

CONSUMERS FINANCIAL CORP  
Form 10KSB  
March 23, 2007

=====

SECURITIES AND EXCHANGE COMMISSION  
WASHINGTON, D.C. 20549

-----

FORM 10-KSB

ANNUAL REPORT UNDER SECTION 13 OR 15(d)  
OF THE SECURITIES EXCHANGE ACT OF 1934

For the fiscal year ended: December 31, 2005

Commission File Number: 0-2616

-----

CONSUMERS FINANCIAL CORPORATION  
(Name of Small Business Issuer 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  
(Issuer's Telephone Number, including Area Code)

Securities registered under Section 12(b) of the Exchange Act:

None

Securities registered under Section 12(g) of the Exchange Act:

Common Stock, (\$0.001 par value; voting)

8.5 % Preferred Stock, Series A; (\$1.00 par value; non-voting)

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 a registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes  No

Check if disclosure of delinquent filers in response to Item 405 of Regulation S-B is not contained in this form, and no disclosure will be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-KSB or any amendment to this Form 10-KSB.

The Issuer's revenues for the most recent fiscal year ended December 31, 2005 were \$183,025. The aggregate market value of the voting and non-voting common equity held by non-affiliates of the registrant on March 22, 2007 based upon the average bid and ask price of the common stock on the OTC Bulletin Board for such date, was \$224,169. The number of shares of the Registrant's common stock issued and outstanding on March 22, 2007, was 54,675,311 (post-split).

# Edgar Filing: CONSUMERS FINANCIAL CORP - Form 10KSB

Transitional Small Business Disclosure Format. Yes |\_| No |x|

=====

## TABLE OF CONTENTS

### PART I

Item 1.	Description of Business	1
Item 2.	Description of Property	2
Item 3.	Legal Proceedings	3
Item 4.	Submission of Matters to a Vote of Security Holders	5

### PART II

Item 5.	Market for Common Equity and Related Stockholder Matters	5
Item 6.	Management's Discussion and Analysis or Plan of Operation	7
Item 7.	Financial Statements	F-1
Item 8.	Changes In and Disagreements With Accountants on Accounting and Financial Disclosure	13
Item 8A.	Controls and Procedures	14
Item 8B.	Other Information	15

### PART III

Item 9.	Directors, Executive Officers, Promoters and Control Persons; Compliance With Section 16(a) of the Exchange Act	15
Item 10.	Executive Compensation	16
Item 11.	Security Ownership of Certain Beneficial Owners and Management Related Stockholder Matters	19
Item 12.	Certain Relationships and Related Transactions	19
Item 13.	Exhibits	20
Item 14.	Principal Accountant Fees and Services	21

## CAUTIONARY STATEMENT

Some of the statements contained in this Form 10-KSB for Consumers Financial Corporation and Subsidiaries ("the Company") discuss future expectations, contain projections of results of operation or financial condition or state other "forward-looking" information. These statements are subject to known and unknown risks, uncertainties, and other factors that could cause the actual results to differ materially from those contemplated by the statements. The forward-looking information is based on various factors and is derived using numerous assumptions. Important factors that may cause actual results to differ from projections include, for example:

- o the success or failure of management's efforts to implement their business strategy;
- o the ability of the Company to raise sufficient capital to meet operating requirements;
- o the effect of changing economic conditions;
- o the ability of the Company to attract and retain quality employees;  
and

## Edgar Filing: CONSUMERS FINANCIAL CORP - Form 10KSB

- o other risks which may be described in future filings with the SEC.

Words such as "anticipates," "expects," "intends," "plans," "believes," "seeks," "estimates," and variations of such words and similar expressions are intended to identify such forward-looking statements. These statements are not guarantees of future performance and are subject to certain risks, uncertainties and assumptions that are difficult to predict. Therefore, actual results and outcomes may differ materially from what is expressed or forecasted in any such forward-looking statements. Such risks and uncertainties include those set forth herein under "Risk Factors" as well as those noted in the documents incorporated herein by reference. Unless required by law, the Company undertakes no obligation to update publicly any forward-looking statements, whether as a result of new information, future events or otherwise.

### PART I

#### ITEM 1. BUSINESS

##### GENERAL

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; 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 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

## Edgar Filing: CONSUMERS FINANCIAL CORP - Form 10KSB

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.

1

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 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.

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 December 31, 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.

On January 1, 2004, the Company re-entered the development stage, whereby the Company began to reformulate its business plan, and sought to accumulate the financing and strategic alliances necessary to implement its plan. As of December 31, 2004 Company remains in the development stage, as principal operations have not materially commenced. Currently, the Company is actively

## Edgar Filing: CONSUMERS FINANCIAL CORP - Form 10KSB

seeking out new business ventures and opportunities. The Company is seeking to expand its operations into the real estate, construction management, medical technologies and insurance industries, through an aggressive acquisition strategy.

2

In August 2005 the Company issued 4,000,000 shares of Series B preferred stock as consideration for the acquisition of G.S. Woodmere, Inc., a medical billing company. The Company is currently working with its G.S. Woodmere subsidiary to increase the efficiency and profitability of the medical billing operations.

### PLAN OF OPERATIONS

As discussed above, the Company intends to initially expand into the real estate, construction management, insurance agent and medical technology industries through a combination of strategic alliances, mergers or consolidations, or acquisitions.

With regard to the medical technology business, the Company plans to develop, own and operate positron emission tomography ("PET") imaging centers initially in the New York area and then in other regional locations. The Company has formed a 55% owned subsidiary, P.E.T Centers of America LLC, and through this subsidiary, has initiated some business arrangements, but none of significant consequence to date. In September the Company, through its subsidiary, had signed a lease for a PET center in Suffolk County, New York, but subsequently the lease 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 Company has received no further communications from the landlord in connection with its demand. The Company has accrued \$355,676 associated with this terminated lease.

During April, 2003, the Company entered into a Memorandum of Understanding with Mariculture Systems, Inc. ("Mariculture") whereby the Company would acquire 60% of the outstanding shares of Mariculture in exchange for the Company's management and financial expertise. Mariculture designs, builds and operates aquaculture farms used for raising certain species of fish for the consumer market. Although not aggressively pursued by either party to date, and still requiring appropriate due diligence review and board approvals, this memorandum has no expiration date and neither party has expressed an intent to terminate it.

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 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.

The Company intends to move forward with its due diligence in this transaction pursuant to this memorandum.

On February 28 2005 and amended on April 4, 2005, the Company entered into an Investment Exchange Agreement ("the Agreement") with Cross Capital Fund, LLC ("the Fund"). According to the terms of the Agreement, the Company made a

## Edgar Filing: CONSUMERS FINANCIAL CORP - Form 10KSB

capital contribution of 4,000,000 Series D convertible preferred shares to the Fund and the Company received from the Fund an Investor Membership Interest in the amount of \$4,000,000. In addition, the Company agreed to pay to the Fund a monthly maintenance fee of \$10,000.

3

### COMPETITION

Each of the industry segments in which the Company intends to operate is highly competitive. Many of the Company's potential competitors have significantly greater financial, technical, sales, marketing and other resources as well as greater name recognition and a larger customer base than the Company. While the Company believes it can successfully compete in selected niche markets in each of its intended industry segments, there is no assurance that the Company will be able to develop sufficient revenues and cash flows from these businesses to operate profitably and compete effectively with other companies.

### EMPLOYEES AND AGENTS

As of December 31, 2005, the Company had only one full-time employee, who also acts as the sole officer of the Company. Jack I. Ehrenhaus, the Company's President, chairman, and chief executive officer, currently receives cash or stock compensation from the Company in his capacity as officer and employee. Mr. Shalom Maidenbaum, who was the Company's Vice President, resigned as an officer and director of the Company during the 4th Quarter of 2003. Mr. Donald Hommell was terminated by a majority vote as officer and director of the Company in November, 2004.

The Company maintained insurance coverage against employee dishonesty, theft, forgery and alteration of checks and similar items until October 2003. Although the Company is in the process of obtaining new coverage, there can be no assurance that the Company will be able to obtain such coverage or that it will not experience uninsured losses.

### ITEM 2. PROPERTIES

The Company leased approximately 400 square feet of office space, on a month-to-month basis, at 1525 Cedar Cliff Drive, Camp Hill, Pennsylvania until October 31, 2003. The monthly rent for this space was \$400. The Company leases an additional 800 square feet of office space in Cedarhurst, New York under a lease that expired on December 31, 2003 and is now on a month-to-month basis. The monthly rent for this space is \$850 per month. Until December 31, 2002, the Company also leased approximately 1,100 square feet of warehouse space for the storage of its records. The monthly rent for this space was approximately \$650. The Company terminated this lease as of December 31, 2002 and effective January 1, 2003, entered into a month-to-month lease for approximately 550 square feet at a monthly rent of \$325. The Company's office and warehouse space are adequate for its current needs

### ITEM 3. LEGAL PROCEEDINGS

Life of the South

The Company was in arbitration against its co-defendant, Life of the South, from a previously settled claim. Life of the South was seeking to recover from the Company its share of the settlement totaling \$17,500, its unreimbursed fees of \$27,825 plus interest, attorney fees and cost of arbitration from the Company. During the year ended December 31, 2004 the case was decided in favor of the Company, and the Company was granted an award of \$18,952, and Life of the South's claim was denied in its entirety.

Securities and Exchange Commission Investigation

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.

Robert Half International

On July 25, 2005, Robert Half International ("RHI"), a professional staffing agency, filed a claim against the Company in which RHI seeks \$46,855 ("the award"), from the Company, being the purported value of services performed by RHI on behalf of the Company. The Company is currently in the process of attempting to negotiate a settlement with RHI for an amount less than the full award amount. If such negotiations are unsuccessful, the Company will ultimately be forced to pay to RHI the full award amount.

Gold Op Holdings

During the 2004 and 2005 calendar years, the Company issued an aggregate total of 6,400,000 post-split common shares ("the shares") to Gold Op Holdings, Inc. in exchange for a promissory note totaling \$1,000,000 ("the Note"). In July 2005, the Company had not received any payments on the Note, and elected to issue a demand letter for the return of the shares. The Company received not response to the demand letter. In July 2005, a summons and complaint was served on Gold Op Holdings, Inc., to enforce the note, and or return the shares. Through the date of this report the Company has received on response from Gold Op, and the Company intends to seed a summary judgment against Gold Op.

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

In October of 2003, Mr. Donald J. Hommel was dismissed with cause as President and Chief Executive Officer of the Company by a majority vote of the shareholders. Mr. Hommel was replaced in these positions by Mr. Jack I. Ehrenhaus in October, 2003.

PART II

ITEM 5. MARKET FOR REGISTRANT'S COMMON EQUITY AND RELATED STOCKHOLDER MATTERS

Consumers Financial Corporation common stock was traded on the NASDAQ National Market System with a ticker symbol of CFIN until June 1, 1998 when it was de-listed by NASDAQ for non-compliance with NASDAQ's market value of public float requirements. The Company's Convertible Preferred Stock, Series A, was also traded on the NASDAQ National Market System until March 16, 1998, when it was also delisted by NASDAQ for non-compliance with the public float requirement of a minimum of 750,000 shares. Since the shareholders of the Company approved the Plan of Liquidation on March 24, 1998, the Company did not appeal the delisting decision for either the common or preferred stock, nor did it take any steps to come into compliance with the new rules or attempt to seek inclusion on

## Edgar Filing: CONSUMERS FINANCIAL CORP - Form 10KSB

the NASDAQ Small Cap Market. The Company is currently delisted to the Pink Sheets as a result of its untimely filing of its 3rd Quarter Report on Form 10-QSB.

5

Quarterly high and low bid prices for the Company's common stock, based on information provided by The National Association of Securities Dealers ("NASD") through the NASD OTC Bulletin Board, are presented below. Such prices do not reflect prices in actual transactions and exclude retail mark-ups and mark-downs and broker commissions.

	1st Quarter 2005 -----	2nd Quarter 2005 -----	3rd Quarter 2005 -----	4th Quarter 2005 -----	1st Quarter 2004 -----	2nd Quarter 2004 -----	3rd Quarter 2004 -----	4th Quarter 2004 -----
Common Stock								
High	0.55	0.45	0.50	0.40	1.10	0.80	1.30	1.10
Low	0.10	0.10	0.05	0.05	0.50	0.30	0.50	0.20

As of December 31, 2005, there were approximately 6,446 shareholders of record who collectively held 3,793,159 common shares and 18 shareholders of record of the Convertible Preferred Stock, Series A, who held 72,226 shares. In addition, there were approximately two shareholders of record who collectively held 4,000,000 shares of Series D preferred stock. The number of shareholders presented above excludes individual participants in securities positions listings.

Dividends on both the Company's common stock and Convertible Preferred Stock Series A are declared by the Board of Directors. No common stock dividends have been paid since 1994. 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 Pennsylvania Business Corporation Law 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. Dividends on the preferred stock are paid quarterly on the first day of January, April, July and October at an annual rate of \$.85 per share. The dividends payable, collectively totaling \$58,198, due on January 1, April 1, July 1 and October 1, 2003 have not been declared or paid by the Company. In addition, the dividends payable on January 1, April 1, July 1 and October 1, 2005 also has not been declared or paid by the Company. The aggregate dividends in arrears for all quarters equals \$74,205. 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 its 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 arrears 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.

6



## Edgar Filing: CONSUMERS FINANCIAL CORP - Form 10KSB

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 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 \$3,453 and \$4,134 for the years ended December 31, 2005 and 2004, respectively.

### ITEM 6. MANAGEMENT'S DISCUSSION AND ANALYSIS

The following table summarizes certain information contained in or derived from the Consolidated Financial Statements and the Notes thereto.

	Years Ended December 31,				
	2005	2004	2003	2002	2001
Selling, general and administrative expenses	\$ 4,717,845	\$ 1,241,271	\$ 3,212,949	\$ 527,805	\$ 800,000
Other income (loss)	(25,670)	22,550	16,813	584,589	2,000
Income (Loss) before income taxes	(4,560,490)	(1,218,721)	(3,196,136)	56,784	(6,000)
Income taxes	--	--	--	--	--
Net Income (Loss)	(4,560,490)	(1,218,721)	(3,196,136)	56,784	(6,000)
Other comprehensive income (loss)	--	--	--	(54,702)	--
Comprehensive income (loss)	\$ (4,560,490)	\$ (1,218,721)	\$ (3,196,136)	\$ 2,082	\$ (5,000)
Per share data (a):					
Basic and diluted loss per common share	\$ (0.17)	\$ (0.47)	\$ (3.38)	\$ (0.80)	\$ (0.80)
Weighted average number of common shares outstanding	27,335,373	2,575,076	946,372	350,124	2,000
Total assets	\$ 39,912	\$ 64,838	\$ 348,616	\$ 597,766	\$ 2,000
Redeemable preferred stock	682,033	678,582	675,129	739,949	4,400
Shareholders' deficiency	(1,494,262)	(1,309,656)	(1,295,819)	(196,485)	(2,000)
Cash dividends declared per common share	NONE	NONE	NONE	NONE	NONE

7

(a) The per share data presented above has not been adjusted to reflect the effect of a one-for-ten reverse common stock split approved by the Company's common shareholders on March 15, 2003 but has yet to be effected by the Company. See Note 11 of the Notes to Consolidated Financial Statements appearing elsewhere in this Form 10-K.

### OVERVIEW

At the Special Meeting of Shareholders held on March 24, 1998, the Company's preferred and common shareholders approved the sale of the Company's credit insurance and related products business, which comprised the Company's only remaining business operation. In connection with the sale of its inforce credit insurance business, the Company also sold its credit insurance customer accounts and one of its life insurance subsidiaries.

On August 28, 2002, the Board of Directors appointed Donald J. Hommel, the president of CFC Partners as a Director of the Company to fill an existing vacancy on the Board. Following such appointment, the Company's officers resigned as planned and the Board elected Mr. Hommel as the Company's President

## Edgar Filing: CONSUMERS FINANCIAL CORP - Form 10KSB

and Chief Executive Officer. In addition, James C. Robertson and John E. Groninger, who had been Directors of the Company for more than 30 years, also resigned as planned.

On October 17, 2002, the Board of Directors appointed Shalom S. Maidenbaum, Esq., as a Director of the Company to fill an existing vacancy on the Board. In addition, the Directors elected Mr. Hommel as the Company's Treasurer and Mr. Maidenbaum as the Company's Vice President and Secretary. On March 13, 2003, the Board of Directors appointed William T. Konczynin as an additional Director to fill an existing vacancy and Chairman of the Audit Committee. Jack I. Ehrenhaus was appointed as Chairman of the Board in April 2003 and has served as the Company's Chief Operating Officer effective January 1, 2003

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

At December 31, 2004, Vaughn operated a garden-type apartment complex in Springfield, Illinois as its sole operation. The Company intends to acquire additional real estate operations exclusive of Vaughn and to establish majority-owned operating subsidiaries to accommodate these acquisitions in the future.

At December 31, 2004 the Company had no business operations and its revenue and expenses during the previous five years have been non-operating in nature.

8

At December 31, 2004 the Company's shareholders' deficiency totaled \$1,925,819, as compared with a shareholders' deficiency of \$1,295,819 at December 31, 2003.

For the year ended December 31, 2004 the Company's net loss was \$1,278,616 as compared with a net loss of \$3,752,404 for the year ended December 31, 2003.

Dividends to preferred shareholders totaled \$-0- and \$-0- in 2004 and 2003, respectively.

### RESULTS OF OPERATIONS

#### YEAR ENDED DECEMBER 31, 2005

For the year ended December 31, 2005, the Company reported a net loss of \$4,560,490 as compared with a loss of \$1,218,721 for 2004. In 2005, the Company incurred an expense of \$1,500,000 pertaining to a loss on the Company's stock subscription receivable, \$1,994,000 impairment loss pertaining to the Company's investment in G.S. Woodmere, \$505,188 in officer compensation and other consulting expenses paid for by the issuance of shares of common stock, and approximately \$717,367 in additional selling, general and administrative expenses against a nominal amount of non-operating income. During the same period in 2004, the Company reported a net loss of \$1,218,721 primarily as a

## Edgar Filing: CONSUMERS FINANCIAL CORP - Form 10KSB

result of \$457,938 in salaries and wages, and \$535,320 in other general and administrative expenses.

### FINANCIAL CONDITION

#### CAPITAL RESOURCES

Other than as described below, the Company currently has no material 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.

During the year ended December 31, 2005, the Company's cash and cash equivalents decreased by \$13,034 to \$1,973, principally due to the general and administrative expenses incurred during the year, partially offset by cash receipts of \$100,000 from notes payable. The Company has no ability to pay any additional expenses until it either develops new revenue sources or obtains financing.

#### 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 December 31, 2003, the Company had a bank overdraft of \$7,242. Furthermore, as of that date, the Company had no significant business operations, sources of operating revenues and cash flows. From that time the only significant sources of capital for the Company were through debt and equity financing. The Company is currently pursuing various business opportunities, including strategic alliances as well as the merger or combination of existing businesses with the Company, in order to develop revenue streams and increase positive cash flow. The Company's management is initially focusing on joint ventures with, or acquisitions of, companies in the real estate, construction management and medical technology segments. However, there are no assurances that the Company's effort in this regard will be successful.

9

As indicated above, the Company currently has no ability to pay any significant 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, construction and medical technology businesses are not likely to succeed.

During the year ended December 31, 2005, the Company's operating activities used \$88,382 in cash, as compared to \$81,924 in the 2004 calendar year. The Company had cash on hand totaling \$1,973 at December 31, 2005.

#### 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 December 31, 2005 the Company had current assets of \$15,274, current liabilities of \$852,141, a shareholders' deficit of \$1,494,262 and was delinquent in its payment to several of its existing creditors. These matters raise substantial doubt about the Company's ability to continue as a going concern.

The Company is currently pursuing various business opportunities for the Company, including strategic alliances, as well as

## Edgar Filing: CONSUMERS FINANCIAL CORP - Form 10KSB

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. Furthermore, the Company has finalized an Investment Exchange Agreement with Cross Capital Fund, which management anticipates will be the source of future capital inflows in the form of dividends. 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 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 representing 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 of the Option Agreement 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.

10

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.

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

## Edgar Filing: CONSUMERS FINANCIAL CORP - Form 10KSB

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 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 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 \$3,011 and \$3,453 for the years ended December 31, 2005 and 2004, respectively.

11

### CRITICAL ACCOUNTING POLICIES

The Company prepares its consolidated financial statements in conformity with accounting principles generally accepted in the United States of America. The preparation of these financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

In December 2001, the Securities and Exchange Commission ("SEC") requested that all registrants list their critical accounting policies in Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations of their Form 10-K. The SEC defined a critical accounting policy as one that is important to the portrayal of the company's financial condition and results of operations and requires management's subjective or complex judgments. Accordingly, the Company has described its critical accounting policies below:

#### DEFERRED TAX VALUATION ALLOWANCE

Periodically, management reviews the adequacy of its deferred tax valuation allowance. This review entails estimating: the Company's future taxable income through fiscal 2005. A reduction in the valuation allowance can result in a decrease in the Company's income tax expense. Conversely, an increase in the valuation allowance can lead the Company to report its income tax at a higher rate. Since future results may differ materially from those estimates, the Company's estimate of the amount of deferred tax assets that will be ultimately realized could differ materially.

### CONTRACTUAL OBLIGATIONS

The Company has no long-term contractual obligations or guarantees.

## Edgar Filing: CONSUMERS FINANCIAL CORP - Form 10KSB

All leases are on a month-to-month basis and the Company has not entered into any off balance sheet transactions. The Company's exposure as a 47.5% partner of Vaughn is limited to the loss of its investment in Vaughn, which is carried at zero. The Company is not liable, directly or indirectly, for any of the obligations of Vaughn. All of the obligations of the Company are unsecured.

12

### ITEM 7. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

	Page
	----
Report of Independent Registered Accounting Firm	F-2
Report of Independent Accountants	F-3
Consolidated Balance Sheet as of December 31, 2005	F-4
Consolidated Statements of Operations for the years ended December 31, 2005 and 2004, and from inception of the development stage on January 1, 2003 through December 31, 2005	F-5
Consolidated Statements of Shareholders' Deficiency for the years ended December 31, 2005 and 2004	F-6
Consolidated Statements of Cash Flows for the the years ended December 31, 2005 and 2004, and from inception of the development stage on January 1, 2003 through December 31, 2005	F-7
Notes to Consolidated Financial Statements	F-11

F-1

#### REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Shareholders and the Board of Directors  
Consumers Financial Corporation and Subsidiaries  
(A Development Stage Company)  
Cedarhurst, New York

F-2

[Insert audit report here]

F-3

#### CONSUMERS FINANCIAL CORPORATION AND SUBSIDIARIES Consolidated Balance Sheet

December 31,  
2005

-----

ASSETS

## Edgar Filing: CONSUMERS FINANCIAL CORP - Form 10KSB

CURRENT ASSETS	
Cash	\$ 1,973
Prepaid expenses, current portion	13,301
	-----
Total Current Assets	15,274
	-----
FIXED ASSETS, NET (Note 5)	1,356
	-----
OTHER ASSETS	
Prepaid expenses, non-current portion	23,282
	-----
Total Other Assets	23,282
	-----
TOTAL ASSETS	\$ 39,912
	=====
LIABILITIES AND STOCKHOLDERS' EQUITY (DEFICIT)	
CURRENT LIABILITIES	
Accounts payable and accrued expenses	\$ 614,789
Notes payable (Note 16)	210,000
Notes payable - related parties (Note 17)	27,352
	-----
Total Current Liabilities	852,141
	-----
REDEEMABLE PREFERRED STOCK	
Preferred stock, 10,000,000 shares authorized, 68,376 shares issued and outstanding	682,033
	-----
STOCKHOLDERS' EQUITY (DEFICIT)	
Preferred stock, Class D; 4,000,000 shares authorized at \$0.01 par value; 4,000,000 and -0- shares issued and outstanding	40,000
Common stock, \$0.01 par value, 40,000,000 shares authorized, 54,675,311 shares issued and outstanding	546,753
Additional paid-in capital	18,303,203
Treasury stock, preferred	(18,070)
Stock receivable	(2,242,969)
Deficit accumulated prior to the development stage	(9,188,118)
Deficit accumulated during the development stage	(8,935,061)
	-----
Total Stockholders' Equity (Deficit)	(1,494,262)
	-----
TOTAL LIABILITIES, REDEEMABLE PREFERRED STOCK AND STOCKHOLDERS' EQUITY (DEFICIT)	\$ 39,912
	=====

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

F-4

CONSUMERS FINANCIAL CORPORATION AND SUBSIDIARIES  
Consolidated Statements of Operations

From Inception  
of the  
Development  
Stage  
On January 1,

Edgar Filing: CONSUMERS FINANCIAL CORP - Form 10KSB

	For the years ended December 31,		2003, Through
	2005	2004	December 31, 2005
REVENUES	\$ 183,025	\$ --	\$ 183,025
EXPENSES			
General and administrative	717,367	535,320	1,846,143
Bad debt expense	--	84,375	111,875
Impairment of goodwill	1,994,000	--	1,994,000
Salaries and wages	505,188	457,938	3,516,524
Depreciation	1,290	982	3,171
Stock subscription bad debt	1,500,000	162,656	1,662,656
Total Expenses	4,717,845	1,241,271	9,134,369
LOSS FROM OPERATIONS	(4,534,820)	(1,241,271)	(8,951,344)
OTHER INCOME (EXPENSES)			
Interest income	--	1,848	4,309
Interest expense	(25,670)	(17,808)	(49,126)
Gain on extinguishment of debt	--	36,023	56,023
Other income	--	2,487	2,487
Total Other Income (Expenses)	(25,670)	22,550	13,693
Net Loss	\$ (4,560,490)	\$ (1,218,721)	(8,937,651)
PER SHARE DATA:			
Basic loss per common share (Note 12)	\$ (0.17)	\$ (0.47)	
Weighted average number of common shares outstanding	27,335,373	2,575,076	

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

F-5

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

	Common Stock		Preferred Stock		Additional Paid-In Capital	Treasury Stock, Preferred	
	Shares	Amount	Shares	Amount		Shares	Amount
Balance at inception of the development stage on January 1, 2003	527,678	\$ 5,277	--	\$--	\$ 8,986,356	--	\$ --
Common stock issued for services rendered	35,300	353	--	--	137,957	--	--
Redemption of preferred stock	--	--	--	--	--	(2,600)	(6,760)
Common stock issued for							



Edgar Filing: CONSUMERS FINANCIAL CORP - Form 10KSB

services rendered	14,000	140	--	--	18,060	--	--
Redemption of preferred stock	--	--	--	--	--	(785)	(2,041)
Common shares issued for investments to related party	122,727	1,227	--	--	268,773	--	--
Common shares issued for services rendered by officers	600,000	6,000	--	--	1,260,000	--	--
Common shares issued as bonuses for officers	391,304	3,913	--	--	876,521	--	--
Common shares issued for services rendered	9,200	92	--	--	22,908	--	--
Redemption of preferred stock	--	--	--	--	--	(3,565)	(9,269)
Common shares issued for cash	20,800	208	--	--	25,792	--	--
Common shares issued for services rendered	33,000	330	--	--	85,470	--	--
Common shares issued for services rendered	1,064	11	--	--	2,435	--	--
Accretion of difference between carrying value and mandatory redemption value of preferred stock	--	--	--	--	--	--	--
Net loss for the year ended December 31, 2003	--	--	--	--	--	--	--
Balance, December 31, 2003	1,755,073	\$17,551	--	--	\$11,684,272	(6,950)	\$(18,070)

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

F-6

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

	Common Stock		Preferred Stock		Additional Paid-In Capital	Treasury Stock, Preferred		D
	Shares	Amount	Shares	Amount		Shares	Amount	
Balance, December 31, 2003	1,755,073	\$17,551	--	\$--	\$11,684,272	(6,950)	\$(18,070)	\$
Common shares issued to officers for accrued salary	638,076	6,381	--	--	312,857	--	--	
Common shares issued for subscription receivable	800,000	8,000	--	--	992,000	--	--	
Decrease in subscription receivable due to decrease in market value of shares	--	--	--	--	(428,571)	--	--	
Common shares issued as additional consideration on subscription								

Edgar Filing: CONSUMERS FINANCIAL CORP - Form 10KSB

receivable	600,000	6,000	--	--	422,571	--	--
Decrease in subscription receivable due to decrease in market value of shares	--	--	--	--	(510,000)	--	--
Impairment of subscription receivable based upon uncertainty of collection	--	--	--	--	--	--	--
Accretion of difference between carrying value and mandatory redempton value of preferred stock	--	--	--	--	--	--	--
Net loss for the year ended December 31, 2004	--	--	--	--	--	--	--
	-----	-----	---	---	-----	-----	-----
Balance, December 31, 2004	3,793,149	37,932	--	--	12,473,129	(6,950)	(18,070)
Common shares issued as additional consideration on subscriptions receivable at \$0.30 per share	5,000,000	50,000	--	--	1,450,000	--	--
Impairment of subscription receivable due to decrease in market value of shares	--	--	--	--	--	--	--
	-----	-----	---	---	-----	-----	-----
Balance forward	8,793,149	\$87,932	--	--	\$13,923,129	(6,950)	\$(18,070)
	-----	-----	---	---	-----	-----	-----

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

F-7

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

	Common Stock		Preferred Stock		Additional Paid-In Capital	Treasury Stock, Preferred	
	Shares	Amount	Shares	Amount		Shares	Amount
	-----	-----	-----	-----	-----	-----	-----
Balance forward	8,793,149	\$ 87,932	--	\$ --	\$13,923,129	(6,950)	\$(18,070)
Common shares cancelled	(500,000)	(5,000)	--	--	5,000	--	--
Common shares issued for services rendered	481,621	4,816	--	--	139,670	--	--
Common shares issued to Company officer as payment on accrued wages	45,900,541	459,005	--	--	275,404	--	--
Preferred shares issued in acquisition of investment	--	--	4,000,000	40,000	3,960,000	--	--
Accretion of							

Edgar Filing: CONSUMERS FINANCIAL CORP - Form 10KSB

difference between carrying value and mandatory redemption value of preferred stock	--	--	--	--	--	--	--
Net loss for the year ended December 31, 2006	--	--	--	--	--	--	--
Balance, December 31, 2004	54,675,311	\$546,753	4,000,000	40,000	\$18,303,203	(6,950)	\$(18,070)

Deficit accumulated prior to the development stage	\$ (9,188,118)
Deficit accumulated during the development stage	(8,935,061)
Total accumulated deficit	\$ (18,123,179)

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

F-8

CONSUMERS FINANCIAL CORPORATION AND SUBSIDIARIES  
Consolidated Statements of Cash Flows

	For the years ended December 31,		
	2005	2004	
CASH FLOWS FROM OPERATING ACTIVITIES			
Net loss	\$ (4,560,490)	\$ (1,218,721)	\$ (8,000,000)
Adjustments to reconcile net loss to net cash used by operating activities:			
Common stock issued for services	144,486	319,037	3,000,000
Depreciation	1,290	982	1,000,000
Impairment of goodwill	1,994,000	--	1,000,000
Bad debt expense	1,500,000	247,031	1,000,000
Change in operating assets and liabilities:			
Change in prepaid expenses	12,183	13,302	1,000,000
Change in restricted cash	--	284,401	1,000,000
Change in other assets	--	--	1,000,000
Change in deferred compensation	--	85,800	1,000,000
Change in accounts payable and accrued expenses	820,149	186,244	1,000,000
Net Cash Used in Operating Activities	(88,382)	(81,924)	
CASH FLOWS FROM INVESTING			

Edgar Filing: CONSUMERS FINANCIAL CORP - Form 10KSB

ACTIVITIES			
Purchase of fixed assets	(1,581)	--	
Net Cash Used In Operating Activities	(1,581)	--	
CASH FLOWS FROM FINANCING ACTIVITIES			
Purchase of redeemable preferred stock	--	--	
Change in bank overdraft	--	(4,786)	
Proceeds from notes payable	100,000	95,000	
Payments on notes payable	--	(5,000)	
Proceeds from notes payable - related	9,929	64,123	
Payments on notes payable - related	(33,000)	(52,506)	
Common stock issued for cash	--	--	
Net Cash Provided By Financing Activities	76,929	96,831	
INCREASE (DECREASE) IN CASH	\$ (13,034)	\$ 14,907	\$
CASH AT BEGINNING OF PERIOD	\$ 15,007	\$ 100	\$
CASH AT END OF YEAR	\$ 1,973	\$ 15,007	\$

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

F-9

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

	For the years ended December 31,		
	2005	2004	
SUPPLEMENTAL SCHEDULE OF CASH FLOW ACTIVITIES:			
Cash Paid For:			
Income taxes	\$ --	\$ --	\$
Interest	\$ --	\$ --	\$
Schedule of Non-Cash Financing Activities:			
Common stock issued for services	\$144,486	\$319,037	\$
Common stock issued for deferred compensation	\$ --	\$ --	\$

## Edgar Filing: CONSUMERS FINANCIAL CORP - Form 10KSB

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

F-10

### CONSUMERS FINANCIAL CORPORATION, INC. AND SUBSIDIARIES Notes to the Consolidated Financial Statements December 31, 2005

#### NOTE 1 - OVERVIEW, GOING CONCERN, AND MANagements' PLANS

##### Business Overview

From 1998 through February 2002, the Company had no significant business operations, and its activity consisted principally of investment income on its remaining assets and other administrative expenses. In March 1998, the Company's shareholders approved a Plan of Liquidation and Dissolution (the "Plan of Liquidation") pursuant to which the Company began liquidating its remaining assets and paying-down or providing for all of its liabilities. However, in February 2002, the Company entered into an option agreement with CFC Partners, Ltd., a New York investor group ("CFC Partners"), pursuant to which CFC Partners obtained a majority interest in the Company's common stock. In August 2002 (See Note 3), the option was exercised and 270,000 new common shares (post-split), representing approximately 51.2% of the then total outstanding shares of common stock, were issued by the Company to CFC Partners. As a result of the acquisition of the Company, the Plan of Liquidation was discontinued. Immediately prior to the transaction with CFC Partners, the Company disbursed a substantial portion of its remaining assets to its preferred shareholders in connection with a tender offer to those shareholders.

From the time of its acquisition by CFC Partners through December 31, 2005, the Company has been actively seeking out new business ventures and opportunities. The Company is currently seeking to expand its operations into the real estate, construction management, medical technologies and insurance industries, through an aggressive acquisition strategy.

##### Going Concern and Managements' Plans

The accompanying consolidated financial statements have been prepared assuming that the Company will continue as a going concern. However, at December 31, 2005, the Company's current liabilities of \$852,141 exceeded its current assets by \$836,867. Additionally, the Company had an accumulated deficit of \$18,123,179 and was delinquent in its payments on certain accounts payable and other liabilities. These matters raise substantial doubt about the Company's ability to continue as a going concern.

The Company is currently pursuing various business opportunities and strategic alliances, in addition to seeking out operating entities with the intent to merge with or acquire these entities. Currently, the Company is focusing on joint ventures with or acquisitions of companies in the medical technology and real estate industries. 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

## Edgar Filing: CONSUMERS FINANCIAL CORP - Form 10KSB

terms acceptable to the Company. To the extent that such financing is equity-based, this may result in dilution to the existing shareholders.

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

F-11

### CONSUMERS FINANCIAL CORPORATION, INC. AND SUBSIDIARIES Notes to the Consolidated Financial Statements December 31, 2005

#### NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

##### Principles of Consolidation

The consolidated financial statements include the accounts of Consumers Financial Corporation and its former wholly-owned subsidiary, Consumers Life Insurance Company ("Consumers Life") until June 19, 2002 when Consumers Life was sold. The consolidated financial statements include the Company's wholly-owned subsidiary, Consumers Management Group, and its 55% owned subsidiary, P.E.T. Centers of America, LLC. Neither of these subsidiaries had any operations during the periods presented. In addition, the consolidated financial statements include another of the Company's wholly-owned subsidiaries, GS Woodmere Group, Inc. which was acquired in August, 2005. All material inter-company balances and transactions have been eliminated in consolidation.

##### Cash and Cash Equivalents

The Company considers all short-term investments with an original maturity of three months or less when purchased to be cash equivalents.

##### Income Taxes

The Company accounts for income taxes using the liability method, which requires the determination of deferred tax assets and liabilities based on the differences between the financial and tax bases of assets and liabilities using enacted tax rates in effect for the year in which the differences are expected to reverse. Deferred tax assets are adjusted by a valuation allowance, if, based on the weight of available evidence, it is more likely than not that some portion of, or all of the deferred tax assets, will not be realized.

##### Fixed Assets

Fixed assets are stated at cost. Maintenance and repairs are charged to expenses as incurred; costs of major additions and betterments are capitalized. When equipment and fixtures are sold or otherwise disposed of, the cost and related accumulated depreciation are eliminated from the accounts and any resulting gain or loss is reflected in the Consolidated Statement of Operations.

##### Depreciation and Amortization

Depreciation of fixed assets is computed using the straight-line method at rates adequate to allocate the cost of applicable assets over their expected useful lives of three to five years.

##### Use of Estimates in the Financial Statements

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and

## Edgar Filing: CONSUMERS FINANCIAL CORP - Form 10KSB

liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from these estimates.

F-12

### CONSUMERS FINANCIAL CORPORATION, INC. AND SUBSIDIARIES Notes to the Consolidated Financial Statements December 31, 2005

#### NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

##### Reclassifications

Certain accounts in the prior years' consolidated financial statements have been reclassified for comparative purposes to conform with the presentation in the current year consolidated financial statements. These reclassifications have no effect on previously reported income.

##### Net Loss Per Share

Basic Income (Loss) Per Share is computed by dividing income (loss) available to common shareholders by the weighted-average number of common shares outstanding for the period. Diluted EPS is based on the weighted-average number of shares of common stock and common stock equivalents outstanding at year-end.

##### Stock-Based Compensation

In October 1995, the Financial Accounting Standards Board ("FASB") issued Statement of Financial Accounting Standards No. 123, "Accounting for Stock-Based Compensation" ("SFAS 123"). SFAS 123 prescribes accounting and reporting standards for all stock-based compensation plans, including employee stock options, restricted stock, employee stock purchase plans and stock appreciation rights. SFAS 123 requires compensation expense to be recorded (i) using the new fair value method or (ii) using the existing accounting rules prescribed by Accounting Principles Board Opinion No. 25, "Accounting for Stock Issued to Employees" ("APB 25") and related interpretations with pro forma disclosure of what net income and earnings per share would have been had the Company adopted the new fair value method. The Company intends to continue to account for its stock based compensation plans in accordance with the provisions of APB 25.

On December 31, 2002, the FASB issued Statement of Financial Accounting Standards No. 148, "Accounting for Stock-Based Compensation-Transition and Disclosure" ("SFAS 148"). SFAS 148 amends SFAS 123 to provide an alternative method of transition to SFAS 123's fair value method of accounting for stock based employee compensation. SFAS 148 also amends the disclosure provisions of SFAS 123 and Accounting Principles Board Opinion No. 28, "Interim Financial Reporting" ("APB 28"), to require disclosure in summary of significant accounting policies of the effects of an entity's accounting policy with respect to stock based employee compensation on reported net income and earnings per share in annual and interim financial statements. While the statement does not amend SFAS 123 to require companies to account for employee stock options using the fair value method, the disclosure provisions of SFAS 123 are applicable to all companies with stock based employee compensation, regardless of whether they account for that compensation using the fair value method of SFAS 123 or the intrinsic value method of APB 25. The adoption of SFAS 148 did not have an impact on net income or pro forma net income applying the fair value method as the Company did not have compensatory stock options or warrants for the years ended December 31, 2005 and 2004.

In December 2004, the FASB issued Statement of Financial Accounting Standards

## Edgar Filing: CONSUMERS FINANCIAL CORP - Form 10KSB

No. 123R, which addresses accounting for employee stock options. Statement 123R requires that the cost of all employee stock options, as well as other equity-based compensation arrangements, be reflected in the financial statements based on the estimated fair value of the awards. The adoption of SFAS 123R did not have a material impact on the Company's consolidated financial statements for the year ended December 31, 2005.

F-13

### CONSUMERS FINANCIAL CORPORATION, INC. AND SUBSIDIARIES Notes to the Consolidated Financial Statements December 31, 2005

#### NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

##### New Accounting Pronouncements

In May 2003, the FASB issued Statement of Financial Accounting Standards No. 150, "Accounting for Certain Financial Instruments with Characteristics of both Liabilities and Equity" (SFAS 150). SFAS 150 addresses certain financial instruments that, under previous guidance, could be accounted for as equity, but now must be classified as liabilities in statements of financial position. These financial instruments include: (i) mandatory redeemable financial instruments, (ii) obligations to repurchase the issuer's equity shares by transferring assets, and (iii) obligations to issue a variable number of shares. SFAS 150 is generally effective for all financial instruments entered into or modified after May 31, 2003, and otherwise effective at the first interim period beginning after June 15, 2003. The adoption of the effective provisions of SFAS 150 did not have any impact on the Company's consolidated financial position or Statement of Operations.

In January 2003, and revised in December 2003, the FASB issued FASB Interpretation No. 46, "Consolidation of Variable Interest Entities" ("FIN 46"). This interpretation of Accounting Research Bulletin No. 51, "Consolidated Financial Statements," addresses consolidation by business enterprises of variable interest entities, which possess certain characteristics. FIN 46 requires that if a business enterprise has a controlling financial interest in a variable interest entity, the assets, liabilities, and results of the activities of the variable interest entity must be included in the consolidated financial statements with those of the business enterprise. FIN 46 applies immediately to variable interest entities created after January 31, 2003 and to variable interest entities in which an enterprise obtains an interest after that date. The consolidation requirements apply to older entities in the first fiscal year or interim period after June 15, 2003. The adoption of the effective provisions of Interpretation 46 did not have any impact on the Company's consolidated financial position or statement of operations.

#### NOTE 3 - ACQUISITION OF THE COMPANY

On August 28, 2002, CFC Partners, pursuant to an Option Agreement, exercised its option to acquire 270,000 shares (post-split) of the Company's common stock. The option price of \$108,000 had previously been deposited by CFC Partners into an escrow account held by the Company. The newly issued shares represented approximately 51.2% of the then outstanding common stock of the Company.

At the August 28, 2002 meeting of the Board of Directors, Donald J. Hommel, the then-President of CFC Partners, was appointed as a Director of the Company to fill an existing vacancy on the Board. Following this appointment, the Company's officers resigned as planned and the Board elected Mr. Hommel as the Company's President and Chief Executive Officer. In addition, the Company's two Directors, other than Mr. Hommel, also resigned as planned. In October 2002, at a



## Edgar Filing: CONSUMERS FINANCIAL CORP - Form 10KSB

subsequent meeting of the Board of Directors, Mr. Shalom S. Maidenbaum was appointed to fill an existing vacancy and officers were elected. In March 2003, William Konczynin was appointed as an additional director and Chairman of the Audit Committee, and in April 2003, Jack Ehrenhaus was appointed as Chairman of the Board and Chief Operating Officer, effective January 1, 2003. Mr. Hommel was terminated by the Company' in November, 2004, and Mr. Ehrenhaus was elected to be the Company's sole officer. Both Mr. Maidenbaum and and Mr. Konczynin resigned their positions as members of the Company's Board of Directors in 2005.

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

F-14

### CONSUMERS FINANCIAL CORPORATION, INC. AND SUBSIDIARIES Notes to the Consolidated Financial Statements December 31, 2005

#### NOTE 3 - ACQUISITION OF THE COMPANY (Continued)

The new management of the Company is currently pursuing various business opportunities for the Company. Management's efforts have initially been focused on joint ventures with, or acquisition of, companies in the real estate, construction management and medical technology sectors as well as the direct purchase of income-producing real estate.

#### NOTE 4 - PROPERTY AND EQUIPMENT

As of December 31, 2005, the Company's fixed assets consisted of the following:

##### Property & equipment:

Data processing equipment and software	\$ 56,070
Less: accumulated depreciation	(54,714)
	-----
Balance	\$ 1,356
	=====

Depreciation expense was \$1,290 and \$982 and for the years ended December 31, 2005, and 2004, respectively.

#### NOTE 5 - COMMITMENTS AND CONTINGENCIES

Rental expense in 2005 and 2004 was approximately \$14,000 and \$11,050, respectively. All leases currently in effect are on a month-to-month basis.

#### NOTE 6 - REDEEMABLE PREFERRED STOCK

On August 23, 2002, the Company completed a tender offer to all of the preferred shareholders, pursuant to which it purchased 377,288 shares (approximately 83.4% of the shares outstanding) at \$4.40 per share plus accrued dividends. The tender offer was completed in conjunction with and was a condition to the exercise of the option by CFC Partners (See Note 4). Since all of the Company's remaining assets would have been distributed to the holders of the preferred stock 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

## Edgar Filing: CONSUMERS FINANCIAL CORP - Form 10KSB

not take place until the preferred shareholders had been given a chance to exchange their shares for cash.

The terms of the 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. 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 and accrued dividends.

F-15

CONSUMERS FINANCIAL CORPORATION, INC. AND SUBSIDIARIES  
Notes to the Consolidated Financial Statements  
December 31, 2005

NOTE 6 - REDEEMABLE PREFERRED STOCK (Continued)

Dividends at an annual rate of \$0.85 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, \$58,198 of which relates to the four quarters of 2003.

When the Company is in arrears as to preferred dividends or sinking fund appropriations for the preferred stock, dividends to holders of the Company's common stock as well as purchases, redemptions or acquisitions by the Company of shares of the Company's common stock are restricted. 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 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 the rate of 0.1482 shares of common stock (post-split) 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 redemption value is being recorded through periodic accretions, using the interest method, with an offsetting charge to the deficit. Such accretions totaled \$3,011 and \$3,452, in the years ended December 31, 2005 and 2004, respectively.

Edgar Filing: CONSUMERS FINANCIAL CORP - Form 10KSB

NOTE 7 - INCOME TAXES

Deferred taxes are provided on a liability method whereby deferred tax assets are recognized for deductible temporary differences and operating loss and tax credit carryforwards and deferred tax liabilities are recognized for taxable temporary differences. Temporary differences are the differences between the reported amounts of assets and liabilities and their tax bases. Deferred tax assets are reduced by a valuation allowance when, in the opinion of management, it is more likely than not that some portion or all of the deferred tax assets will not be realized. Deferred tax assets and liabilities are adjusted for the effects of changes in tax laws and rates on the date of enactment.

Net deferred tax assets consist of the following components as of December 31, 2005 and 2004:

	2005	2004
	-----	-----
Deferred tax assets:		
NOL carryover	\$ 2,977,608	\$ 2,618,027
Accrued expenses	--	156,548
Valuation allowance	(2,977,608)	(2,774,575)
	-----	-----
Net deferred tax asset	\$ --	\$ --
	=====	=====

F-16

CONSUMERS FINANCIAL CORPORATION, INC. AND SUBSIDIARIES  
Notes to the Consolidated Financial Statements  
December 31, 2005

NOTE 7 - INCOME TAXES (Continued)

The income tax provision differs from the amount of income tax determined by applying the U.S. federal and state income tax rates of 39% to pretax income from continuing operations for the years ended December 31, 2005 and 2004 due to the following:

	2005	2004
	-----	-----
Book loss	\$ (1,778,591)	\$ (500,415)
Impairment of goodwill	777,660	--
Stock subscription bad debt	585,000	--
Stock for services / options expense	56,350	124,424
Valuation allowance	359,581	375,991
	-----	-----
	\$ --	\$ --
	=====	=====

At December 31, 2005, the Company had net operating loss carryforwards of approximately \$739,000 that may be offset against future taxable income from the year 2005 through 2025. No tax benefit has been reported in the December 31, 2005 financial statements since the potential tax benefit is offset by a valuation allowance of the same amount.

Due to the change in ownership provisions of the Tax Reform Act of 1986, net operating loss carryforwards for Federal income tax reporting purposes are subject to annual limitations. Should a change in ownership occur, net operating loss carryforwards may be limited as to use in future years.

NOTE 8 - ISSUANCES OF COMMON STOCK

## Edgar Filing: CONSUMERS FINANCIAL CORP - Form 10KSB

During the year ended December 31, 2005, the Company issued 5,000,000 shares of common stock to an unrelated entity as additional consideration for certain services to be performed. The Company also issued an additional 481,621 common shares for services rendered during the period. In October 2005 the Company issued 45,900,541 common shares to an officer, as payment for wages accrued over the past several years.

The Company also issued 4,000,000 Series D preferred shares as payment for the acquisition of 100% of the outstanding common stock of GS Woodmere, Inc.

### NOTE 9 - LOSS PER SHARE

The following table set forth the computation of basic and diluted loss per share data:

	Years ended December 31,	
	2005	2004
Net loss - numerator	\$ (4,560,490)	\$ (1,218,721)
Denominator for basic loss per share - weighted average shares (post-split)	27,335,373	2,575,076
Basic loss per common share	\$ (0.17)	\$ (0.47)

The redeemable preferred stock is convertible at any time, unless previously redeemed, into shares of common stock at the rate of 0.1482 shares of common stock (post-split) for each share of preferred stock (equivalent to a conversion price of \$6.75 per share). None of the common shares contingently issuable upon the conversion of the preferred stock have been included in the computation of diluted per share information as the effects would be anti-dilutive.

F-17

CONSUMERS FINANCIAL CORPORATION, INC. AND SUBSIDIARIES  
Notes to the Consolidated Financial Statements  
December 31, 2005

### NOTE 10 - EXECUTIVE EMPLOYMENT AGREEMENTS

On September 1, 2003, the Company entered into employment agreements Donald J. Hommel as President and Chief Executive Officer and Jack I. Ehrenhaus as Chairman and Chief Operating Officer. Each agreement provided for annual compensation of \$225,000 in base salary with annual increases of 10% and annual bonuses as determined by the Board, which can range up to twice the amount of the base salary but in no event will the bonus be less than 50% of the base salary. Each officer is also entitled to an automobile allowance of \$750 per month and reimbursement of all business expenses. The term of each employment agreement is ten years. If the Company terminates either officer without cause prior to the term, the officer is entitled to a severance payment equal to his salary for the remainder of the ten year term or two years' salary, whichever is greater. If there is a material change in the Company that causes a substantial reduction in the officer's duties, or a liquidation, transfer of assets or merger and the Company is not the surviving entity, the officer is entitled to a severance payment. Each officer also agreed that if the Company has a cash flow shortfall, the officer will take stock in lieu of cash at a 20% discount to the stock price at the payment date. In October of 2004, Mr. Hommel was dismissed with cause from his positions with the Company by a majority vote of the shareholders. Mr. Hommel's employment agreement was thus rendered void, and the

## Edgar Filing: CONSUMERS FINANCIAL CORP - Form 10KSB

Company had not further obligations to Mr. Hommel relating to this employment agreement. As of December 31, 2005, Mr. Ehrenhaus is the sole officer of the Company, and his Employment Agreement has remained in full effect.

### NOTE 11 - RELATED PARTY TRANSACTIONS

During 2004 and 2005, the Company received unsecured loans from a Company officer to meet operating costs. These loans, from the Company's CEO, bear no interest and have no specific repayment terms. During the 2005 fiscal year the Company borrowed \$3,929 from the CEO, and made payments on the loan totaling \$33,000. As of December 31, 2005 and 2004, the balance on the Company's unsecured loan from Mr. Ehrenhaus, including accrued interest, totaled \$26,352, and 50,423, respectively.

### NOTE 12 - LEGAL PROCEEDINGS

#### Robert Half International

On July 25, 2005, Robert Half International ("RHI"), a professional staffing agency, filed a claim against the Company in which RHI seeks \$46,855 ("the award"), from the Company, being the purported value of services performed by RHI on behalf of the Company. The Company is currently in the process of attempting to negotiate a settlement with RHI for an amount less than the full award amount. If such negotiations are unsuccessful, the Company will ultimately be forced to pay to RHI the full award amount.

#### Gold Op Holdings

During the 2004 and 2005 calendar years, the Company issued an aggregate total of 6,400,000 post-split common shares ("the shares") to Gold Op Holdings, Inc. in exchange for a promissory note totaling \$1,000,000 ("the Note"). In July 2005, the Company had not received any payments on the Note, and elected to issue a demand letter for the return of the shares. The Company received no response to the demand letter. In July 2005, a summons and complaint was served on Gold Op Holdings, Inc., to enforce the note, and or return the shares. Through the date of this report the Company has received no response from Gold Op, and the Company intends to seek a summary judgment against Gold Op.

F-18

CONSUMERS FINANCIAL CORPORATION, INC. AND SUBSIDIARIES  
Notes to the Consolidated Financial Statements  
December 31, 2005

### NOTE 13 - NOTES PAYABLE

Notes payable consist of the following at December 31, 2005:

Note payable to unrelated individual, accrues interest at 8.0% per annum, unsecured, currently in default	\$ 40,000
Note payable to unrelated individual, accrues interest at 10.0% per annum, unsecured, currently in default	\$ 50,000
Note payable to unrelated entity, accrues interest at 8.0% per annum, unsecured, currently in default	\$100,000
Note payable to unrelated individual, accrues interest at 8.0% per annum, unsecured, currently in default	\$ 20,000
	-----
Total Notes Payable	\$210,000

=====

At December 31, 2005, the Company was in default three of its four notes payable. The note holders have not initiated any legal actions against the Company to collect the outstanding balances. Accrued interest on notes payable at December 31, 2004 was \$23,490

F-19

ITEM 8. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

As of September 18, 2003, Stambaugh Ness, PC resigned as the principal independent accountants for the Company.

The report of Stambaugh Ness, PC on the financial statements for the years ended December 31, 2002 and 2001 contained no adverse opinion or disclaimer of opinion, and were not qualified or modified as to scope or accounting principles. Although the financial statements audited by Stambaugh Ness, PC for the year ended December 31, 2002 contained an explanatory paragraph pertaining to the Company's ability to continue as a going concern, such financial statements did not contain an adjustment that might result from the uncertainty stated therein. In addition, during the Company's years ended December 31, 2002 and 2001 and through September 18, 2003, there were no disagreements with Stambaugh Ness, PC on any matters of accounting principles or practices, financial statement disclosure or auditing scope or procedures; which disagreements, if not resolved to the satisfaction of Stambaugh Ness, PC would have caused that firm to make reference in connection with its report to the subject matter of the disagreements or a reportable event.

As of September 23, 2003, the Board of Directors of the Company approved the appointment of Marcum & Kliegman LLP as the Company's 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.

During the years ended December 31, 2002 and 2001 and until September 23, 2003, Marcum & Kliegman LLP had not been engaged by the Company as an independent accountant to audit the financial statements of the Company or any of its subsidiaries, nor had it been consulted regarding the application of accounting principles to any specified transaction, either completed or proposed, or the type of audit opinion that might be rendered on the Company's financial statements, or any matter that was the subject of a disagreement or reportable event identified in response to paragraph (a) (1) (iv) of Item 304, as those terms are used in Item 304 (a) (1) (iv) of Regulation S-K and the related instructions to Item 304 of Regulation S-K.

The Company requested that Stambaugh Ness, PC furnish it with a letter addressed to the Securities and Exchange Commission stating whether or not it agrees with the above statements. A copy of such letter from Stambaugh Ness, PC is filed as an Exhibit on Form 8-K filed with the Securities and Exchange Commission on September 25, 2003.

13

In 2004 the accounting firm of Marcum & Kleigman resigned as the Company's auditors of record. HJ & Associates, LLC was appointed to replace Marcum & Kleigman in August, 2004.

## Edgar Filing: CONSUMERS FINANCIAL CORP - Form 10KSB

### ITEM 8A. CONTROLS AND PROCEDURES

#### A) EVALUATION OF DISCLOSURE CONTROLS AND PROCEDURES

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 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.

Our independent auditors have reported to our management certain matters involving internal controls that our independent auditors considered to be reportable conditions, and a material weakness, 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.

#### B) CHANGES IN INTERNAL CONTROL OVER FINANCIAL REPORTING

There have been no significant changes in internal controls over financial reporting that occurred during the fiscal period covered by this report that have materially affected, or are reasonably likely to materially affect, the registrant's internal control over financial reporting.

14

### ITEM 8B. OTHER INFORMATION

None.

PART III

Edgar Filing: CONSUMERS FINANCIAL CORP - Form 10KSB

ITEM 9. DIRECTORS AND EXECUTIVE OFFICERS OF THE REGISTRANT

Historically, the Board of Directors of the Company was divided into three (3) groups, with the directors in each group serving terms of three (3) years. However, due to the Directors' decision in 1996 to merge, sell or otherwise dispose of the Company or its assets, the eventual approval by the shareholders of the Plan of Liquidation in 1998 and the acquisition of a 51.2% interest in the Company by CFC Partners, Ltd. on August 28, 2002, there had been no election of Directors since 1995. On August 28, 2002 the Board of Directors appointed Donald J. Hommel, the president of CFC Partners, as a Director of the Company to fill an existing vacancy on the Board. Following such appointment, James C. Robertson and John E. Groninger, who had been Directors of the Company for more than 30 years, resigned as planned. Mr. Hommel was terminated by a majority vote as president and director in October 2004, and was replaced by Jack. I Ehrenhaus.

On October 17, 2002 the Board of Directors appointed Shalom S. Maidenbaum, Esq. as a Director of the Company to fill an existing vacancy on the Board, and on March 13, 2003, the Board of Directors appointed William T. Konczynin as an additional Director and Chairman of the Audit Committee to fill an existing vacancy. Mr. Jack I. Ehrenhaus was elected as Chairman of the Board in April 2003.

The table below sets forth the period for which the current Directors have served as Directors of the Company, their principal occupation or employment for the last five (5) years, and their other major affiliations and age as of March 22, 2007

Name (Age) Director Since	Principal Occupation for the Past Five Years, Office (if any) Held, Director in the Company
-----	
Jack I. Ehrenhaus (58) 2003	President and Founder, NAIS Corporation Chairman, President, Chief Executive Officer, Principal Accounting Officer

None of our directors holds any directorships in companies with a class of securities registered pursuant to Section 12 of the Securities Exchange Act or subject to the requirements of Section 15(d) of such Act or any company registered as an investment company under the Investment Company Act of 1940, as amended.

Our directors are appointed for a one-year term to hold office until the next annual general meeting of our shareholders or until removed from office in accordance with our bylaws. Our officers are appointed by our Board of Directors and hold office until removed by the Board.

The following information is provided as of March 22, 2007 for each executive officer of the Company. The executive officers are appointed annually by the Board of Directors and serve at the discretion of the Board.

NAME	AGE	OFFICE
-----		
Jack I. Ehrenhaus	58	Chief Operating Officer

Ehrenhaus was appointed and Chief Operating Officer in April 2003, commencing January 1, 2003, and appointed as President and Chief Executive Officer in October, 2004. Mr. Maidenbaum was appointed Vice President and



## Edgar Filing: CONSUMERS FINANCIAL CORP - Form 10KSB

Secretary of the Company in October 2002 and resigned as an officer of the Company during the 4th quarter of 2003.

### SECTION 16(A) BENEFICIAL OWNERSHIP REPORTING COMPLIANCE

Section 16(a) of the Securities and Exchange Act of 1934 requires the Company's officers and directors, and persons who own more than ten percent of a registered class of the Company's equity securities, to file reports of ownership and changes in ownership with the Securities and Exchange Commission (the "SEC"). Officers, directors and greater than ten percent shareholders are required by SEC regulations to furnish the Company with copies of all Section 16(a) reports they file.

### CODE OF ETHICS

At December 31, 2005, the Company had not yet adopted a Code of Ethics for its Executive Officer and Directors. This delay has been a result of the restructuring of the Company after its emergence its Plan of Liquidation coupled with the focus of management on raising capital and implementation of a business plan of action to preserve and increase its value to its common shareholders.

The Board of Directors of the Company is in the process of reviewing a Code of Ethics and anticipates its adoption and implementation during the 2006 calendar year.

### ITEM 10. EXECUTIVE COMPENSATION

The following table sets forth information regarding the annual compensation for services in all capacities to the Company for the years ended December 31, 2005 and 2004, of the Chief Executive Officer and the Chief Operating Officer whose annual compensation exceeded \$100,000 and who were serving as executive officers at the end of the fiscal year ended December 31, 2005.

16

SUMMARY COMPENSATION TABLE

NAME AND POSITION COMPENSATION	YEAR	SALARY	BONUS	OTHER ANNUAL COMPENSATION	OTHER
Jack I. Ehrenhaus Chairman and Chief Operating Officer	2005	\$236,250 (5)	\$268,938	\$-0-	\$-0-
	2004	\$236,250 (5)	\$112,500	\$-0-	\$-0-
Donald J. Hommel Former Chairman, President and Chief Executive Officer	2005	\$ -0-	\$ -0-	\$-0-	\$-0-
	2004	\$174,375 (2)	\$ -0-	\$-0-	\$-0-

- (1) Mr. Ehrenhaus was named as Chairman of the board of Directors and Chief Operating Officer of the Company effective January 1, 2003, and President and Chief Executive Officer of the Company starting in October, 2004.
- (2) Represents payment of accrued salaries through the issuance of an aggregate of 638,076 post-split shares of common stock.
- (3) Mr. Ehrenhaus and Mr. Hommel each accepted stock in lieu of cash

## Edgar Filing: CONSUMERS FINANCIAL CORP - Form 10KSB

compensation for services performed in 2003 at a value of \$0.06 per share. The 154,080 (post-split) shares for each of Mr. Hommel and Mr. Ehrenhaus were issued in 2004

- (4) Mr. Hommel was appointed to the Board of Directors, President and Chief Executive Officer of the Company on August 28, 2002, and resigned these positions in October, 2004. Mr. Hommel received no compensation for his services as Chief Executive Officer in 2002.
- (5) At December 31, 2005, a portion of the salary earned by Mr. Ehrenhaus remained unpaid. The Company recorded accrued salary payable to Mr. Ehrenhaus of \$3,328.

On September 1, 2003, the Company entered into employment agreements with both Donald J. Hommel, President and Chief Executive Officer and Jack I. Ehrenhaus, Chairman and Chief Operating Officer, of the Company. Each agreement provides for annual compensation of \$225,000 in base salary with annual increases of 10% and annual bonuses as determined by the Board, which can range up to twice the amount of the base salary but in no event will the bonus be less than 50% of the base salary. Each officer is also entitled to an automobile allowance of \$750 per month and reimbursement of all business expenses. The term of each employment agreement is ten years. If the Company terminates either officer without cause prior to the term, the officer is entitled to a severance payment equal to his salary for the remainder of the ten year term or two years' salary, whichever is greater. If there is a material change in the Company that causes a substantial reduction in the officer's duties, a liquidation or transfer of assets, or merger and the Company is not the surviving entity, the officer is entitled to a severance payment. In October of 2003, Mr. Donald J. Hommel was dismissed with cause as President and Chief Executive Officer of the Company by a majority vote of the shareholders. Mr. Hommel was replaced in these positions by Mr. Jack I. Ehrenhaus in October, 2003.

17

### OPTION/SAR GRANTS IN LAST FISCAL YEAR

No stock options or stock appreciation rights were granted by the Company to the named executives officers in 2005.

### AGGREGATED OPTIONS/SAR EXERCISES IN LAST FISCAL YEAR AND FISCAL YEAR-END OPTIONS/SAR TABLE

At December 31, 2004, the Company had no stock options or stock appreciation rights outstanding. Furthermore, the Company has no current plans to grant any options or stock appreciation rights.

### REPORT ON EXECUTIVE COMPENSATION

#### COMPENSATION COMMITTEE INTERLOCKS AND INSIDER PARTICIPATION

The Company's Board of Directors has the exclusive authority to establish the level of base salary payable to the Chief Executive Officer ("CEO") and certain other executive officers of the Company and to administer the Company's equity incentive plans. The Board of Directors does not maintain a Compensation Committee as the employment agreements executed in 2003 will determine the individual bonus programs to be in effect for the CEO and certain executive officers each fiscal year. Participants in deliberations of the Company's Board of Directors concerning executive compensation were Donald J. Hommel, Jack I. Ehrenhaus, Shalom S. Maidenbaum and William T. Konczynin.

#### GENERAL COMPENSATION PHILOSOPHY

## Edgar Filing: CONSUMERS FINANCIAL CORP - Form 10KSB

Historically, the compensation policy of the Company is to offer the Company's executive officers competitive opportunities based upon the overall Company performance, their individual contribution to the financial success of the Company and their personal performance. It is the Board's objective to have a meaningful portion of each executive officer's compensation contingent upon the performance of the Company, as well as the individual contribution of each officer.

18

### ITEM 11. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT

The following table sets forth, as of October 1, 2005, the beneficial ownership of the Company's Common Stock, the only class of voting securities outstanding, (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 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.

TITLE OF CLASS	NAME AND ADDRESS OF BENEFICIAL OWNER	AMOUNT NATURE OF BENEFICIAL OWNERSHIP	PERCENT OF CLASS
-----	-----	-----	-----
PRINCIPAL SHAREHOLDERS:			
Common	CFC Partners, Ltd. 132 Spruce Street, Cedarhurst, NY 11516	392,727	0.72
Common	Donald J. Hommel 132 Spruce Street, Cedarhurst, NY 11516	649,732	1.12
Common	Jack I. Ehrenhaus 132 Spruce Street, Cedarhurst, NY 11516	46,550,273	85.14
DIRECTORS AND EXECUTIVE OFFICERS:			
Directors and Executive Officers:			
Common	Jack I. Ehrenhaus 132 Spruce Street, Cedarhurst, NY 11516	46,550,273	85.14
Common	All Directors and Officers and Principal Beneficial Shareholders as a group	46,550,273	85.14

### SECURITIES AUTHORIZED FOR ISSUANCE UNDER EQUITY COMPENSATION PLANS.

The Company has no compensation plans.

### CHANGE OF CONTROL

Other than the right of the preferred shareholders to appoint two directors to the board, there are no other arrangements, known to the Company, including any pledge by any person of securities of the Company, the operation of which may at a subsequent date result in a change in control of the Company.

### ITEM 12. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

## Edgar Filing: CONSUMERS FINANCIAL CORP - Form 10KSB

During the years ended December 31, 2005 and 2004, there has not been, nor is there currently proposed, any transaction or series of similar transactions to which the Company, or any of its subsidiaries was or is to be a party in which the amount involved exceeded or will exceed \$60,000 and in which any director, executive officer, security holder known to the Company to own more than 5% of the Company's common stock or any member of the immediate family of any of the foregoing persons had or will have a direct or indirect material interest, other than the compensation agreements, issuance of shares to CFC, and other arrangements, which are described above where required.

19

### ITEM 13. EXHIBITS

#### a) Listing of Documents filed:

##### 1. Financial Statements (included in Part II of this Report):

Report of Independent Public Accountants - HJ & Associates, LLC  
Report of Independent Public Accountants - Moore & Associates, LLP  
Consolidated Balance Sheet - December 31, 2005  
Consolidated Statements of Operations and Comprehensive Income - For the years ended December 31, 2005, and 2004  
Consolidated Statements of Shareholders' Deficiency - For the years ended December 31, 2005 and 2004  
Consolidated Statements of Cash Flows - For the years ended December 31, 2005 and 2004  
Notes to Consolidated Financial Statements

##### 2. Financial Statement Schedules (included in Part IV of this Report):

Schedules other than those listed above have been omitted because they are not required, not applicable or the required information is set forth in the financial statements or notes thereto.

##### 3. Exhibits:

- (2) Plan of acquisition, reorganization, arrangement, liquidation or succession (1)
- (3) Articles of incorporation and by-laws (i)
- (4) Instruments defining the rights of security holders, including indentures (i)
- (9) Voting trust agreements (ii)
- (10) Material contracts (ii)
- (11) Statement re: computation of per share earnings (ii)
- (12) Statement re: computation of ratios (ii)
- (13) Annual report to security holders (ii)
- (16) Letter re: change in certifying accountants (i)
- (18) Letter re: change in accounting principles (ii)
- (21) Subsidiaries of the registrant (iii)
- (22) Published report regarding matters submitted to a vote of security holders (i)
- (23) Consents of experts and counsel (ii)
- (24) Power of attorney (ii)
- (31.1) Certification of Chief Executive Officer (Section 302 of Sarbanes-Oxley Act) (iii)
- (31.2) Certification of Chief Financial Officer (Section 302 of Sarbanes-Oxley Act) (iii)
- (32.1) Certification of Chief Executive Officer (Section 906 of Sarbanes-Oxley Act) (iv)
- (32.2) Certification of Chief Financial Officer (Section 906 of

## Edgar Filing: CONSUMERS FINANCIAL CORP - Form 10KSB

Sarbanes-Oxley Act) (iv)

20

- (i) Information or document provided in previous filing with the Commission
- (ii) Information or document not applicable to registrant
- (iii) Information or document included as exhibit to this Form 10-K
- (iv) Document furnished with this Form 10-K

b) Reports on Form 8-K:

No reports on Form 8-K were filed by the Company during the quarter ended December 31, 2005.

### ITEM 14. PRINCIPAL ACCOUNTANT FEES AND SERVICES

Marcum & Kliegman LLP ("M&K") audited the Company's financial statements for fiscal 2003; the fees billed for professional services by M&K were as follows: Audit Fees--\$100,000; Audit related fees \$-0-; Tax Fees (for preparation of federal and state income tax returns) \$-0- and All Other Fees of \$-0-. The policy of the Audit Committee is that it must approve in advance all services (audit and non-audit) to be rendered by the Company's independent auditors. The Board of Directors established the Audit Committee during 2003 with the appointment of Mr. Konczynin to the Board of directors. For at least two years prior to that, the Board of Directors did not have an Audit Committee. The engagement of M&K for the audit for fiscal 2003 was approved in advance by the Audit Committee.

HJ & Associates, LLC ("HJ") audited the Company's financial statements for fiscal 2003; the fees billed for professional services by HJ for 2003 were as follows: Audit Fees--\$100,000; Tax Fees (for preparation of federal and state income tax returns) \$-0-; and All Other Fees of \$-0-. The engagement of HJ for the audit services for fiscal 2003 and 2004 was approved in advance by the Board of Directors.

Moore & Associates, LLP ("Moore") audited the Company's financial statements for fiscal 2004; the fees billed for professional services by Moore for 2004 were as follows: Audit Fees--\$10,000; Tax Fees (for preparation of federal and state income tax returns) \$-0-; and All Other Fees of \$-0-. The engagement of Moore for the audit services for fiscal 2005 was approved in advance by the Board of Directors.

21

### SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) 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

By: /s/ Jack I. Ehrenhaus

-----  
Jack I. Ehrenhaus

President, Chairman of the Board, Chief Executive Officer, Principal  
Accounting Officer

Date: March 22, 2007

Edgar Filing: CONSUMERS FINANCIAL CORP - Form 10KSB

SIGNATURES

Pursuant to the requirements of the Securities Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated:

Signature	Title	Date
-----	-----	-----
/s/ Jack I. Ehrenhaus Jack I. Ehrenhaus	President, Chairman of the Board, Chief Executive Officer, Principal Accounting Officer	March 22, 2007