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CONSUMERS FINANCIAL CORP
Form 10-Q/A
January 06, 2005

SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q/A

- QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934 FOR THE QUARTERLY PERIOD ENDED SEPTEMBER 30, 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
(State or other jurisdiction of
incorporation or organization)

23-1666392
(I.R.S. Employer
Identification No.)

132 Spruce Street, Cedarhurst, NY
(Address of principal executive offices)

11516
(Zip Code)

516-792-0900
(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 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 December 31, 2004 ----- |
|--------------------------------|--|
| \$.01 Stated Value | 38,167,499 |

CONSUMERS FINANCIAL CORPORATION AND SUBSIDIARIES
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EXPLANATORY NOTE

This Form 10-Q/A shall amend and restate in its entirety the Form 10-Q filed by the Company on May 24, 2004.

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CONSUMERS FINANCIAL CORPORATION AND SUBSIDIARIES

CONSOLIDATED FINANCIAL STATEMENTS

September 30, 2003 and December 31, 2002

CONSUMERS FINANCIAL CORPORATION AND SUBSIDIARIES Consolidated Balance Sheets

ASSETS

| September 30, 2003 | December 31, 2002 |
|----------------------------------|----------------------|
| ----- | ----- |
| (Unaudited and restated - see | |

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Note 5)

CURRENT ASSETS

| | | |
|---------------------------|----------|------------|
| Cash and cash equivalents | \$ 7,840 | \$ 165,758 |
| Prepaid expenses | 13,300 | 30,420 |
| | ----- | ----- |
| Total Current Assets | 21,140 | 196,178 |
| | ----- | ----- |

FIXED ASSETS, NET

2,047 --

OTHER ASSETS

| | | |
|--------------------|---------|---------|
| Restricted cash | 284,402 | 314,225 |
| Prepaid insurance | 34,313 | 87,363 |
| | ----- | ----- |
| Total Other Assets | 318,715 | 401,588 |
| | ----- | ----- |

TOTAL ASSETS

\$ 341,902 \$ 597,766

LIABILITIES AND STOCKHOLDERS' EQUITY (DEFICIT)

CURRENT LIABILITIES

| | | |
|---------------------------------------|------------|-----------|
| Accounts payable and accrued expenses | \$ 293,265 | \$ 54,302 |
| Contingent liability | 355,676 | -- |
| Reserve for partnership liabilities | 200,000 | -- |
| Note payable | 20,000 | -- |
| Notes payable - related parties | 28,006 | -- |
| | ----- | ----- |
| Total Current Liabilities | 896,947 | 54,302 |
| | ----- | ----- |

REDEEMABLE PREFERRED STOCK

| | | |
|--|---------|---------|
| Preferred stock, 10,000,000 shares authorized, 68,376 and 75,326 shares issued and outstanding, respectively | 675,129 | 739,949 |
| | ----- | ----- |

STOCKHOLDERS' EQUITY (DEFICIT)

| | | |
|--|--------------|-------------|
| Common stock, \$0.01 par value, 40,000,000 shares authorized, 17,012,731 and 5,276,781 shares issued and outstanding, respectively | 170,127 | 52,768 |
| Additional paid-in capital | 11,419,896 | 8,938,865 |
| Treasury stock, preferred | (18,070) | -- |
| Deferred compensation | -- | -- |
| Accumulated Deficit | (12,802,127) | (9,188,118) |
| | ----- | ----- |
| Total Stockholders' Equity (Deficit) | (1,230,174) | (196,485) |
| | ----- | ----- |

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| | | |
|---|------------|------------|
| TOTAL LIABILITIES, REDEEMABLE PREFERRED STOCK AND STOCKHOLDERS' EQUITY (DEFICIT) | \$ 341,902 | \$ 597,766 |
| | ===== | ===== |

The accompanying notes are an integral part of these condensed consolidated financial statements.

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CONSUMERS FINANCIAL CORPORATION AND SUBSIDIARIES Condensed Consolidated Statements of Operations (Unaudited)

| | For the Three Months Ended September 30, | | For the Nine Months Ended September 30, | |
|---|--|------------|---|------------|
| | 2003 | 2002 | 2003 | 2002 |
| | (Restated - See Note 5) | | (Restated - See Note 5) | |
| REVENUES | \$ -- | \$ -- | \$ -- | \$ -- |
| EXPENSES | | | | |
| General and administrative | 3,555,855 | 137,653 | 3,668,119 | 419,000 |
| Bad debt expense | 27,500 | -- | 27,500 | -- |
| Depreciation | 899 | -- | 899 | -- |
| | ----- | ----- | ----- | ----- |
| Total Expenses | 3,584,254 | 137,653 | 3,696,518 | 419,000 |
| | ----- | ----- | ----- | ----- |
| LOSS FROM OPERATIONS | (3,584,254) | (137,653) | (3,696,518) | (419,000) |
| | ----- | ----- | ----- | ----- |
| OTHER EXPENSES | | | | |
| Interest income | 2,431 | 6,320 | 2,461 | 44,000 |
| Interest expense | (5,648) | -- | (5,648) | -- |
| Net realized investment gains | -- | -- | -- | 242,000 |
| Proceeds from litigation settlement | 35,000 | 255,000 | 17,500 | 255,000 |
| Gain on extinguishment of debt | 20,000 | -- | 20,000 | -- |
| Other income | 654 | 222 | 1,447 | 41,000 |
| | ----- | ----- | ----- | ----- |
| Total Other Expenses | 52,437 | 261,542 | 35,760 | 582,000 |
| | ----- | ----- | ----- | ----- |
| Net Income (Loss) | \$ (3,531,817) | \$ 123,889 | \$ (3,660,758) | \$ 163,000 |
| | ----- | ----- | ----- | ----- |
| OTHER COMPREHENSIVE LOSS, CHANGE IN UNREALIZED APPRECIATION OF DEBT SECURITIES | -- | -- | -- | (54,000) |
| | ----- | ----- | ----- | ----- |

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| | | | | |
|--|----------------|------------|----------------|--------|
| Comprehensive Income (Loss) | \$ (3,531,817) | \$ 123,889 | \$ (3,660,758) | \$ 109 |
| | ===== | ===== | ===== | ===== |
| BASIC LOSS PER SHARE | \$ (0.37) | \$ 0.03 | \$ (0.54) | \$ |
| | ===== | ===== | ===== | ===== |
| WEIGHTED AVERAGE NUMBER OF SHARES OUTSTANDING | 9,524,750 | 3,574,636 | 6,784,643 | 2,909 |
| | ===== | ===== | ===== | ===== |

The accompanying notes are an integral part of these condensed consolidated financial statements.

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CONSUMERS FINANCIAL CORPORATION AND SUBSIDIARIES
Consolidated Statements of Stockholders' Equity (Deficit)

| | Common Stock | | Additional |
|--|--------------|-----------|--------------------|
| | Shares | Amount | Paid-In Capital |
| | ----- | ----- | ----- |
| Balance, December 31, 2000 | 2,578,188 | \$ 25,782 | \$ 6,722,4 |
| Change in unrealized appreciation of debt securities | -- | -- | |
| Preferred stock dividends | -- | -- | |
| Accretion of difference between carrying value and mandatory redemption value of preferred stock | -- | -- | |
| Retirement of treasury shares (common) | (1,407) | (14) | (|
| Retirement of treasury shares (preferred) | -- | -- | 22,6 |
| Net loss for the year ended Decem ber 31, 2001 | -- | -- | |
| | ----- | ----- | ----- |
| Balance, December 31, 2001 | 2,576,781 | 25,768 | 6,745,0 |
| Change in unrealized appreciation of debt securities | -- | -- | |
| Preferred stock dividends | -- | -- | |
| Accretion of difference between carrying value and mandatory redemption value of preferred stock | -- | -- | |

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| | | | |
|---|-----------|-----------|------------|
| Issuance of common stock | 2,700,000 | 27,000 | 81,0 |
| Retirement of treasury shares (preferred) | -- | -- | 2,112,8 |
| Net income for the year ended December 31, 2002 | -- | -- | |
| Balance, December 31, 2002 | 5,276,781 | \$ 52,768 | \$ 8,938,8 |

| | Deferred Compensation | Accumulated Other Comprehensive Income/Loss | Accumulate Deficit |
|--|--------------------------|--|-----------------------|
| | ----- | ----- | ----- |
| Balance, December 31, 2000 | \$ -- | \$ 27,163 | \$ (7,899,588) |
| Change in unrealized appreciation of debt securities | -- | 27,539 | -- |
| Preferred stock dividends | -- | -- | (385,572) |
| Accretion of difference between carrying value and mandatory redemption value of preferred stock | -- | -- | (18,654) |
| Retirement of treasury shares (common) | -- | -- | -- |
| Retirement of treasury shares (preferred) | -- | -- | -- |
| Net loss for the year ended Decem ber 31, 2001 | -- | -- | (600,827) |
| Balance, December 31, 2001 | -- | 54,702 | (8,904,641) |
| Change in unrealized appreciation of debt securities | -- | (54,702) | -- |
| Preferred stock dividends | -- | -- | (255,813) |
| Accretion of difference between carrying value and mandatory redemption value of preferred stock | -- | -- | (84,448) |
| Issuance of common stock | -- | -- | -- |
| Retirement of treasury shares (preferred) | -- | -- | -- |
| Net income for the year ended December 31, 2002 | -- | -- | 56,784 |
| Balance, December 31, 2002 | \$ -- | \$ -- | \$ (9,188,118) |

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The accompanying notes are an integral part of these condensed consolidated financial statements.

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CONSUMERS FINANCIAL CORPORATION AND SUBSIDIARIES
 Consolidated Statements of Stockholders' Equity (Deficit) (Continued)
 December 31, 2003, 2002 and 2001

| | Common Stock | | Additional Paid-In Capital |
|--|--------------|------------|----------------------------------|
| | Shares | Amount | |
| Balance, December 31, 2002 | 5,276,781 | \$ 52,768 | \$ 8,938,8 |
| Common stock issued for services rendered | 353,000 | 3,530 | 134,7 |
| Redemption of preferred stock | -- | -- | |
| Common stock issued for services rendered | 140,000 | 1,400 | 16,8 |
| Redemption of preferred stock | -- | -- | |
| Common shares issued for investments to related party | 1,227,273 | 12,273 | 257,7 |
| Common shares issued for services rendered by officers | 6,000,000 | 60,000 | 1,206,0 |
| Common shares issued as bonuses for officers | 3,913,042 | 39,130 | 841,3 |
| Common shares issued for services rendered | 92,000 | 920 | 22,0 |
| Redemption of preferred stock | -- | -- | |
| Common shares issued for services rendered | 10,635 | 106 | 2,3 |
| Accretion of difference between carrying value and mandatory redemption value of preferred stock | -- | -- | |
| Net loss for the nine months ended September 30, 2003 | | | |
| Balance, September 30, 2003 | 17,012,731 | \$ 170,127 | \$ 11,419,8 |

Accumulated
Other

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| | Deferred Compensation ----- | Comprehensive Income/Loss ----- | Accumula Defici ----- |
|---|-----------------------------------|---------------------------------------|-----------------------------|
| Balance, December 31, 2002 | \$ -- | \$ -- | \$ (9,188) |
| Common stock issued for services rendered | -- | -- | |
| Redemption of preferred stock | -- | -- | 18 |
| Common stock issued for services rendered | -- | -- | |
| Redemption of preferred stock | -- | -- | 5 |
| Common shares issued for investments to related party | -- | -- | |
| Common shares issued for services rendered by officers | -- | -- | |
| Common shares issued as bonuses for officers | -- | -- | |
| Common shares issued for services rendered | -- | -- | |
| Redemption of preferred stock | -- | -- | 25 |
| Common shares issued for services rendered | -- | -- | |
| Accretion of difference between carrying value and mandatory redemption value of preferred stock | -- | -- | (3) |
| Net loss for the nine months ended September 30, 2003 | | | (3,660) |
| Balance, September 30, 2003 | \$ -- ===== | \$ -- ===== | \$ (12,802) ===== |

The accompanying notes are an integral part of these condensed consolidated financial statements.

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CONSUMERS FINANCIAL CORPORATION AND SUBSIDIARIES
Condensed Consolidated Statements of Cash Flows
(Unaudited)

For the Nine
Months Ended
September 30,

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| | 2003 | 2002 |
|--|-------------------------------|------------|
| | (As restated - see Note 2) | |
| CASH FLOWS FROM OPERATING ACTIVITIES | | |
| Net income (loss) | \$ (3,660,758) | \$ 163, |
| Adjustments to reconcile net loss to net cash used by operating activities: | | |
| Common stock issued for services | 2,598,390 | |
| Depreciation and amortization | 889 | |
| Change in restricted cash | 29,823 | |
| Gain on sale of investments | -- | (56, |
| Gain on sale of insurance licenses | -- | (178, |
| Redemption of preferred stock | 50,345 | |
| Accretion of preferred stock | (3,596) | |
| Increase (decrease) in cash attributable to changes in assets and liabilities: | | |
| Change in other receivables | -- | 21, |
| Change in prepaid expenses | 17,120 | (13, |
| Change in other assets | 53,050 | |
| Change in employee severance liability | -- | (177, |
| Change in accounts payable and accrued expenses | 238,963 | |
| Increase in contingent and other liabilities | 555,676 | (69, |
| Other | -- | (53, |
| | ----- | ----- |
| Net Cash Used by Operating Activities | (120,098) | (364, |
| | ----- | ----- |
| CASH FLOWS FROM INVESTING ACTIVITIES | | |
| Loans to majority shareholder | -- | |
| Purchase of capital assets | (2,936) | |
| Cash deposited into preferred stock escrow account, net of withdrawal | -- | (331, |
| Proceeds from sale of investments | -- | 945, |
| Proceeds from sale of insurance licenses, net of selling expenses | -- | 73, |
| | ----- | ----- |
| Net Cash Provided by Investing Activities | (2,936) | 686, |
| | ----- | ----- |
| CASH FLOWS FROM FINANCING ACTIVITIES | | |
| Proceeds from note payable | 20,000 | |
| Proceeds from note payable - related | 28,006 | |
| Change in redeemable preferred stock | (64,820) | |
| Cash dividends to preferred shareholders | -- | (335, |
| Purchase of redeemable preferred stock | (18,070) | (1,660, |
| Proceeds from issuance of common stock | -- | 108, |
| | ----- | ----- |
| Net Cash Used In Financing Activities | (34,884) | (1,888, |
| | ----- | ----- |
| DECREASE IN CASH | \$ (157,918) | \$ (1,565, |
| CASH AT BEGINNING OF PERIOD | \$ 165,758 | \$ 1,802, |

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CASH AT END OF PERIOD \$ 7,840 \$ 236,
===== =====

The accompanying notes are an integral part of these condensed consolidated financial statements.

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CONSUMERS FINANCIAL CORPORATION AND SUBSIDIARIES
 Condensed Consolidated Statements of Cash Flows
 (Unaudited) (Continued)

| For the Nine Months Ended September 30, | |
|---|-------|
| 2003 | 2002 |
| ----- | ----- |
| (As restated - see Note 2) | |

SUPPLEMENTAL SCHEDULE OF CASH FLOW ACTIVITIES:

Cash Paid For:

| | | | | |
|--------------|----|----|----|----|
| Interest | \$ | -- | \$ | -- |
| Income taxes | \$ | -- | \$ | -- |

Schedule of Non-Cash Financing Activities:

| | | | | |
|----------------------------------|----|-----------|----|----|
| Common stock issued for services | \$ | 2,598,390 | \$ | -- |
|----------------------------------|----|-----------|----|----|

The accompanying notes are an integral part of these condensed consolidated financial statements.

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CONSUMERS FINANCIAL CORPORATION AND SUBSIDIARY
 Notes to the Consolidated Financial Statements
 September 30, 2003 and December 31, 2002

NOTE 1 - CONDENSED FINANCIAL STATEMENTS

The accompanying condensed consolidated financial statements have been prepared by the Company without audit. In the opinion of management, all adjustments (which include only normal recurring adjustments) necessary to present fairly the financial position, results of operations, and cash flows at September 30, 2003 and 2002, and for all periods presented herein, have been made.

Certain information and footnote disclosures normally included in financial statements prepared in accordance with accounting principles generally accepted in the United States of America have been condensed or omitted. It is suggested that these condensed financial statements be read in conjunction with the financial statements and notes thereto included in the Company's December 31, 2002 audited financial statements. The results of operations for the periods ended September 30, 2003 and 2002 are not

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necessarily indicative of the operating results for the full years.

NOTE 2 - GOING CONCERN

The accompanying consolidated financial statements have been prepared assuming that the Company will continue as a going concern. However, at September 30, 2003, the Company had a minimal cash balance of \$7,840, its current liabilities of \$896,947 exceeded its current assets by \$875,807, the Company had an accumulated deficit of \$12,802,127, and was delinquent in its payments on certain accounts payable. These matters raise substantial doubt about the Company's ability to continue as a going concern.

CFC Partners is currently pursuing various business opportunities for the Company, including strategic alliances, as well as the merger or combination of existing businesses within 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 sectors as well as the direct purchase of income-producing real estate. However, there is no assurance that the Company's efforts in this regard will be successful. In fact, given the Company's current cash position, without new revenues and/or immediate financing, the Company's efforts to develop the above-referenced businesses are not likely to succeed.

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 businesses are being developed. There are no assurances that such financing can be obtained or, if available, be obtained at terms acceptable to the Company. To the extent that such financing is equity-based, this may result in dilution to the existing shareholders.

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CONSUMERS FINANCIAL CORPORATION AND SUBSIDIARY
Notes to the Consolidated Financial Statements (Continued)
September 30, 2003 and December 31, 2002

NOTE 2 - GOING CONCERN (Continued)

The consolidated financial statements presented herein do not include any adjustments that might result from the outcome of this uncertainty.

NOTE 3 - SIGNIFICANT EVENTS

Common Stock

Stock Issuances to Consultants

On July 1, 2003, the Company filed a Registration Statement with the Securities and Exchange Commission to register an aggregate of 353,000 shares of its common stock issued by the Company to three consultants during April and June of 2003, pursuant to certain agreements entered into and between the Company and the prospective consultants. Each of these agreements terminated on December 31, 2003. In exchange for receipt of the shares of common stock, such consultants would provide various services to the Company, principally relating to the identification of suitable merger or acquisition partners for the Company. The cost of these services, as measured by the market value of the shares at time of issuance, was

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\$138,310.

On September 19, 2003, the Company filed a Registration Statement with the Securities and Exchange Commission to register 92,000 shares of its common stock issued by the Company to a consultant pursuant to a consultancy agreement entered into and between the Company and the consultant, Pinchus Gold on September 12, 2003. The agreement will terminate on December 31, 2003. In exchange for receipt of the shares of common stock, the consultant provided various services to the Company, principally relating to the identification of suitable merger or acquisition partners for the Company. The cost of these services, as measured by the market value of the shares at time of issuance, was \$21,000.

On November 7, 2003, the Company filed a Registration Statement with the Securities and Exchange Commission to register 140,000 shares of its common stock issued by the Company to a consultant pursuant to a consultancy agreement entered into and between the Company and the consultant on July 2, 2003. The agreement will terminate on December 31, 2003. In exchange for receipt of the shares of common stock, the consultant provided various services to the Company, principally relating to the identification of suitable merger or acquisition partners for the Company. The cost of these services, as measured by the market value of the shares at time of issuance, was approximately \$18,200.

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NOTE 3 - SIGNIFICANT EVENTS (Continued)

Common Stock

Stock Issuances to Officers

On September 1, 2003, the Company entered into employment agreements with each of Donald J. Hommel, President and Chief Executive Officer and Jack I. Ehrenhaus, Chairman and Chief Operating Officer of the Company, pursuant to which, each of the officers was issued 3,000,000 shares of the Company's common stock valued at an aggregate of \$1,266,000.

At the September 4, 2003 meeting of the Board of Directors, the Board approved bonuses for Donald J. Hommel, President and Chief Executive Officer and Jack I. Ehrenhaus, Chairman and Chief Operating Officer of the Company. Each of the individuals was issued 1,956,521 shares of common stock each valued at \$440,217.

Contingent Liability

In September the Company, through its subsidiary, had signed a five-year lease for a PET center in Suffolk County, New York. Subsequent to the consummation of the lease, the Company defaulted on its required payments, and in November 2003, the lease was formally terminated. The Company received a letter from the landlord dated November 11, 2003 claiming that the Company and the subsidiary are liable to the landlord for all costs and expenses incurred in connection with enforcing the lease provisions as well as liquidated damages provided for in the lease (the present value of the lease payments discounted at 6%). The total of these costs and liquidated damages was \$355,676. As of September 30, 2003, the Company had accrued this amount as a contingent liability.

Vaughn Partners, LLC

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In May 2003, Vaughn Partners LLC, an Illinois limited liability company ("Vaughn") in which the Company owns a 37.5 % interest, acquired a garden apartment style real estate project in Springfield, Illinois. Of the remaining interest in the LLC, 37.5% is owned by Spartan Properties ("Spartan") and 25% by other investors. Vaughn acquired this property for a purchase price of \$5,440,940, comprised of (i) a \$4,650,000 interest-only bank loan secured by a first mortgage lien on the property payable in two years at an annual interest rate of 7.25% and with monthly interest payments approximating \$28,100; (ii) a \$1,200,000 second mortgage on the property at an annual interest rate of 13% with principal amounts of \$500,000 due six months from the date of acquisition and \$700,000 due twelve months from the date of acquisition with monthly interest payments due on the

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NOTE 3 - SIGNIFICANT EVENTS (Continued)

Vaughn Partners, LLC (continued)

outstanding balance (iii) a \$100,000 interest-free loan made by a private investor that was due and payable on June 13, 2003 and which accrues interest at an annual rate of 18% beyond its due date and (iv) \$200,000 in cash contributed by third party investors to Vaughn. As a result of the default under the second mortgage, the second mortgagee has the right to, among other rights, sell the property, collect all rental income from the property and exclude Vaughn from the proceeds thereof. As a result of the default under the \$100,000 loan, Vaughn is liable for accrued interest from June 15, 2003 at an annual rate of 18% plus all costs and fees incurred by the lender in collecting amounts due under the note. The Company is in discussions with the lender regarding repayment of this loan. Vaughn also obtained a \$600,000 construction loan from the bank under similar terms as the mortgage, of which \$30,357 has not been used, for the purpose of completing certain renovation to the property.

Vaughn properties operated at a loss for the nine months ended September 30, 2003. Since the Company has no basis in the partnership, there is no adjustment to the valuation of the equity investment.

The Company is not directly or indirectly liable for any of the obligations of Vaughn, and its exposure is limited solely to its investment in Vaughn which is carried at zero in these consolidated financial statements. However, subsequent to September 30, 2003, Mr. Coby Hakalir, the Chief Executive Officer of Spartan, made certain claims indicating the Company was responsible for approximately \$200,000 in outstanding liabilities pertaining to the Vaughn partnership and its related properties. The Company has performed significant due diligence procedures in an attempt to substantiate Mr. Hakalir's claims, but has not obtained any evidence that supports the claims. Furthermore, Mr. Hakalir has not provided evidence to the Company to support his claims. However, in an attempt to portray the financial condition of the Company as accurately as possible, the Company has elected to record a reserve of \$200,000 to cover any liabilities arising from the Vaughn partnership.

NOTE 4 - SUBSEQUENT EVENTS

On October 31, 2003, the Company filed a Registration Statement with the Securities and Exchange Commission to register 330,000 shares of common stock issued on October 31, 2003 to a consultant, Pinchus Gold. The agreement is for services to be provided through January 31, 2004. In

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exchange for receipt of the shares of common stock, the consultant would provide various services to the Company, principally relating to the identification of suitable merger or acquisition partners for the Company. The cost of these services, as measured by

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NOTE 4 - SUBSEQUENT EVENTS (Continued)

the market value of the shares at time of issuance, was approximately \$82,500. On October 10, 2003 the Company sold 208,000 shares of its common stock to Wall Street Communications for \$26,000 or \$0.125 per share pursuant to a subscription agreement.

In November 2003, an investor executed a subscription agreement to purchase 1,000,000 shares of the Company's common stock for ten cents (\$0.10) per share. As of December 31, 2003, the investor has only paid \$20,000 toward the aggregate purchase price of \$100,000; no additional amounts have been received to date. This amount has been recorded as a current liability as the Private Placement has been cancelled.

During February 2004, the Company entered into a Memorandum of Understanding with a privately-held corporation located in Connecticut with the intent of a possible business combination either directly with the Company, through a controlled subsidiary of the Company or with a public shell available to the Company. The Company is in the preliminary investigative stages of its customary due diligence and this combination is subject to certain conditions precedent that are material to the transaction and whose outcome is subject to material uncertainty at the present time.

On March 19, 2004 the Company executed a loan agreement with Thomas Willemsen in the amount of \$50,000 for operating capital. This is an unsecured loan, due on June 19, 2004 as to both interest in the amount of \$5,000 and principal.

On March 22, 2004 the Company executed a loan agreement with Adar Ulster Realty in the amount of \$40,000 for operating capital. This is an unsecured loan due on May 22, 2004 as to both interest in the amount of \$1,200 and principal.

During October, 2003, the Company entered into a term sheet with Dutchess Private Equities Fund II LP, an equity funding group ("Dutchess") to provide the Company with a \$2,000,000 equity line of credit to be used for general corporate purposes. A formal agreement with Dutchess for this equity line was executed on April 15, 2004 and provides that the market price of the Company's stock for the five consecutive days prior to the put date can not be below 75% of the closing bid price for the ten trading days prior to the put date. The put date is the date that the Company submits notice to the investor that it desires to draw down a portion of the line. The purchase price for the shares to be paid to the investor is discounted to the lowest closing bid price of the stock during the five trading days immediately after a put date. The funds will be available to the Company upon an effective registration of the Company's stock issued pursuant to this agreement.

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NOTE 4 - SUBSEQUENT EVENTS (Continued)

On June 1, 2004 the Company issued 2,471,700 shares of its previously unissued common stock to both Donald Hommel and Jack Ehrenhaus as payment for executive services rendered under the terms of the officers' respective employment agreements (See note 17). In addition, the Company issued an aggregate of 1,437,368 to Mr. Hommel and Mr. Ehrenhaus, as bonus compensation per the terms of the aforementioned employment agreements. All shares issued on this date were valued at market value of \$0.05 per share, resulting in an aggregate compensation expense of \$319,038.

On July 23, 2004 the Company issued 8,000,000 shares of common stock to Cove Hill, Inc. as consideration for certain fund-raising services to be performed. The shares were valued at \$0.125 per share, for a total of \$1,000,000. The shares have been held in an escrow account since the date of issuance, pending the completion of certain due diligence measures and the Company completing certain filings with the Securities and Exchange Commission. On October 12, 2004 the Company issued an additional 6,000,000 shares to Cove Hill, Inc., which shares are also being held in escrow under the same provisions. The additional shares were issued at \$0.0714 per share, and the original 8,000,000 shares were revalued to \$0.0714 per share, thus maintaining the aggregate total of the shares at \$1,000,000. As of the date of this report, Cove Hill has not received the shares, and has not begun to perform the agreed upon fundraising services, as the due diligence provisions have not been fully satisfied.

In October 2004 the Company's Board of Directors resolved to terminate for cause the Company's President and Chief Executive Officer Donald J. Hommel. Mr. Jack Ehrenhaus was appointed by the Board to fill these executive offices.

NOTE 5 - RESTATEMENT OF FINANCIAL STATEMENTS

As a result of a reclassification of any equity investment and certain other adjustments for the three and nine months ended September 30, 2003, the Company is restating its Form 10-Q filing included in those periods.

The Company originally consolidated its 37.5% investment in Vaughn (See Note 3) based on the position that significant control was maintained over Vaughn. Subsequently it was determined that the Company did not in fact maintain significant control and therefore is recording this investment as an equity investment. In addition, other unrelated adjustments were discovered by the Company, leading to the following changes in financial statement data:

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NOTE 5 - RESTATEMENT OF FINANCIAL STATEMENTS (Continued)

Net loss and net loss per share for the three and nine months ended September 30, 2003 as previously reported with the first amendment to the 10-Q filed on May 24, 2004 was \$2,710,788 (\$0.29 per share) and \$2,930,406 (\$0.44 per share), respectively. The effect of the preceding adjustments was an increase in net loss and net loss per share. The restated net loss and net loss per share for the three and nine months ended September 30, 2003 is \$3,531,817 (\$0.37 per share) and \$3,660,758 (\$0.54 per share), respectively.

For the Nine
Months Ended

For the Nine
Months Ended

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| | September 30, 2003 ----- (As restated) | September 30, 2003 ----- (As originally Stated on May 24, 2004) | Difference ----- |
|--------------------|---|--|---------------------|
| TOTAL ASSETS | \$ 341,902 | \$ 343,861 | \$ (1,959) |
| TOTAL LIABILITIES | \$ 896,947 | \$ 166,419 | \$ (730,528) |
| NET LOSS | \$ (3,660,758) | \$ (2,930,406) | \$ (730,352) |
| NET LOSS PER SHARE | \$ (0.54) | \$ (0.44) | \$ 0.10 |

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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 September 30, 2003 and its results of operations for the nine and three month periods then ended is presented below. Information relating to the same periods in 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.

This Quarterly Report on Form 10-Q includes forward-looking statements which are subject to "safe harbors" created by the Private Securities Litigation Reform Act of 1995. We have based these forward-looking statements on our current expectations and projections about future events. These forward-looking statements can be identified by use of such terms and phrases as "may", "will", "intend", "goal", "estimate", "could", "expect", "project", "predict", "potential", "plans", "anticipate", "should", "continue", "might", "believe", "scheduled" or the negative of such terms or other comparable terminology. Readers are cautioned not to place undue reliance on these forward-looking statements which speak only as of the date the statement was made. These risks, uncertainties and other factors include those identified under "Risk Factors" in this Quarterly Report on Form 10-Q. In light of these risks, uncertainties and assumptions, the forward-looking events discussed in this Quarterly Report on Form 10-Q might not occur.

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, after the date of this Quarterly Report on Form 10-Q. In addition, we make no representation with respect to any materials available on the Internet including materials available on our website.

OVERVIEW

Consumers Financial Corporation (the "Company") was formed in 1966 as 20th Century Corporation (a Pennsylvania corporation) and adopted its present name in 1980. The Company was an insurance holding company which, until late 1997, was a leading provider, through its subsidiaries, of credit life and credit disability insurance in the states of Pennsylvania, Delaware, Maryland, Nebraska, Ohio and Virginia. In connection with its credit insurance operations, the Company also marketed, as an agent, an automobile extended service warranty product. The Company operated through various wholly-owned subsidiaries since it was formed;

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however, as of December 31, 2002, all of these subsidiaries have either been sold or liquidated and dissolved. From 1992 through 1997, the Company also sold all of its in-force insurance policies to various third party insurers.

On March 24, 1998, the Company's shareholders 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 if such alternatives were deemed by the Board to be in the best interest of the Company and its shareholders. It became apparent to the Board during 2001 that the common shareholders would not receive any distribution under the Plan of Liquidation, and the preferred shareholders would receive less than the full liquidation value of their shares. Consequently, the Board concluded that

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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 also 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 (the "Option Agreement") which permitted CFC Partners to acquire a 51.2% interest in the Company's common stock for \$108,000, or \$.04 per common share. The purchase price was deposited into an escrow account held by the Company in March 2002.

The option held by CFC Partners was exercisable within 15 business days following the completion by the Company of a tender offer to its preferred shareholders. The completion of the 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, and in August 2002, the Company purchased 377,288 shares of preferred stock at \$4.40 per preferred share plus accrued dividends, representing 83.4% of the then total shares outstanding, from those preferred shareholders who elected to tender their shares.

On August 28, 2002, CFC Partners exercised its option to acquire a majority of the outstanding common shares of the Company. Accordingly, on that date, the Board of Directors terminated the Plan of Liquidation and authorized the issuance of 2,700,000 shares of common stock to CFC Partners. In accordance with the Option Agreement with CFC Partners, the Company deposited the sum of \$331,434 into an escrow account, such amount representing the tender price of \$4.40 per preferred share multiplied by the 75,326 preferred shares not tendered at that time.

On May 8, 2003, Vaughn Partners LLC ("Vaughn"), an Illinois limited liability company in which the Company owns a 37.5% interest, acquired a garden-type apartment complex located in Springfield, Illinois for a purchase price of \$5,440,940. The purchase price was comprised of (i) a \$4,650,000 interest only bank loan secured by a first mortgage lien on the property payable in two years, (ii) a \$1,200,000 second mortgage on the property with principal amounts of \$500,000 due six months from acquisition and \$700,000 due twelve months from acquisition, (iii) a \$100,000 interest-free loan made by a private investor due in full on June 13, 2003 and which accrues interest at an annual rate of 18% beyond its due date, and (iv) \$200,000 in cash which was contributed by third party investors to Vaughn. Vaughn is currently in default on the second

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mortgage and on the \$100,000 private investor loan. As a result of the default under the second mortgage, the second mortgagee has the right to, among other rights, sell the property, collect all rental income from the property and exclude Vaughn from the proceeds thereof. As a result of the default under the \$100,000 loan, Vaughn is liable for accrued interest from June 15, 2003 at an annual rate of 18% plus all costs and fees incurred by the lender in collecting the amounts due under the note. The Company has no obligations under or guarantees of these notes and the Company's financial risk is limited to its investment in Vaughn, which is carried at zero value, with the exception of a reserve in the amount of \$200,000 which was created in order to absorb any liabilities arising from the Vaughn partnership.

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Effective as of October 31, 2003, the Company approved an amended operating agreement whereby Spartan would transfer to the Company 24.22% of its interest in Vaughn in consideration for issuance by the Company of 250,000 shares of common stock. This amended operating agreement memorializing this arrangement was not executed by members of Vaughn Partners holding 5% of the membership interests and the 250,000 shares of common stock were not issued. This amended operating agreement has therefore not and will not be ratified.

The 37.5% equity interest in Vaughn is being accounted for under the equity method in the Company's financial statements at September 30, 2003.

On January 29, 2004, the Company, pursuant to approval by shareholders at a special meeting held in August 2003, filed an amendment to its Articles of Incorporation increasing its authorized capital shares to 50 million; 40 million in common shares and 10 million in preferred shares.

RESULTS OF OPERATIONS

A discussion of the material factors which affected the Company's results of operations for the nine and three months ended September 30, 2003 and 2002 is presented below.

Nine Months Ended September 30, 2003 and 2002

For the nine months ended September 30, 2003, the Company reported a net loss of \$3,660,578 (\$0.54 per share) compared to net income of \$163,889 in the first nine months of 2002. In 2002, the Company's net income was the result of \$242,480 in net investment gains, as well as \$255,000 received in litigation settlements. These gains were partially offset by \$419,078 in general and administrative expenses..

For the nine months ended September 30, 2003, the Company had only nominal non-operating income during the period, so the current year net loss is primarily the result of expenses incurred while the Company is attempting to develop new businesses. During the first nine months of 2003, these costs consisted principally of salaries to two individuals, the expense of \$2,598,390 related to the issuance of common stock to consultants.

Three Months Ended September 30, 2003 and 2002

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The Company's net loss for the third quarter of 2003 was \$3,531,817 (\$0.37 per share). Since the Company only had nominal non-operating income during the quarter, the net loss is attributable to ongoing expenses incurred in connection with developing new business operations. During the quarter, the Company

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incurred \$2,596,390 of stock based compensation expenses in connection with the issuances of common stock for services rendered. The majority of these expenses relate to officer salaries and consulting fees.

For the three months ended September 30, 2002, the Company reported net income of \$123,889 (\$0.03 per share) as a result of the gains arising from the sale of Consumers Life. During the quarter, the Company incurred approximately \$33,500 in salaries and related benefits as well as professional and other fees of \$42,000.

FINANCIAL CONDITION

Capital Resources

Other than as described below, 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 nine months ended September 30, 2003, the Company's cash and cash equivalents decreased by \$157,918 to \$7,840 at the end of the period. 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. The Company currently has no ability to pay any additional expenses until it either develops new revenue sources or obtains financing.

Hudson Valley

On September 10, 2003, the Company entered into an agreement with Hudson Valley Home Builders & Developers Corp. pursuant to which Hudson would use its commercially reasonable efforts to introduce funding sources to provide the Company with financing to consummate real estate transactions. Hudson agreed to provide the Company with financing between \$2,000,000 and \$4,000,000 for 36 months from the date of the agreement. The Company agreed to use commercially reasonable efforts to consummate a maximum of 10 real estate transactions each 12-month period. Pursuant to the terms of the agreement, Hudson would notify the Company within 21 days of receipt of an executed contract on a real estate project that it would fund such project. The investors would have the right to designate a portion of their funding to be used to purchase shares of the Company at a premium above market.

Pursuant to the agreement, Hudson and its investors would be entitled to 60% of the equity of a deal, as well as a cash payment equal to 10% of the consideration received by the Company from Hudson and its investors. Upon financing a real estate deal the Company would issue to Hudson and its investors a warrant to purchase shares of the Company. The Company agreed to file a registration statement for the shares of Hudson and its investors within 24 months and granted them piggyback registration rights after 18 months.

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Either party has the right to terminate the agreement by written notice to the other. To date, no funds have been generated by Hudson.

Equity Credit Line

During October, 2003, the Company entered into a term sheet with Dutchess Private Equities Fund II LP, a equity funding group ("Dutchess") to provide the Company with a \$2,000,000 equity line of credit to be used for general corporate purposes. A formal agreement with Dutchess for this equity line was executed on

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April 15, 2004 and provides that the market price of the Company's stock for the five consecutive days prior to the put date can not be below 75% of the closing bid price for the 10 trading days prior to the put date. The put date is the date that the Company submits notice to the investor that it desires to draw down a portion of the line. The purchase price for the shares to be paid to the investor is discounted to the lowest closing bid price of the stock during the 5 trading days immediately after a put date. The funds will be available to the Company upon an effective registration of the Company's stock issued pursuant to this agreement.

Investment Banking Agreement

On October 27, 2003, the Company entered into an agreement with an investment banking firm to arrange financing for the Company's operations and expansion, provide financial advisory services on mergers and acquisitions, and represent the Company with regard to introductions to accredited investors, financial institutions, strategic partners, and potential clients. The investment banker is to receive a percentage based on the amount of equity or debt raised for the Company, as well as a retainer of \$3,750 plus 85,000 shares of common stock of the Company with demand and piggyback registration rights. In addition, the banker is entitled to warrants equal to 3% of the equity of the Company upon the successful completion of any financing or m&a transaction. The banker is also entitled to registration rights, tag along rights, a put option, anti-dilution protection and a right of first refusal. If the Company fails or refuses to close a transaction after funds have been placed in escrow or a commitment letter accepted and approved, the Company is liable for all direct and consequential damages incurred by the banker.

Liquidity

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 September 30, 2003, the Company had \$7,840 in cash. Furthermore, as of that date, the Company had no significant 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 management is initially focusing on joint ventures with or acquisitions of companies in the real estate, insurance agent, construction management and medical technology business segments. However, there is no assurance that the Company's efforts in this regard will be successful.

As indicated above, the Company currently has no ability to pay any additional expenses until it either develops new revenue sources or obtains financing. Without new revenues and/or immediate financing, management's efforts to develop the Company's real estate, insurance agent, construction management and medical technology businesses are not likely to succeed.

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Going concern and management plans

The accompanying consolidated financial statements have been prepared assuming that the Company will continue as a going concern. However, at September 30, 2003 the Company had a cash balances of only \$7,840, current liabilities of \$896,947 without any other current assets, a shareholders' deficiency of \$1,230,174 and was delinquent in its payment to its existing creditors. These matters raise substantial doubt about the Company's ability to continue as a going concern.

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CFC Partners is currently pursuing various business opportunities for the Company, including strategic alliances, as well as the merger or combination of existing businesses within 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 sectors as well as the direct purchase of income-producing real estate. However, there is no assurance that the Company's efforts in this regard will be successful. In fact, given the Company's current cash position, without new revenues and/or immediate financing, the Company's efforts to develop the above-referenced businesses are not likely to succeed.

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 businesses are being developed. There are no assurances that such financing can be obtained or, if available, be obtained at terms acceptable to the Company. To the extent that such financing is equity based, this may result in dilution to the existing shareholders.

The condensed consolidated financial statements presented herein do not include any adjustments that might result from the outcome of this uncertainty.

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 then 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, when and as appropriated by the Board out of funds legally available for that purpose, 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 escrow account for the benefit of the remaining preferred shareholders (see Note 6).

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The redeemable preferred stock is redeemable at the option of the Company at any time, as a whole or in part, for a redemption price of \$10 per share plus all unpaid accrued dividends.

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 January 1, April 1, July 1 and October 1 of each year. The dividends payable on January 1, 2004 and for all four quarters of 2003 have not been declared or paid by the Company. Dividends in arrears for the five quarters total \$74,205, \$60,783 of which relate to the four quarterly dividends for 2003. 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

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common stock are restricted. Since the Company is in default with respect to the payment of preferred dividends and the aggregate amount of the deficiency is equal to at least four quarterly dividends, the holders of the preferred stock are entitled, only while such arrearage exists, to elect two additional members to the then existing Board of Directors. . The preferred shareholders have not elected these two additional directors as of this date.

In the event of a liquidation of the Company, the holders of the preferred stock are entitled to receive \$10 per share plus all unpaid and accrued dividends prior to any distribution to be made to the holders of common stock.

The preferred stock is convertible at any time, unless previously redeemed, into shares of common stock at a rate of 1,482 shares of common stock for each share of preferred stock (equivalent to a conversion price of \$6.75 per share).

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 \$3,479 and \$9,627 in the first nine months of 2003 and 2002, respectively.

Item 3. Quantitative and Qualitative Disclosure About Market Risk

The Company believes it does not have any material exposure to interest rate risk as its cash equivalents are short-term in nature and its debt obligations are at fixed rates. The Company does not use derivative financial instruments to hedge interest rate exposure and did not experience a material impact from interest rate risk during fiscal 2003.

Currently, the Company does not have any significant investments in financial instruments for trading or other speculative purposes, or to manage its interest rate exposure and has no other material speculative or quantitative market risks particular to it.

Item 4. Controls and Procedures

Evaluation of Disclosure Controls and Procedures

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As of the end of the period covered by this report, the Company conducted an evaluation, under the supervision and with the participation of the principal executive officer and principal financial officer, of the Company's disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934 (the "Exchange Act")). Based on this evaluation, the principal executive officer and principal financial officer have concluded that the Company's disclosure controls and procedures are effective to ensure that information required to be disclosed by the Company in reports that it files or submits under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in Securities and Exchange Commission's rules and forms.

Changes in Internal Controls Over Financial Reporting

Internal controls over financial reporting consists of control processes designed to provide assurance regarding the reliability of financial reporting and preparation of our financial statements in accordance with accounting principles generally accepted in the United States of America. To the extent that components of our internal controls over financial reporting are included in our disclosure controls, they are included in the scope of the evaluation by our chief executive officer and chief financial officer referenced above. There

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have been no significant changes in the Company's internal controls over financial reporting during the Company's most recently completed fiscal quarter that have materially affected, or are reasonably likely to materially affect, the Company's internal controls over financial reporting.

In connection with the first amendment to the form 10-Q filed on January 31, 2004, our independent auditors did not report any matters involving internal controls that were considered to be a reportable condition or material weakness. In connection with the audit of our December 31, 2003 10-K which was filed with the Commission on December 14, 2003, our independent auditors have reported to our Board of Directors certain matters involving internal controls that our independent auditors considered to be reportable conditions and material weaknesses, under standards established by the American Institute of Certified Public Accountants. The reportable conditions and material weaknesses relate to the December 31, 2003 financial close process and absence of appropriate reviews and approvals of transactions and accounting entries. Certain adjustments were identified in the annual audit process, related to the recording of stock-based compensation, prepaid expenses, accrued expenses, preferred stock and accounting for an equity method investment. The adjustments related to these matters were made by the Company in connection with the preparation of the audited financial statements for the year ended December 31, 2003. It was subsequently determined that these reportable conditions and material weaknesses also existed as of September 30, 2003

Given these reportable conditions and material weaknesses, management devoted additional resources to resolving questions that arose during our year-end audit. As a result, we are confident that our financial statements for the year ended December 31, 2003 and this amended 10-Q for the nine months ended September 30, 2003, fairly present, in all material respects, our financial condition and results of operations.

PART II. OTHER INFORMATION

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Item 1. Legal Proceedings

The Company is currently in arbitration against its co-defendant, Life of the South, from a previously settled claim. Life of the South is seeking to recover from the Company its share of the settlement totaling \$17,500, unreimbursed fees of \$27,825 plus interest, attorney fees and cost of arbitration from the Company. The arbitration is in its initial stages and while the outcome can not be predicted, the Company believes the arbitration will be settled in favor of the Company.

In addition, the Company has been party to subsequent legal disputes, notably with respect to a Securities and Exchange Commission investigation that was settled in October 2004. This investigation was initiated with respect to the Company's dismissal of its certified auditor of record, Marcum & Kliegman, LLC. The Company received notification from the SEC Division of Enforcement on October 14, 2004 that a settlement offer was being submitted to the Commission. The terms of the proposed settlement would stipulate that the Company violated Section 13(a) of the Exchange Act and Rules 12b-20, 13a-1, and 13a-13 thereunder. Further, the Commission would not pursue any actions against Messrs. Ehrenhaus or Hommel. Through the date of this report, the Company has not received notification as to whether the Commission has accepted the terms of this proposed settlement.

Item 2. Changes in Securities and Use of Proceeds

During the three months ended September 30, 2003, there have been no

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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.

At a Board meeting September 4, 2003, the Board approved bonuses for Donald J. Hommel, President and Chief Executive Officer and Jack I. Ehrenhaus, Chairman and Chief Operating Officer, of the Company. Each of said individuals were issued 1,956,521 shares of common stock. These issuances were exempt from the registration requirements of the Securities Act of 1933, as amended.

On September 1, 2003, the Company entered into employment agreements with each of Donald J. Hommel, President and Chief Executive Officer and Jack I. Ehrenhaus, Chairman and Chief Operating Officer, of the Company pursuant to which, among other things, the Company issued 3,000,000 shares to each of said individuals. The issuances were pursuant to an exemption from the registration requirements of the Securities Act of 1933, as amended.

Item 3. Defaults upon Senior Securities

Dividends at an annual rate of \$.85 per share are cumulative from the date of original issue of the preferred stock. Dividends are payable quarterly on the first day of January, April, July and October. The dividends payable on January 1, April 1, July 1 and October 1, 2003 have not been declared or paid by the Company. In addition, the dividend payable at January 1, 2004 has also not been declared or paid by the Company. Dividends in arrears for the five quarters as of January 1, 2004 total \$74,205, \$60,783 of which relates to the four quarters of 2003.

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When the registrant is in arrears as to dividends or sinking fund appropriations for the preferred stock, dividends to holders of the registrant's common stock as well as purchases, redemptions or acquisitions by the registrant of shares of its common stock are restricted. Since the registrant 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 are 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

On August 7, 2003, the Company mailed an Information Statement to its shareholders in connection with a special meeting of shareholders to be held on August 27, 2003 (the Special Meeting). At the Special Meeting, the shareholders were 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 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 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. CFC Partners owns a majority of the Company's issued and outstanding shares of common stock and has voted to approve the proposal presented above. Although the meeting occurred and the three actions were approved by the shareholders, at this time the Company's management has only effected two out of three of such authorized actions. On January 27, 2004, an amendment to the Company's Articles of Incorporation was filed with the Pennsylvania Department of State Corporation Bureau which (i) increased the authorized share capital of the Company to 50 million shares, divided into 40 million shares of common stock and 10 million shares of preferred, and (ii) authorized the Company to take

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action upon the written consent of stockholders holding the minimum number of votes that would be necessary to authorize the action at a meeting at which all stockholders entitled to vote thereon were present and voting.

Item 5. Other Information

Effective as of October 31, 2003, the Company approved an amended operating agreement whereby Spartan would transfer to the Company 24.22% of its interest in Vaughn in consideration for issuance by the Company of 250,000 shares of common stock. This amended operating agreement memorializing this arrangement was not executed by members of Vaughn holding 5% of the membership interests and the 250,000 shares of common stock were not issued. This amended operating agreement has therefore not and will not be ratified.

The Company is not directly or indirectly liable for any of the obligations of Vaughn and its exposure is limited solely to its investment in Vaughn which is carried at zero in these consolidated financial statements. However, subsequent to September 30, 2003, Mr. Coby Hakalir, the Chief Executive Officer of Spartan, made certain claims indicating the Company was responsible for approximately \$200,000 in outstanding liabilities pertaining to the Vaughn partnership and its related properties. The Company has performed significant due diligence procedures in an attempt to substantiate Mr. Hakalir's claims, but has not obtained any evidence that supports the claims. Furthermore, Mr. Hakalir has not provided evidence to the Company to support his claims. However, in an attempt to portray the financial condition of the Company as accurately as possible, the Company has elected to record a reserve of \$200,000 to cover any liabilities arising from the Vaughn partnership.

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The 37.5% equity interest in Vaughn is being accounted for under the equity method in the Company's condensed consolidated financial statements at September 30, 2003.

On October 31, 2003, the Company filed a Registration Statement with the Securities and Exchange Commission to register 330,000 shares of common stock issued on October 31, 2003 to a consultant, Pinchus Gold. The agreement is for services to be provided through January 31, 2004. In exchange for receipt of the shares of common stock, the consultant would provide various services to the Company, principally relating to the identification of suitable merger or acquisition partners for the Company. The cost of these services, as measured by the market value of the shares at time of issuance, was approximately \$82,500.

On March 1, 2004, the Company entered into a one-year consulting agreement with Corporate Communications Group ("CCG") whereby CCG would provide business development and marketing services in exchange for 300,000 shares of the common stock of the Company. The value of these shares on March 1, 2004 was \$21,000.

On March 19, 2004 the Company executed a loan agreement with Thomas Willemsen in the amount of \$50,000 for operating capital. This is an unsecured loan, due on June 19, 2004 as to both interest in the amount of \$5,000 and principal.

On March 22, 2004 the Company executed a loan agreement with Adar Ulster Realty in the amount of \$40,000 for operating capital. This is an unsecured loan due on May 22, 2004 as to both interest in the amount of \$1,200 and principal.

On March 31, 2004, the Company issued 1,540,800 shares of common stock each to Mr. Ehrenhaus and Mr. Hommel that was accrued at December 31, 2003 for unpaid compensation.

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In November 2003, an investor executed a subscription agreement to purchase 1,000,000 shares of the Company's common stock for ten cents (\$0.10)per share. As of December 31, 2003, the investor has only paid \$20,000 toward the aggregate purchase price of \$100,000; no additional amounts have been received to date. This amount has been recorded as a current liability as the Private Placement has been cancelled.

Item 6. Exhibits and Reports on Form 8-K

(a) Exhibits:

- 4.1 Employment Agreement effective September 1, 2003, by and between Consumers Financial Corporation and Donald J. Hommel
- 4.2 Employment Agreement effective September 1, 2003, by and between Consumers Financial Corporation and Jack Ehrenhaus
- 4.3 Agreement dated October 27, 2003 between Consumers Financial Corporation and David Sassoon & Co. PLC

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- 4.4 Agreement dated as of September 10, 2003 by and between Hudson Valley Home Builders & Developers Corp. and Consumers Financial Corp.
31 Rule 13a-14(a)/15d-14(a) Certifications

- 31.1 Section 302 certification by Chief Executive Officer
- 31.2 Section 302 certification by Chief Financial Officer

32 Section 1350 Certifications

- 32.1 Section 906 certification by Chief Executive Officer
- 32.1 Section 906 certification by Chief Financial Officer

(b) Reports on Form 8-K

On September 25, 2003, the Company filed a Current Report on Form 8-K under Item 4 to announce the resignation of Stambaugh Ness, PC as the Company's independent accountants and the engagement of Marcum & Kliegman LLP engaged as the new principal independent accountants, commencing with the interim financial statement review for the third quarter ending September 30, 2003, and the audit for the year ending December 31, 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
Registrant

Date January 6, 2005 By /s/ Jack I. Ehrenhavs

Jack I. Ehrenhavs
President and Chief Executive Officer

Date January 6, 2005 By /s/ Jack I. Ehrenhavs

Jack I. Ehrenhavs
Chief Financial Officer

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