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CONSUMERS FINANCIAL CORP
Form PRE 14C
June 06, 2003

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SCHEDULE 14C INFORMATION

INFORMATION STATEMENT
PURSUANT TO SECTION 14(c) OF THE SECURITIES EXCHANGE ACT OF 1934

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Check the appropriate box:

- Preliminary Information Statement
- Confidential, for Use of the Commission Only (as permitted by Rule 14c-5(d)(2))
- Definitive Information Statement

CONSUMERS FINANCIAL CORPORATION
(Name of registrant as Specified in its Charter)

Payment of Filing Fee (Check the appropriate box):

- No fee required
- Fee computed on table below per Exchange Act Rules 14c-5(g) and 0-11
 - (1) Title of each class of securities to which transaction applies:
 - (2) Aggregate number of securities to which transaction applies: . .
 - (3) Per unit price or other underlying value of transaction computed pursuant to Exchange Act Rule 0-11 (Set forth the amount on which the filing fee is calculated and state how it was determined):
 - (4) Proposed maximum aggregate value of transaction:
 - (5) Total fee paid:
- Fee paid previously by written preliminary materials
- Check box if any part of the fee is offset as provided by Exchange Act Rule 0-11(a)(2) and identify the filing for which the offsetting fee was paid previously. Identify the previous filing by registration statement number, or the Form or Schedule and the date of its filing.
 - (1) Amount Previously Paid:
 - (2) Form, Schedule or Registration Statement No.:
 - (3) Filing Party:
 - (4) Date Filed:

CONSUMERS FINANCIAL CORPORATION
132 Spruce Street
Cedarhurst, New York 11516

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NOTICE OF SPECIAL MEETING OF SHAREHOLDERS
TO BE HELD ON , 2003

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Dear Shareholders:

A special meeting of shareholders of Consumers Financial Corporation, a

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Pennsylvania corporation (the "Company"), will be held on _____, 2003 at 10:00 a.m. local time, at 132 Spruce Street, Cedarhurst, New York for the following purposes:

1. To consider and vote upon a proposal to amend the Company's Articles of Incorporation:
 - a. To effect a one-for-10 reverse stock split of the Company's common stock (the "Common Stock") by reducing the number of issued and outstanding shares of Common Stock from 5,276,781 to approximately 527,678 (the "Reverse Split"); and
 - b. To authorize 50 million shares of capital stock of the Company, of which 40 million shares will relate to Common Stock and 10 million shares will relate to preferred stock (including the existing 632,500 shares of convertible preferred stock, series A), subject to further designation by the Board of Directors of the Company; and
 - c. To permit action upon the written consent of less than all shareholders of the Company, pursuant to section 2524 of the Pennsylvania Business Corporation Law of 1988.
2. To transact such other business as may properly come before the special meeting and any adjournment or postponement thereof.

Only shareholders of record at the close of business on _____, 2003 will be entitled to receive this Information Statement and notice of the special meeting or any adjournment or postponement thereof.

By Order of the Board of Directors,

/s/ Shalom S. Maidenbaum

SHALOM S. MAIDENBAUM
Secretary

Cedarhurst, New York
, 2003

CONSUMERS FINANCIAL CORPORATION
132 SPRUCE STREET
CEDARHURST, NEW YORK 11516

INFORMATION STATEMENT

FOR THE SPECIAL MEETING OF SHAREHOLDERS
TO BE HELD ON _____, 2003

INTRODUCTION

This Information Statement is being furnished to the shareholders of Consumers Financial Corporation, a Pennsylvania corporation (the "Company"), to inform them of a special meeting of shareholders. This meeting (referred to herein as the "Special Meeting") will be held on _____, 2003 at 132 Spruce

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Street, Cedarhurst, New York, at 10:00 a.m. local time. Only shareholders of record at the close of business on , 2003 (the "Record Date") will be entitled to receive this Information Statement and to vote at the Special Meeting. This Information Statement and the Notice of Special Meeting are first being mailed to the Company's shareholders on or about , 2003.

At the Special Meeting, holders of common stock (the "Common Stock") of the Company will be asked to consider and vote upon a proposal to amend the Company's Articles of Incorporation (i) to effect a one-for-10 reverse stock split of the Company's common stock (the "Common Stock") by reducing the number of issued and outstanding shares of Common Stock from 5,276,781 to approximately 527,678; (ii) to authorize 50 million shares of capital stock of the Company, of which 40 million shares will relate to Common Stock and 10 million shares will relate to preferred stock (including the existing 632,500 shares of convertible preferred stock, series A), subject to further designation by the Board of Directors of the Company; and (iii) to permit action upon the written consent of less than all shareholders of the Company, pursuant to section 2524 of the Pennsylvania Business Corporation Law of 1988 (the "PBCL").

CFC Partners, Ltd., a New York corporation ("CFC Partners"), owns a majority (51.2%) of the Company's issued and outstanding shares of Common Stock and intends to vote to approve the proposal described in this Information Statement. Accordingly, no proxies will be solicited and no action is required on your behalf. The cost of printing and distributing this Information Statement and holding the Special Meeting (including the reimbursement of certain parties for their expenses in forwarding this Information Statement to beneficial owners of the Common Stock) will be paid by the Company.

The Company's principal executive offices are located at 132 Spruce Street, Cedarhurst, New York 11516. The Company also maintains an office at 1525 Cedar Cliff Drive, Camp Hill, Pennsylvania 17011.

| THIS DOCUMENT IS REQUIRED UNDER THE FEDERAL SECURITIES LAWS AND IS PROVIDED |
| SOLELY FOR YOUR INFORMATION. WE ARE NOT ASKING YOU FOR A PROXY AND YOU ARE |
REQUESTED NOT TO SEND US A PROXY.

INFORMATION REGARDING THE PROPOSAL

GENERAL

The proposal to amend the Company's Articles of Incorporation is described below. A copy of the Articles of Incorporation, as amended to reflect the changes contemplated by the proposal, is attached to this Information Statement as Exhibit A.

AMENDMENT OF ARTICLES OF INCORPORATION TO EFFECT A REVERSE STOCK SPLIT

Purpose: The Company's Board of Directors has unanimously adopted a resolution seeking shareholder approval to amend the Articles of Incorporation to effect a one-for-10 reverse stock split (the "Reverse Split") of the Company's Common Stock. The Board of Directors believes that the Reverse Split is in the Company's best interests in that it may increase the trading price of the Common Stock. An increase in the price of the Common Stock should, in turn, generate greater investor interest in the Common Stock, thereby enhancing the marketability of the Common Stock to the financial community. In addition, the resulting reduction in the number of issued and outstanding shares of Common

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Stock, together with the proposed increase in the number of authorized shares of Common Stock, as discussed below, will provide the Company with additional authorized but unissued shares which could be utilized for future acquisitions or mergers or to otherwise carry out the Company's business objectives.

Effect: The immediate effect of the Reverse Split will be to reduce the number of issued and outstanding shares of Common Stock from 5,276,781 to approximately 527,678. Although the Reverse Split may also increase the market price of the Common Stock, the actual effect of the Reverse Split on the market price cannot be predicted. The market price of the Common Stock may not rise in proportion to the reduction in the number of shares outstanding as a result of the Reverse Split. Further, there is no assurance that the Reverse Split will lead to a sustained increase in the market price of the Common Stock. The market price of the Common Stock may also change as a result of other unrelated factors, including the Company's operating performance and other factors related to its business as well as general market conditions. The Reverse Split will affect all of the holders of the Company's Common Stock uniformly and will not affect any shareholder's percentage ownership interest in the Company or proportionate voting power, except for insignificant changes that will result from the rounding of fractional shares either up or down (see discussion below).

Procedure for Effecting Reverse Split: The Reverse Split of the Company's Common Stock will become effective upon the filing by the Company of its amended Articles of Incorporation with the Pennsylvania Secretary of State (the "Effective Date"). The Reverse Split will take place on the Effective Date without any action on the part of the holders of the Common Stock and without regard to the date current certificates representing shares of Common Stock are physically surrendered for certificates representing the number of shares of Common Stock each shareholder is entitled to receive as a result of the Reverse Split. New certificates of Common Stock will be issued in due course as old certificates are tendered to the Company's transfer agent, StockTrans, Inc., which firm is also acting as the exchange agent in connection with the Reverse Split.

Fractional Shares: No fractional shares will be issued in connection with the Reverse Split. Shareholders who would otherwise be entitled to receive fractional shares because they hold a number of shares of Common Stock that is not evenly divisible by 10 will have the number of new shares to which they are entitled rounded to the nearest whole number of shares. The number of new shares will be rounded up if the fractional share is equal to or greater than 0.5 and rounded down if the fraction is less than 0.5. No shareholders will receive cash in lieu of fractional shares.

Federal Income Tax Consequences of Reverse Split: The following summary of certain material federal income tax consequences of the Reverse Split does not purport to be a complete discussion of all of the possible federal income tax consequences and is included for general information only. Further, it does not address any state, local, foreign or other income tax consequences, nor does it address the tax consequences to shareholders that are subject to special tax rules, such as banks, insurance companies, regulated investment companies, personal holding companies, foreign entities, nonresident alien individuals, broker-dealers and tax-exempt entities. The discussion is based on the United States federal income tax laws as of the date of this Information Statement. Such laws are subject to change retroactively as well as prospectively. This summary also assumes that the shares of the Company's Common Stock are held as "capital assets," as defined in the Internal Revenue Code of 1986, as amended (i.e., generally, property held for investment). The tax treatment of a shareholder may vary depending on the facts and circumstances of such shareholder. EACH SHAREHOLDER IS URGED TO CONSULT WITH SUCH SHAREHOLDER'S TAX ADVISOR WITH RESPECT TO THE PARTICULAR TAX CONSEQUENCES OF THE REVERSE SPLIT.

No gain or loss should be recognized by a shareholder upon the shareholder's exchange of shares pursuant to the Reverse Split. The aggregate tax basis of the shares received in the Reverse Split will be the same as the shareholder's aggregate tax basis in the shares exchanged. The shareholder's holding period for the shares received in the Reverse Split will include the period during which the shareholder held the shares surrendered as a result of the Reverse Split. The Company's views regarding the tax consequences of the Reverse Split are not binding upon the Internal Revenue Service or the courts, and there is no assurance that the Internal Revenue Service or the courts would accept the positions expressed above. The state and local tax consequences of the Reverse Split may vary significantly as to each shareholder, depending on the state in which such shareholder resides.

No Dissenters' Rights: Pursuant to the PBCL, the holders of the Company's Common Stock are not entitled to dissenters' rights in connection with the Reverse Split. Furthermore, the Company does not intend to independently provide those shareholders with any such rights.

AMENDMENT OF ARTICLES OF INCORPORATION TO INCREASE NUMBER OF AUTHORIZED SHARES

Purpose: The Company's Board of Directors has unanimously adopted a resolution seeking shareholder approval to amend the Articles of Incorporation to increase the number of authorized shares of capital stock to 50 million, 40 million of which will relate to Common Stock and 10 million of which will relate to preferred stock. The Board of Directors believes that this increase in the number of authorized shares is in the best interest of the Company in that it will provide the Company with available shares which could be issued for various corporate purposes, including acquisitions, stock dividends, stock splits, stock options, convertible debt and equity financings, as the Board of Directors determines in its discretion. The Board further believes that the increase in the number of authorized shares of Common Stock will enable the Company to promptly take advantage of market conditions and the availability of favorable opportunities without the delay and expense associated with holding a special meeting of shareholders.

Effect: The issuance by the Company of any additional shares of Common Stock would dilute both the equity interests and the earnings per share of existing holders of the Common Stock. Such dilution may be substantial, depending upon the amount of shares issued. The newly authorized shares of Common Stock will have voting and other rights identical to those of the currently authorized shares of Common Stock. The newly authorized preferred stock will have voting and other rights as determined by the Board of Directors.

No Dissenters' Rights: Pursuant to the PBCL, the holders of the Company's Common Stock are not entitled to dissenters' rights in connection with the increase in the number of authorized shares. Furthermore, the Company does not intend to independently provide those shareholders with any such rights.

AMENDMENT OF ARTICLES OF INCORPORATION TO PERMIT ACTION UPON WRITTEN CONSENT

Purpose: The Company's Board of Directors has unanimously adopted a resolution seeking shareholder approval to amend the Articles of Incorporation to permit action upon the written consent of less than all shareholders of the Company, pursuant to section 2524 of the PBCL. The Board of Directors believes that this amendment is in the best interest of the Company because it will reduce the time and expense associated with proxy solicitations.

Effect: This amendment will have the practical effect of permitting CFC Partners to approve, in most instances, actions requiring shareholder consent. The Company will continue to be subject to the reporting obligations of the

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Securities Exchange Act of 1934, including distribution of an information statement in instances where a full proxy solicitation is not required.

No Dissenters' Rights: Pursuant to the PBCL, the holders of the Company's Common Stock are not entitled to dissenters' rights in connection with this amendment. Furthermore, the Company does not intend to independently provide those shareholders with any such rights.

INTERESTS OF CERTAIN PERSONS IN THE PROPOSAL

No director, executive officer, associate of any director or executive officer or any other person has any substantial interest, direct or indirect, by security holdings or otherwise, in the proposal to amend the Articles of Incorporation which is not shared by all other holders of the Company's Common Stock. Two of the Company's

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current directors and officers are affiliated with CFC Partners, the Company's majority shareholder. Donald J. Hommel and Shalom S. Maidenbaum, who are the directors and officers of the Company are also the directors, officers and, together with Michael P. Ehrenhaus, the sole shareholders of CFC Partners. Although neither Mr. Hommel, Mr. Maidenbaum nor Mr. Ehrenhaus own any shares of Common Stock directly, each of these individuals may be deemed to be the beneficial owner of the 2,700,000 shares of Common Stock owned by CFC Partners. See "Security Ownership of Certain Beneficial Owners and Management."

DESCRIPTION OF CAPITAL STOCK

The authorized capital stock of the Company consists of the following:

COMMON STOCK

As of the Record Date, there were 10,000,000 authorized shares of Common Stock with a stated value of \$.01 per share, of which 5,276,781 shares were issued and outstanding (including 2,700,000 owned by CFC Partners). The holders of the Common Stock vote as a single class and are entitled to one vote per share on all matters to be voted on by the shareholders and have the right of cumulative voting in connection with the election of directors. The holders of Common Stock are entitled to receive pro rata dividends, when and as declared by the Board of Directors in its discretion, out of funds legally available therefor, but only if all dividends on the preferred stock have been paid in accordance with the terms of such preferred stock and there exists no deficiency in the sinking fund for the preferred stock.

Dividends on the Common Stock are declared by the Board of Directors. The payment of dividends on the Common Stock in the future, if any, will be subordinate to the preferred stock, must comply with the provisions of the PBCL and will be determined by the Board of Directors. In addition, the payment of such dividends will depend on the Company's financial condition, results of operations, capital requirements and such other factors as the Board of Directors deems relevant.

8 1/2 % CONVERTIBLE PREFERRED STOCK, SERIES A

As of the Record Date, there were 632,500 authorized shares of preferred stock (the "Preferred Stock"), of which 75,326 shares were issued and outstanding. The Preferred Stock has a liquidation preference of \$10.00 per share and is convertible at any time, unless previously redeemed, into shares of

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Common Stock at the rate of 1.482 shares of Common Stock for each share of Preferred Stock (equivalent to a conversion price of \$6.75). The Preferred Stock is currently redeemable at the option of the Company at \$10.00 per share. The terms of the 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 purchases of Preferred Stock by the Company will reduce the sinking fund requirements by an amount equal to the redemption value (\$10.00 per share) of the shares acquired. As a result of the Company's purchases of Preferred Stock in the open market and in a tender offer completed on August 23, 2002, no sinking fund payment for the Preferred Stock is due until July 1, 2006. Following the completion of the tender offer, the Company deposited \$331,434 into a bank trust account for the benefit of the holders of the Preferred Stock who did not tender their shares of Preferred Stock. The Company is required to use the funds deposited into the trust account only to pay dividends due on the Preferred Stock or for other distributions to the remaining preferred shareholders.

Annual dividends at the rate of \$.85 per share are cumulative from the date of original issue and are payable quarterly on the first day of January, April, July and October. The dividends payable on January 1 and April 1, 2003 were not declared or paid by the Company. When the Company is in arrears as to the preferred dividends or sinking fund appropriations for the Preferred Stock, dividends to the holders of the Common Stock, as well as redemptions and acquisitions by the Company of shares of Common Stock, are restricted. If the Company is in default in an aggregate amount equal to four quarterly preferred dividends, the holders of Preferred Stock are entitled to elect two additional board members to the then existing Board of Directors while such arrearage exists.

Except in certain limited circumstances, the holders of Preferred Stock have no voting rights; however, they can vote as a single class when the Company attempts to (i) sell, transfer or dispose of all or substantially all of the property, business or assets of the Company or participate in a statutory share exchange whereby the Preferred Stock or the Common Stock is converted into other securities or property or in a consolidation or merger of the Company with

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any corporation, provided, however, that this restriction shall not prevent any such statutory share exchange, consolidation or merger or require such separate class vote if none of the preferences or other rights of the holders of the Preferred Stock shall be adversely affected thereby, and if the corporation resulting from or surviving any such statutory share exchange, consolidation or merger shall not have authorized or outstanding, after such transaction, any preferred stock or other class of shares ranking prior to or on a parity with the Preferred Stock with respect to the payment of dividends or the distribution of assets in liquidation; or (ii) amend the Articles of Incorporation or By-Laws of the Company so as to affect adversely any of the preferences or other rights of the holders of the Preferred Stock; or (iii) authorize any additional series of preferred stock, any class of stock ranking prior to the Preferred Stock with respect to either the payment of dividends or the distribution of assets in liquidation or any securities convertible into preferred stock or any such shares ranking prior thereto.

SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT

The following table sets forth, as of _____, 2003, the beneficial ownership of the Company's Common Stock (i) by any person or group known by the Company to beneficially own more than 5% of the outstanding Common Stock, (ii) by each Director and executive officer and (iii) by all Directors and executive

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officers as a group. Unless otherwise indicated, the holders of the shares shown in the table have sole voting and investment power with respect to such shares. The address of all individuals for whom an address is not otherwise indicated is 132 Spruce Street, Cedarhurst, New York 11516.

NAME AND ADDRESS OF BENEFICIAL OWNER	AMOUNT AND NATURE OF BENEFICIAL OWNERSHIP	PERCENT OF CLASS
 Principal Shareholders:		
CFC Partners, Ltd. 132 Spruce Street Cedarhurst, New York 11516	2,700,000 (1)	51.17%
Stephen J. Burns 3922 Wrexam Court Bensalem, Pennsylvania 19020	323,000	6.12%
Michael P. Ehrenhaus, M.D.	0 (1)	---
 Directors and Executive Officers:		
Jack I. Ehrenhaus	0	---
Donald J. Hommel (2)	0 (1)	---
Shalom S. Maidenbaum, Esq. (2)	0 (1)	---
William T. Konzynin, M.D.	0	---
 All Directors and Executive Officers as a group (4 persons)	 0 (1)	 ---