discussed below, the Company's net assets in liquidation, which represent the amount available for distribution to common shareholders, were reduced to zero in 1999. All decreases in the Company's net assets since that time have reduced the estimated liquidation value of the preferred stock. Similarly, any future decreases during the remainder of the liquidation period will continue to reduce the amount available for distribution to the preferred shareholders. During the first nine months of 2001, this reduction totaled $728,000 compared to a reduction in the same period of 2000 of $705,000. The decline in the current year was principally due to preferred shareholder dividends, which totaled $289,000, and an excess of expenses over revenues of $422,000. For the nine months ended September 30, 2000, preferred dividends totaled $294,000 and the excess of expenses over revenues was $125,000. In addition, in the first nine months of 2000, the estimated liability for the Company's under funded Pension Plan (which was terminated later in the year) was increased by $405,000.

RESULTS OF OPERATIONS AND CHANGES IN NET ASSETS

Since the sale of its remaining insurance business and the adoption of the Plan of Liquidation, the Company's revenues and expenses have consisted principally of (i) fee revenues from the sale of the Company's customer accounts, (ii) investment income on existing assets and (iii) corporate expenses, primarily salaries, pension expense and professional fees. A discussion of the material factors which affected the Company's changes in net assets in liquidation for the nine and three month periods ended September 30, 2001 and 2000 is presented below.

NINE AND THREE MONTHS ENDED SEPTEMBER 30, 2001

As indicated above, since the Company has no net assets available for common shareholders, all decreases in net assets must be deducted from the estimated liquidation value of the Company's preferred stock. In the first nine months of 2001, the estimated liquidation value of the preferred stock declined by $728,000. As a result, at September 30, 2001, the 452,614 shares of preferred stock outstanding had an estimated liquidation value of $2,557,000, or $5.65 per share.

The decrease in the liquidation value of the preferred stock in the first

nine months of 2001 was primarily due to $289,000 in dividends to the preferred shareholders, an $80,000 reduction in the estimated realizable value of certain assets and an excess of expenses over revenues of $422,000. The excess of expenses over revenues in the current year was significantly impacted by litigation settlement expenses totaling $216,000, which more than doubled the excess of expenses over revenues which would otherwise have been reported for the period. In addition, revenues for the period were adversely affected by the fact that the Company is no longer receiving any fee revenues from the sale of its credit insurance customer accounts, as discussed below. The Company also incurred approximately $66,000 in legal fees during the first nine months of 2001 in connection with various corporate matters as well as litigation.

For the three months ended September 30, 2001, the estimated liquidation value of the preferred stock declined by $376,000. All of the factors which affected the liquidation value during the first nine months of the year were also factors in the decrease which occurred in the third quarter. Preferred shareholder dividends totaled $96,000, the reduction in the estimated realizable value of certain assets was $27,000 and expenses exceeded revenues by $305,000, largely due to the $216,000 in litigation settlement costs referred to above.

As indicated above, the Company is no longer receiving any fee revenues from the purchaser of its credit insurance customer accounts. In order to settle a dispute with the purchaser regarding the payment of investment income on the assets transferred to the purchaser in the sale of the Company's in force insurance business, in October 2000, the Company agreed to accept a $250,000 cash payment in settlement of all prior amounts due from the purchaser and in lieu of any future fee revenue payments. In the nine and three month periods ended September 30, 2000, the Company reported fee revenues of $200,000 and $68,000, respectively.

NINE AND THREE MONTHS ENDED SEPTEMBER 30, 2000

In the first nine months of 2000, the estimated liquidation value of the preferred stock decreased by $705,000 as a result of (i) a $405,000 increase in the estimated liability for the Company's under funded pension plan, (ii) $294,000 in preferred shareholder dividends and (iii) an excess of expenses over revenues of $125,000. Expenses in the first nine months of the year included approximately $67,000 in legal fees and $50,000 in pension expense. A significant portion of the legal fees during this period related to the now-settled fee revenue dispute referred to earlier. The Company's investment income benefitted from the collection of about $52,000 in past due and unaccrued interest on a non performing mortgage loan, which was repaid in full following the sale of the property. Partially offsetting the decreases in the preferred stock liquidation value listed above were increases attributable to the reduction of certain liabilities to their estimated settlement amounts and other miscellaneous increases.

The estimated liquidation value of the preferred stock decreased by $323,000 in the third quarter of 2000. This decline was due to an additional $180,000 increase in the pension plan liability described above, preferred shareholder dividends of $98,000 and in excess of expenses over revenues of $69,000.

ESTIMATED NET EXPENSES AND OTHER CHANGES IN NET ASSETS DURING LIQUIDATION PERIOD

If the Company is not sold pursuant to the option agreement currently being negotiated, the time frame for completing the liquidation of the Company is dependent upon a number of factors, the most significant of which is the sale or

dissolution of the Company's life insurance subsidiary. Most of the assets which will be available for distribution to the preferred shareholders are held by the subsidiary and are restricted as to their use by state insurance regulations. Additional shareholder value could also be generated from the sale of the subsidiary because of the value of its 25 state insurance licenses. Furthermore, if the Company determines that it must dissolve Consumers Life because a suitable buyer cannot be found, Consumers Life will incur a $149,000 Phase III tax for Federal income tax purposes. This tax cannot be offset by Consumers Life's tax loss carry forwards, and will therefore require a cash payment to the Internal Revenue Service. The Company expects to decide by December 2001 whether it can sell the subsidiary or whether it must dissolve it. The Company is also a defendant in several small lawsuits which must be settled by the parties or resolved in court. The Company may also be entitled to all or a portion of the assets in a contingency fund established by the Company and the purchaser of its credit insurance business based on the claims experience of the in force credit insurance business from October 1, 1997 to September 30, 2002. However, based on the claims experience to date, as provided by the purchaser, it does not appear likely that the Company will receive any portion of the contingency fund.

As a result of the foregoing, a final distribution under the Plan of Liquidation cannot be made to the preferred shareholders until (i) the life subsidiary is either sold (and the time period of any required indemnifications given to the purchaser has expired) or dissolved, (ii) the Company has resolved its remaining litigation and (iii) a determination is made regarding the amount of any contingency fund distribution which might be payable to the Company.

Based on current estimates, management believes that the Company's future expenses and other changes in net assets, including preferred shareholder dividends, will exceed its revenues during the remainder of the liquidation period by approximately $600,000 to $650,000. Actual revenues and expenses and other net asset changes could vary significantly from the present estimates due to uncertainties regarding (i) when the remaining non liquid assets, particularly the stock of the life insurance subsidiary, will be liquidated, (ii) when the distribution to the preferred shareholders will be made, (iii) the level of actual expenses which will be incurred and (iv) the ultimate resolution of all current contingencies and any contingencies which may arise in the future.

FINANCIAL CONDITION

CAPITAL RESOURCES

As a result of the Plan of Liquidation, the Company has made no commitments for capital expenditures and does not intend to make any such commitments in the future. However, if the Company is sold pursuant to the option agreement which is now being negotiated, the Company's future plans regarding capital expenditures and other matters could change. For the nine months ended September 30, 2001, the Company's cash and invested assets decreased by $527,000, from $3,479,000 at the beginning of the year to $2,952,000 at September 30, 2001. As indicated above, the decrease is principally the result of the preferred shareholder dividends and the excess of expenses over revenues.

Invested assets at September 30, 2001 consisted principally of (i) U.S. Treasury Notes, owned by the Company's insurance subsidiary, which are on deposit with four state insurance departments in connection with licensing requirements, (ii) one mortgage loan, which is scheduled to be paid in full by June 2002 and (iii) short-term investments, principally money market funds.

As discussed in Note 5 of the Notes to Consolidated Financial Statements appearing elsewhere in this Form 10-Q, as of January 1, 2001, the Company's insurance subsidiary converted one of its remaining indemnity reinsurance agreements to assumption reinsurance, thereby eliminating the contingent insurance risk on this block of reinsured business. As a result, the reinsurance recoverable asset and the corresponding liability for future policy benefits relating to this block of business have been eliminated from the September 30, 2001 amounts appearing on the Consolidated Statements of Net Assets in Liquidation. At December 31, 2000, the asset and liability amounts for this block of business totaled approximately $1,023,000. Following the anticipated receipt in the fourth quarter of 2001 of the insurance regulatory approvals for the conversion of the remaining indemnity reinsurance agreements into assumption reinsurance, the balances of the reinsurance recoverable and the prepaid reinsurance premiums accounts and the corresponding balances of the future policy benefits, unearned premiums and other claims and benefits payable accounts will be eliminated.

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. Following the approval of the Plan of Liquidation, the Company's principal sources of cash funds have been investment income and proceeds from the sales of non liquid assets. Under the Plan of Liquidation, these funds must be used to settle remaining liabilities as they become due, to pay expenses until the Company is dissolved and to pay dividends on the preferred stock until a final distribution is made to the preferred shareholders.

If the Company proceeds with the Plan of Liquidation, the adequacy of the Company's liquidity position during the remainder of the liquidation period will be principally dependent on its ability to sell its remaining non liquid assets and the timing of such sales, as well as on the level of expenses the Company must incur during the liquidation period. The Company's liquidity is particularly dependent on its ability to sell or, alternatively, to liquidate and dissolve its life insurance subsidiary, since all dividends and other distributions to the Company from that subsidiary must be approved by the Delaware Insurance Department.

SINKING FUND FOR REDEEMABLE PREFERRED STOCK

The terms of the Company's 8.5% redeemable preferred stock require the Company to make annual payments to a sinking fund. The first such payment was due in July 1998. The preferred stock terms also provide that any purchase of preferred shares by the Company will reduce the sinking fund requirements by the redemption value of the shares acquired. As a result of the Company's purchases of preferred stock prior to 1998, no sinking fund payment was due in 1998, and the required payment due for 1999 was reduced from $550,000 to $414,610. The

purchase of 18,000 preferred shares in 1999, 7,400 shares in 2000, and 3,447 shares in 2001 has further reduced the 1999 sinking fund deficiency to $126,140. On July 1, 2000, an additional $550,000 sinking fund payment became due but was not paid. On July 1, 2001, another $550,000 sinking fund payment became due but was also not paid. Consequently, at September 30, 2001, the total sinking fund deficiency was $1,226,140. Because of the Company's inability to make the sinking fund payments, it may not pay any dividends to common shareholders and

may not purchase, redeem or otherwise acquire any common shares.

INFLATION

Under the Plan of Liquidation, the effects of inflation on the Company are not material because the Company intends to wind up its affairs within the next 12 to 15 months. However, if the Company is sold, inflation may have an effect on the Company's new business or businesses in the future.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURE ABOUT MARKET RISK

The requirements for certain market risk disclosures are not applicable to the Company because, at September 30, 2001 and December 31, 2000, 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.

PART II. OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

Except for the matters discussed in Note 4 of the Notes to Consolidated Financial Statements included elsewhere in this Form 10-Q, neither the registrant nor its subsidiary are involved in any pending legal proceedings other than routine litigation incidental to the normal conduct of its business nor have any such proceedings been terminated during the three months ended September 30, 2001.

ITEM 2. CHANGES IN SECURITIES

During the three months ended September 30, 2001, 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. As discussed in Note 5 of the Notes to Consolidated Financial Statements appearing elsewhere in this Form 10-Q, the registrant is prohibited from paying dividends on its common stock so long as the deficiency in the sinking fund for the preferred stock exists.

ITEM 3. DEFAULTS UPON SENIOR SECURITIES

As of September 30, 2001, the registrant was not in default in the payment of principal, interest or in any other manner on any indebtedness and was current with all its accounts. In addition, there was no arrearage in the payment of dividends on its preferred stock. However, see Note 6 of the Notes to Consolidated Financial Statements appearing elsewhere in this Form 10-Q for information regarding the deficiency in the sinking fund for the preferred stock.

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

No matters were submitted to a vote of the stockholders of the

registrant during the three months ended September 30, 2001.

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 (ii)
(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) Additional exhibits (ii)

(i) Information or document provided in previous filing with the Commission
(ii) Information or document not applicable to registrant

(b) No reports on Form 8-K were filed by the Company during the three months ended September 30, 2001.

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

Registrant

Date November 9, 2001 By /S/
James C. Robertson
President and Chief Executive Officer

Date November 9, 2001 By /S/
R. Fredric Zullinger
Senior Vice President and Chief Financial Officer