CONSUMERS FINANCIAL CORP
Form 10-Q/A
May 24, 2004

SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q/A

|X| QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934 FOR THE QUARTERLY PERIOD ENDED SEPTEMBER 30, 2003, OR

|_| TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934 FOR THE TRANSITION PERIOD FROM _____ TO _____

Commission File Number: 0-2616

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

Pennsylvania (State or other jurisdiction of incorporation or organization)	23-1666392 (I.R.S. Employer Identification No.)
132 Spruce Street, Cedarhurst, NY (Address of principal executive offices)	11516 (Zip Code)

516-792-0900
(Registrant's telephone number, including area code)

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

Yes _X_ No ___

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

Class of Common Stock	Outstanding at May 5, 2004
$.01 Stated Value	21,506,696

CONSUMERS FINANCIAL CORPORATION AND SUBSIDIARIES

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EXPLANATORY NOTE

This Form 10-Q/A shall amend and restate in its entirety the Form 10-Q filed by the Company on January 30, 2004.

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PART I. FINANCIAL INFORMATION

Item 1. Condensed Consolidated Financial Statements

Consumers Financial Corporation and Subsidiaries
Condensed Consolidated Balance Sheets

	September 30 2003 (Unaudited) (as restated see Note 2)	D
ASSETS		
Current Assets:		
Cash and cash equivalents	$ 6,169	$
Prepaid expenses	--	
Total current assets	6,169	
Property and equipment, net of accumulated depreciation of $43,744 and $43,090, respectively	2,292	
Restricted cash held in escrow account	269,021	
Prepaid insurance	66,379	
Total Assets	$ 343,861	$
LIABILITIES, REDEEMABLE PREFERRED STOCK AND SHAREHOLDERS' DEFICIENCY		
Current Liabilities:		
Accounts payable and accrued expenses	$ 161,419	$
Due to Officer	5,000	
Other	--	
Total current liabilities	166,419	
Redeemable preferred stock:		
Series A, 8 1/2% cumulative convertible, authorized 632,500 shares; issued 75,326 shares; outstanding 2003, 63,161 shares; 2002, 75,326 shares; redemption amount 2003, $631,610; 2002, $753,260; net of treasury stock of $31,629 in 2003	711,799	
Shareholders' Deficiency:		
Common stock, $.01 stated value, authorized 10,000,000 shares, 17,002,096 (includes 9,913,042 shares to be issued) and 5,276,781 shares issued and outstanding, respectively	170,021	
Capital in excess of stated value	11,446,312	
Deficit	(12,122,003)	
Less: Deferred compensation	(28,687)	
Total shareholders' deficiency	(534,357)	

Total liabilities and shareholders' deficiency	$ 343,861	$

See accompanying notes to condensed consolidated financial statements

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Consumers Financial Corporation and Subsidiaries
Condensed Consolidated Statements of Operations and Comprehensive Income (Loss)
(Unaudited)

	Nine Months Ended September 30, 2003 (as restated see Note 2)	Nine Months Ended September 30, 2002
Selling, general and administrative expenses (Including stock based compensation of $2,596,012 for the nine and three months ended September 30, 2003)	$ 2,930,244	$ 419,078
Other Income/Expense		
Interest income	2,080	44,295
Interest expense	(5,648)	--
Net realized investment gains	--	242,480
Proceeds from settlement of litigation	--	255,000
Other income	3,406	41,192
	(162)	582,967
Net (loss) income	(2,930,406)	163,889
Other comprehensive loss, change in unrealized appreciation of debt securities	--	(54,702)
Comprehensive (loss) income	$(2,930,406)	$ 109,187
Per share data:		
Basic and diluted (loss) income per common share	$ (0.44)	$ (0.05)
Weighted average number of common shares outstanding	6,783,070	2,909,419

See accompanying notes to condensed consolidated financial statements

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Consumers Financial Corporation and Subsidiaries
Condensed Consolidated Statements of Cash Flows
(Unaudited)

	Nine months ended September 30,	
	2003 (as restated see Note 2)	2002
Cash flows from operating activities:		
Net (loss) income	$(2,930,406)	$ 163,889
Adjustments to reconcile net (loss) income to cash flows used in operating activities:		
Depreciation and amortization	654	--
Write-off of loans receivable from majority shareholder	27,500	--
Gain on sale of investments	--	(56,448)
Gain on sale of insurance licenses	--	(178,483)
Stock based compensation	2,596,012	--
Increase (decrease) in cash attributable to changes in assets and liabilities:		
Other receivables	--	21,431
Prepaid expenses	51,404	(13,317)
Accrued expenses	94,858	--
Change in employee severance liability	--	(177,962)
Other current liabilities	--	(69,841)
Other	--	(53,439)
Total adjustments	2,770,428	(528,059)
Net cash used in operating activities	(159,978)	(364,170)
Cash flows from investing activities:		
Loans to majority shareholder	(27,500)	--
Purchase of capital assets	(2,946)	--
Proceeds from sale of investments	--	945,181
Proceeds from sale of insurance licenses, net of selling expenses of $44,767 and liability assumed by buyer of $132,120	--	73,113
Cash deposited into preferred stock escrow account, net of withdrawal	45,204	(331,434)
Net cash provided by investing activities	14,758	686,860
Cash flows from financing activities:		
Proceeds from loans by officer	5,000	--
Purchase of redeemable preferred stock	(19,369)	(1,660,067)

Cash dividends to preferred shareholders	--	(335,986)
Proceeds from issuance of common stock	--	108,000
Net cash used in financing activities	(14,369)	(1,888,053)
Net decrease in cash and cash equivalents	(159,589)	(1,565,363)
Cash and cash equivalents, beginning	165,758	1,802,265
Cash and cash equivalents, ending	$ 6,169	$ 236,902
Non-cash investing activities:		
Due to preferred shareholders for redemption of shares	$ 12,260	$ --

See accompanying notes to condensed consolidated financial statements

CONSUMERS FINANCIAL CORPORATION AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
NINE MONTHS ENDED SEPTEMBER 30, 2003 AND 2002
(Unaudited)

1. Overview, going concern and management plans

The condensed consolidated balance sheet of Consumers Financial Corporation and Subsidiaries as of September 30, 2003, the related condensed consolidated statements of operations for the three and nine months ended September 30, 2003 and 2002 and the condensed consolidated statements of cash flows for the nine months ended September 30, 2003 and 2002, included in Item 1 have been prepared by the Company, without audit, pursuant to the rules and regulations of the Securities and Exchange Commission ("SEC"). Certain information and footnote disclosures normally included in financial statements prepared in accordance with accounting principles generally accepted in the United States of America have been condensed or omitted pursuant to such rules and regulations. In the opinion of management, the accompanying condensed consolidated financial statements include all adjustments (consisting of normal, recurring adjustments) necessary in order to make the financial statements not misleading. The results of operations for the nine months ended September 30, 2003 are not necessarily indicative of the results of operations for the full year or any other interim period. These condensed consolidated financial statements should be read in conjunction with the audited consolidated financial statements and notes thereto included in the Company's Annual Report on Form 10-K for the year ended December 31, 2002 and filed with the SEC.

Since 1998 the Company has had no business operations and its revenues and expenses have consisted principally of investment income on remaining assets and corporate and other administrative expenses. In March 1998, the Company's shareholders approved a Plan of Liquidation and Dissolution (the Plan of Liquidation) pursuant to which the Company began liquidating its remaining assets and paying or providing for all of its liabilities. However, in February 2002, the Company entered into an option agreement with CFC Partners, Ltd., a New York investor group ("CFC Partners"), pursuant to which CFC Partners could

obtain a majority interest in the Company's common stock. In August 2002, the option was exercised and 2,700,000 new common shares (approximately 51.2% of the then total outstanding shares) were issued by the Company to CFC Partners. As a result of the acquisition of the Company, the Plan of Liquidation was discontinued. Immediately prior to the transaction with CFC Partners, the Company paid a substantial portion of its remaining assets to its preferred shareholders in connection with a tender offer to those shareholders (see Note 9).

Going concern and management plans

The accompanying consolidated financial statements have been prepared assuming that the Company will continue as a going concern. However, as a result of the events discussed above, at September 30, 2003, the Company had only $6,169 in cash, a shareholders' deficiency of $534,357 and was unable to pay its existing creditors. Also, as of September 30, 2003, the Company had not paid its payroll taxes for either the second quarter of 2003 or for the third quarter of 2003 although these taxes were subsequently paid during the fourth quarter of 2003. These matters raise substantial doubt about the Company's ability to continue as a going concern.

CFC Partners is currently pursuing various business opportunities for the Company, including strategic alliances, as well as the merger or combination of existing businesses with the Company. The new management of the Company is initially focusing on joint ventures with or acquisitions of companies in the real estate, insurance agent, construction management and medical technology businesses as well as the direct purchase of income-producing real estate. However, there is no assurance that the Company's efforts in this regard will be successful. In fact, given the Company's current cash position, without new revenues and/or immediate financing, the Company's efforts to develop the above-referenced businesses are not likely to succeed.

The Company's ability to continue as a going concern is dependent on its success in developing new cash revenue sources or, alternatively, in obtaining short-term financing while its businesses are being developed. There are no assurances that such financing can be obtained or, if available, be obtained at terms acceptable to the Company. To the extent that such financing is equity based, this may result in dilution to the existing shareholders.

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

Basis of consolidation

The condensed consolidated financial statements include the accounts of Consumers Financial Corporation, its former wholly-owned subsidiary, Consumers Life Insurance Company (Consumers Life) until June 19, 2002 when Consumers Life was sold, its wholly-owned subsidiary Consumers Management Group and its 55% owned subsidiary, P.E.T. Centers of America LLC. Since inception, these subsidiaries have had no operations. All significant intercompany balances and

transactions herein have been eliminated in consolidation.

Equity method investee

The Company carries its 47.5% investment in Vaughn Properties, LLC ("Vaughn") at a value of zero, which was the original cost, and accounts for its financial activity under the equity method of accounting. Vaughn is operating at a loss and the Company is not liable for any of the obligations of Vaughn, either direct or indirect, and is under no requirement to contribute any capital to Vaughn.

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 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 or all of the deferred tax assets will not be realized.

Equipment and fixtures

Equipment and fixtures 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 Condensed Consolidated Statement of Operations.

Depreciation

Depreciation of equipment and fixtures is computed on the straight-line method at rates adequate to allocate the cost of applicable assets over their expected useful lives of three 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 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.

Net loss per share

Basic EPS 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.

Reclassifications

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

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 employees tock 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, 2003 or 2002.

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

CONSUMERS FINANCIAL CORPORATION AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)
NINE MONTHS ENDED SEPTEMBER 30, 2003 AND 2002
(Unaudited)

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 condensed 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 condensed consolidated financial position or statement of operations.

2. Restatement

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

The Company originally consolidated their 47.5% investment in Vaughn (See Note 4) based on the position that significant control was maintained over Vaughn. Subsequently it was determined that the Company did not in fact maintain significant control and therefore is recording this investment as an equity investment.

Net loss and net loss per share for the three and nine months ended September 30, 2003 as previously reported with the first amendment to the 10-Q filed on January 31, 2004 was $2,502,929 ($0.26 per share) and $2,777,639 ($0.42 per share), respectively. The effect of the preceding adjustments was an increase in net loss and net loss per share. The restated net loss and net loss per share for the three and nine months ended September 30, 2003 is $2,710,788 ($0.29 per share) and $2,930,406 ($0.44 per share), respectively.

3. Acquisition of the company

On August 28, 2002, CFC Partners exercised its option to acquire 2,700,000 shares of the Company's common stock. The option was granted to CFC Partners through an option agreement dated February 13, 2002. The option price

of $108,000 had previously been deposited by CFC Partners into an escrow account held by the Company. The newly issued shares represented approximately 51.2% of the then outstanding common stock of the Company.

In connection with the issuance of the new shares to CFC Partners, the Board of Directors also terminated the Plan of Liquidation. The Board had previously determined that selling the Company for its value as a "public company shell" was a better alternative for the shareholders than the Plan of Liquidation, 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 (see Note 9).

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 acquisitions of companies in the real estate, construction management and medical technology businesses as well as the purchase of income-producing real estate (see Note 4 and 5).

4. Equity investment

In May 2003, Vaughn, an Illinois limited liability company in which the Company owns a 47.5% interest, acquired a real estate property in Springfield, Illinois. Vaughn acquired this property for a purchase price of $5,440,940, comprised of a $4,650,000 interest only bank loan secured by a first mortgage lien on the property payable in two years, 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, as well as a $100,000 loan made by a private investor and $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 loan made by the private individual. The mortgages carry interest rates of 7.25% and 13% respectively. 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 therefrom. 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. Vaughn also obtained and had not used approximately $299,000 of a $600,000 construction loan from the bank for the purpose of completing certain renovations to the property at September 30, 2003.

The Company is not directly or indirectly liable for any of the obligations of Vaughn and its exposure is limited solely to its investment in Vaughn which is carried at zero in these condensed consolidated financial statements.

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

interests and the 250,000 shares of common stock were not issued. This amended operating agreement has therefore not been and will not be ratified.

The 47.5% equity interest in Vaughn is being accounted for under the equity method in the financial statements at September 30, 2003.

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CONSUMERS FINANCIAL CORPORATION AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)
NINE MONTHS ENDED SEPTEMBER 30, 2003 AND 2002
(Unaudited)

Selected financial information for Vaughn as of September 31, 2003 and for the nine months then ended are as follows:

Current Assets	$ 434,279
Non-Current Assets	$ 5,764,030
Total Assets	$ 6,198,309
Current liabilities	$ 1,561,945
Non-current liabilities	$ 4,650,000
Rental income	$ 220,752
Rental expenses	$ 250,513
Loss on rentals	$ (29,761)
Loss from continuing operations	$ (29,761)
Net loss	$ (213,637)

On September 4, 2003, the Company's Board of Directors approved the payment of broker's fees to the Company's majority shareholder, CFC Partners, for real estate and other contracts obtained by CFC Partners and assigned to the Company. The Board agreed to pay CFC Partners an amount equal to 5% of the contract price following the completion of each transaction. As a result, the Board authorized the issuance to CFC Partners of 1,227,273 shares of the Company's common stock in connection with the acquisition of the Springfield real estate. The cost of this transaction to the Company, as measured by the market value of the shares at the time of issuance, is approximately $270,000, which was expensed in during the nine months ended September 30, 2003.

5. BUSINESS DEVELOPMENT ACTIVITIES

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

Pursuant to the agreement, Hudson and its investors would be entitled to 60% of the equity of a deal, as well as a cash payment equal to 10% of the consideration received by the Company from Hudson and its investors. Upon

financing a real estate deal the Company would issue to Hudson and its investors a warrant to purchase shares of the Company. The Company agreed to file a registration statement for the shares of Hudson and its investors within 24 months and granted them piggyback registration rights after 18 months. Either party has the right to terminate the agreement by written notice to the other. To date, no funds have been generated by Hudson.

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CONSUMERS FINANCIAL CORPORATION AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)
NINE MONTHS ENDED SEPTEMBER 30, 2003 AND 2002
(Unaudited)

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.

6. Stock issuances to consultants

On July 1, 2003, the Company filed a Registration Statement with the Securities and Exchange Commission to register an aggregate of 353,000 shares of its common stock, which the Company issued to three consultants pursuant to certain agreements entered into between the Company and the respective consultants. Each of these agreements terminates on December 31, 2003. In exchange for receipt of the shares of common stock, such consultants will provide various services to the Company, principally relating to the identification of suitable merger or acquisition partners for the Company. The cost of these services, measured by the market value of the shares at the time of issue, is approximately $74,470.

On September 19, 2003, the Company filed a Registration Statement with the Securities and Exchange Commission to register 92,000 shares of common stock which was issued to a consultant pursuant to a consultancy agreement entered into between the Company and the consultant on said date. In exchange for receipt of the shares of common stock, the consultant will provide various services to the Company, principally relating to the identification of suitable merger or acquisition partners for the Company. The cost of these services, measured by the market value of the shares at the time of issue, is approximately $21,160

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

7. Stock issuances to officers and execution of employment agreements

At the September 4, 2003 meeting of the Board of Directors, the Board approved bonuses for Donald J. Hommel, President and Chief Executive Officer and Jack I. Ehrenhaus, Chairman and Chief Operating Officer of the Company. Each of the individuals was issued 1,956,521 shares of common stock valued at $430,435.

On September 1, 2003, the Company entered into employment agreements with each of Donald J. Hommel, President and Chief Executive Officer and Jack I. Ehrenhaus, Chairman and Chief Operating Officer, of the Company. 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 from twice the amount of the base salary, but in no event will the bonus be less than 50% of the 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 10-year term or two years', whichever is greater. If there is a material change in the Company which causes a substantial reduction of 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. The employment agreements also provide for the issuance of 3,000,000 shares of the Company's common stock to each of the officers which were valued at an aggregate of $1,380,000. Each officer also agreed that if the Company has a cash flow shortfall, the officer will take stock in lieu of cash compensation at a 20% discount to the stock price at the payment date.

8. Loan receivable

During the first quarter of 2003, the Company made payments totaling $27,500 to certain individuals who had previously loaned funds to CFC Partners so that CFC Partners could purchase its majority interest in the Company's common stock. Since any obligation to repay the Company is the responsibility of these individuals, one of whom is a director of the Company, CFC Partners has agreed to directly repay this amount to the Company. However, because CFC Partners currently has no ability to repay the amount borrowed, this loan has been fully reserved in the Company's consolidated financial statements through a charge to non-operating expenses.

9. Restricted assets

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

preferred shareholders. At September 30, 2003 and December 31, 2002, these assets consisted entirely of money market funds. However, during 2003, $47,088 was withdrawn from the escrow account to purchase 12,165 shares of preferred stock for $31,629. The remaining $15,459 was deposited into the Company's general cash account. Included in accounts payable and accrued expenses at September 30, 2003 is $12,260 due to preferred shareholders.

10. Redeemable preferred stock:

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

The terms of the redeemable preferred stock require the Company, when and as appropriated by the Board out of funds legally available for that purpose, to make annual payments to a sinking fund. Such

payments were to have commenced on July 1, 1998. The preferred stock terms also provide that any purchase of preferred shares by the Company will reduce the sinking fund requirements by an amount equal to the redemption value ($10 per share) of the shares acquired. As a result of the Company's purchases of preferred stock in the open market and in the tender offer described above, no sinking fund payment for the preferred stock is due until July 1, 2006. However, in connection with the exercise of the option by CFC Partners, the Company deposited $331,434 into a bank escrow account for the benefit of the remaining preferred shareholders (see Note 8).

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

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

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

The preferred stock is convertible at any time, unless previously redeemed, into shares of common stock at a rate of 1.482 shares of common stock for each share of preferred stock (equivalent to a conversion price of $6.75 per share).

The difference between the fair value of the preferred stock at the date of issue and the mandatory redemption value is being recorded through periodic accretions with an offsetting charge to the deficit. Such accretions totaled $3,479 and $9,627 in the first nine months of 2003 and 2002, respectively. The unaccreted discounts were $9,921 and $13,311 as of September 30, 2003 and December 31, 2002, respectively.

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11. PER SHARE INFORMATION

	Nine Months Ended September 30, 2003	Nine Months Ended September 30, 2002	Three M Ende Septembe 2003
Net (loss) income	$ (2,930,406)	$ 163,889	$ (2,710,
Preferred stock dividend requirement	(44,777)	(239,806)	(13,
Accretion of carrying value of preferred stock	(3,479)	(83,708)	(1,
Numerator for basic loss per share - loss attributable to common shareholders	(2,978,662)	(159,625)	(2,725,
Effect of dilutive securities	--	--	
Numerator for diluted loss per share	$ (2,978,662)	$ (159,625)	$ (2,725,
Denominator for basic loss per share - weighted average shares	6,783,070	2,909,419	9,515,
Effect of dilutive securities	--	--	
Denominator for diluted loss per share	6,783,070	2,909,419	9,515,
Basic and diluted loss per common share	$ (0.44)	$ (0.05)	$ (0

12. Related Party Transactions

During 2003, the Company received an unsecured loan from Mr. Hommel, an officer of the Company, in the amount of $5,000 for working capital purposes. This loan bears no interest rate and has no repayment term. No payments of principal have been made on this loan and the amount of $5,000 is outstanding at September 30, 2003.

13. Legal Proceedings

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

14. Commitment and contingency

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.

15. Subsequent events

On October 10, 2003 the Company sold 208,000 shares of its common stock to Wall Street Communications for $26,000 or $0.125 per share pursuant to a subscription agreement.

At the Special Meeting of the shareholders of the Company held August 27, 2003, the shareholders were asked to consider and vote upon a proposal to amend the Company's Articles of Incorporation (i) to effect a one-for-10 reverse stock split of the Company's common stock by reducing the number of issued and outstanding shares of common stock, (ii) to authorize 50 million shares of capital stock of the Company, of which 40 million shares will relate to common stock and 10 million shares will relate to preferred stock and (iii) to permit action upon the written consent of less than all shareholders of the Company, pursuant to section 2524 of the Pennsylvania Business Corporation Law of 1988. Although the meeting occurred and the three actions were approved by the shareholders, at this time the Company's management has only effected two out of three of such authorized actions. On January 27, 2004, an amendment to the Company's Articles of Incorporation was filed with the Pennsylvania Department of State Corporation Bureau which (i) increased the authorized share capital of the Company to 50 million shares, divided into 40 million shares of common stock and 10 million shares of preferred, and (ii) authorized the Company to take

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

At December 31, 2003, the Company accrued unpaid salaries for Mr. Hommel and Mr. Ehrenhaus, each in the amount of $85,600. Both Mr. Hommel and Mr. Ehrenhaus agreed to accept common stock in lieu of cash and the Company has agreed to issue 1,540,800 shares of common stock to each of Mr. Hommel and Mr. Ehrenhaus, valued at $107,856, in satisfaction of these unpaid and accrued salaries. These shares have been accrued for at December 31, 2003 and were issued on March 31, 2004.

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

On March 1, 2004, the Company entered into a one-year consulting agreement with Corporate Communications Group ("CCG") whereby CCG would provide business development and marketing

services in exchange for 300,000 shares of the common stock of the Company. The value of these shares on March 1, 2004 was $21,000.

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

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

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

During October, 2003, the Company entered into a term sheet with Dutchess Private Equities Fund II LP, a equity funding group ("Dutchess") to provide the Company with a $2,000,000 equity line of credit to be used for general corporate purposes. A formal agreement with Dutchess for this equity line was executed on April 15, 2004 and provides that the market price of the Company's stock for the 5 consecutive days prior to the put date can not be below 75% of the closing bid price for the 10 trading days prior to the put date. The put date is the date that the Company submits notice to the investor that it desires to draw down a portion of the line. The purchase price for the

shares to be paid to the investor is discounted to the lowest closing bid price of the stock during the 5 trading days immediately after a put date. The funds will be available to the Company upon an effective registration of the Company's stock issued pursuant to this agreement

On October 27, 2003, the Company entered into an agreement with an investment banking firm to arrange financing for the Company's operations and expansion, provide financial advisory services on mergers and acquisitions, and represent the Company with regard to introductions to accredited investors, financial institutions, strategic partners and potential clients. The investment banker is to receive a percentage based on the amount of equity or debt raised for the Company, and will receive a retainer of $3,750 plus 85,000 shares of common stock of the Company, which were valued at $15,300, with demand and piggyback registration rights. In addition, the banker is entitled to warrants equal to 3% of the equity of the Company upon the successful completion of any financing or merger and acquisition transaction. The banker is also entitled to registration rights, tag along rights, a put option, anti-dilution protection and a right of first refusal. If the Company fails or refuses to close a transaction after funds have been placed in escrow or a commitment letter accepted and approved, the Company is liable for all direct and consequential damages incurred by the banker. To date, no financing or mergers and acquisitions have been generated by this investment banking firm.

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

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

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

A review of the significant factors which affected the Company's financial condition at September 30, 2003 and its results of operations for the nine and three month periods then ended is presented below. Information relating to the same periods in 2002 is also presented for comparative purposes. This analysis should be read in conjunction with the Consolidated Financial Statements and the related Notes appearing elsewhere in this Form 10-Q and in the Company's 2002 Form 10-K.

This Quarterly Report on Form 10-Q includes forward-looking statements which are subject to "safe harbors" created by the Private Securities Litigation Reform Act of 1995. We have based these forward-looking statements on our current expectations and projections about future events. These forward-looking statements can be identified by use of such terms and phrases as "may", "will", "intend", "goal", "estimate", "could", "expect", "project", "predict", "potential", "plans", "anticipate", "should", "continue", "might", "believe", "scheduled" or the negative of such terms or other comparable terminology. Readers are cautioned not to place undue reliance on these forward-looking

statements which speak only as of the date the statement was made. These risks, uncertainties and other factors include those identified under "Risk Factors" in this Quarterly Report on Form 10-Q. In light of these risks, uncertainties and assumptions, the forward-looking events discussed in this Quarterly Report on Form 10-Q might not occur.

The Company undertakes no obligation to publicly update or revise any forward-looking statements, whether as a result of new information, future events or otherwise, after the date of this Quarterly Report on Form 10-Q. In addition, we make no representation with respect to any materials available on the Internet including materials available on our website.

OVERVIEW

At a special meeting of shareholders held on March 24, 1998, the Company's preferred and common 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. Because the common shareholders would not receive a distribution under the plan of liquidation and dissolution, and the preferred shareholders would receive less than the full liquidation value of their shares, the Board of Directors subsequently determined that selling the Company for its value as a "public company shell" was a better alternative for the common and preferred shareholders than liquidating the Company.

In October 2001, the Board of Directors met to consider three offers which were received regarding the potential purchase of the Company. One of the three offers was from CFC Partners, Ltd. (CFC Partners). Following its review of each offer, the Board determined that the offer from CFC Partners was the best offer. In February 2002, the Company and CFC Partners entered into an option agreement which permitted CFC Partners to acquire a 51.2% interest in the Company at $.04 per share. The option held by CFC Partners was exercisable following the completion by the Company of a tender offer to its preferred shareholders. The completion of this tender offer was, in turn, dependent on the sale of the Company's remaining insurance subsidiary, since substantially all of the Company's assets were held by the subsidiary and state insurance laws would not permit the withdrawal of those assets.

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

On August 28, 2002, the Board of Directors terminated the Plan of Liquidation and authorized the issuance of 2,700,000 shares of common stock to CFC Partners. Donald J. Hommel, the president of CFC Partners, was

also appointed as a Director of the Company to fill an existing vacancy on the Board. Following such appointment, the Company's officers resigned and the Board elected Mr. Hommel as the Company's President and Chief Executive Officer. In addition, James C. Robertson and John E. Groninger, who had been Directors of the Company for more than 30 years, also resigned.

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

As a result of the approval of the Plan of Liquidation, the Company adopted a liquidation basis of accounting for the period from March 25, 1998 to August 28, 2002. Under this basis of accounting, assets were stated at their estimated net realizable values and liabilities were stated at their anticipated settlement amounts. As a result of the transaction with CFC Partners and the related termination of the Plan of Liquidation, effective August 29, 2002, the Company re-adopted accounting principles applicable to going concern entities.

At September 30, 2003, other than its equity investment in Vaughn Partners, LLC, the Company had no significant business operations; however, the Company's new management is currently pursuing various business ventures. Their initial focus is on joint ventures with or acquisitions of companies in the real estate, construction management and medical technology businesses. In April 2003, the Company, through its majority shareholder, entered into agreements to acquire garden apartment complexes in Springfield, Illinois. The Company also had agreements to purchase garden apartment complexes in Marietta, Georgia and a high-rise residential building in Chicago, Illinois; however, neither transaction was consummated. In June 2003, the Company entered into an agreement to acquire a 200-unit garden apartment complex in the Tampa, Florida area; this transaction was also never consummated.

In May 2003, Vaughn Partners LLC (Vaughn), an Illinois limited liability company in which the Company owns a 47.5% interest, acquired the Springfield, Illinois garden apartment complexes. Vaughn acquired this property with cash contributed by the third party investors who own 5% of Vaughn, a $4,650,000 bank loan secured by a first mortgage lien on the property and a $1,200,000 second mortgage on the property. Vaughn is currently in default on the second mortgage. 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 therefrom. An individual lent Vaughn $100,000 to close on the acquisition, and Vaughn is currently in default on said loan. 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. Vaughn is currently in discussions with both the second mortgagee and the individual lender regarding terms of re-payment on the defaulted notes. Vaughn also obtained and used, as of September 30, 2003, $301,000 of a $600,000 construction loan from the bank for the purpose of completing certain renovations to the property. In connection with the acquisition, Spartan Properties LLC, also entered into an agreement with Vaughn to manage the property for a fee. The Company is not directly or indirectly liable for any of the obligations of Vaughn and its exposure is limited solely to its investment in Vaughn which is carried at zero in these condensed consolidated financial statements.

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 47.5% equity interest in Vaughn is being accounted for under the equity method in the Company's condensed consolidated financial statements at September 30, 2003.

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In April 2003, CFC Partners entered into a letter of intent with a leading radiologist and operator of several radiology centers in the metropolitan New York area to purchase, develop and operate positron emission tomography (PET) imaging centers, initially in the New York area, but this letter of intent has terminated. On September 10, 2003, the Company, through its subsidiary, P.E.T. Centers of America, signed a lease for 3,450 square feet of medical space and will begin to design and build its first PET imaging 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 PET Centers are liable to the landlord for all costs and expenses incurred in connection with enforcing the provisions of the lease as well as the 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.

At September 30, 2003, the Company's shareholders' deficiency totaled $534,359 compared to a shareholders' deficiency of $196,485 at December 31, 2002. The Company's net loss for the nine months ended September 30, 2003 totaled $2,930,406 compared to net income of $163,889 for the same period in 2002.

RESULTS OF OPERATIONS

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

Nine Months Ended September 30, 2003 and 2002

For the nine months ended September 30, 2003, the Company reported a net loss of $2,930,406 ($0.44 per share) compared to net income of $163,889 in the first nine months of 2002. In 2002, the Company's net income was the result of a $179,000 gain from the sale of the state insurance licenses of Consumers Life, as part of the sale of that subsidiary, and a $56,000 gain on the sale of certain bonds held by the subsidiary. During this period, the Company incurred approximately $62,000 in professional fees, principally legal and accounting fees, including $17,000 in legal fees related to the tender offer to the Company's preferred shareholders. The Company also incurred a $29,000 fee in connection with the termination of a guaranteed investment contract held by the Company's retirement plan custodian.

For the nine months ended September 30, 2003, the Company had only nominal non-operating income during the period, so the current year net loss is primarily the result of expenses incurred while the Company is attempting to develop new businesses. During the first nine months of 2003, these costs consisted principally of salaries to two individuals, the expense of $2,596,012 related to the issuance of an aggregate of 11,725,315 of shares issued during 2003, other selling, general and administrative expenses aggregating $306,732 and a $27,500 write-off on a receivable from the Company's majority shareholder.

Three Months Ended September 30, 2003 and 2002

The Company's net loss for the third quarter of 2003 was $2,710,788 ($0.29 per share). Since the Company only had nominal non-operating income during the quarter, the net loss is attributable to ongoing expenses incurred in connection with developing new business operations. During the quarter, the Company incurred $2,596,012 of stock based compensation expenses in connection with the issuances of an aggregate of 11,725,315 shares and $111,599 of additional selling, general and administrative expenses. The majority of these expenses consisted of officer salaries and consulting fees.

For the three months ended September 30, 2002, the Company reported net income of $123,889 ($0.01 per share) as a result of the gains arising from the sale of Consumers Life. During the quarter, the

Company incurred approximately $33,500 in salaries and related benefits as well as professional and other fees of $42,000.

FINANCIAL CONDITION

Capital Resources

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

For the nine months ended September 30, 2003, the Company's cash and cash equivalents decreased by $159,589 to $6,169 at the end of the period. The decrease is principally the result of the cash expenses paid by the Company during the period and the $27,500 loan made to CFC Partners. The Company currently has no ability to pay any additional expenses until it either develops new revenue sources or obtains financing.

Hudson Valley

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

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

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

Equity Credit Line

During October, 2003, the Company entered into a term sheet with Dutchess Private Equities Fund II LP, a equity funding group ("Dutchess") to provide the Company with a $2,000,000 equity line of credit to be used for general corporate purposes. A formal agreement with Dutchess for this equity line was executed on April 15, 2004 and provides that the market price of the Company's stock for the 5 consecutive days prior to the put date can not be below 75% of the closing bid price for the 10 trading days prior to the put date. The put date is the date that the Company submits notice to the investor that it desires to draw down a portion of the line. The purchase price for the shares to be paid to the investor is discounted to the lowest closing bid price of the stock during the 5 trading days immediately after a put date. The funds will be available to the Company upon an effective registration of the Company's stock issued pursuant to this agreement.

Investment Banking Agreement

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

Liquidity

In connection with the acquisition of the Company by CFC Partners, substantially all of the Company's remaining liquid assets were used to complete a tender offer to the preferred shareholders in August 2002. At September 30, 2003, the Company had $6,169 in cash. Furthermore, as of that date, the Company had no significant business operations and no sources of operating revenues and cash flows. As indicated above, the Company is currently pursuing various business opportunities, including strategic alliances, as well as the merger or combination of existing businesses with the Company. The Company's management is initially focusing on joint ventures with or acquisitions of companies in the real estate, insurance agent, construction management and medical technology business segments. However, there is no assurance that the Company's efforts in this regard will be successful.

As indicated above, the Company currently has no ability to pay any additional expenses until it either develops new revenue sources or obtains financing. Without new revenues and/or immediate financing, management's efforts to develop the Company's real estate, insurance agent, construction management

and medical technology businesses are not likely to succeed.

Going concern and management plans

The accompanying consolidated financial statements have been prepared assuming that the Company will continue as a going concern. However, at September 30, 2003 the Company had a cash balances of only $6,169, current liabilities of $166,419 without any other current assets, a shareholders' deficiency of $534,357 and was delinquent in its payment to its existing creditors. These matters raise substantial doubt about the Company's ability to continue as a going concern.

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

The Company's ability to continue as a going concern is dependent on its success in developing new cash revenue sources or, alternatively, in obtaining short-term financing while its businesses are being developed. There are no assurances that such financing can be obtained or, if available, be obtained at terms acceptable to the Company. To the extent that such financing is equity based, this may result in dilution to the existing shareholders.

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

Redeemable Preferred Stock

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

The terms of the redeemable preferred stock require the Company, when and as appropriated by the Board out of funds legally available for that purpose, to make annual payments to a sinking fund. Such payments were to have commenced on July 1, 1998. The preferred stock terms also provide that any purchase of preferred shares by the Company will reduce the sinking fund requirements by an amount equal to the redemption value ($10 per share) of the shares acquired. As a result of the Company's purchases of preferred stock in the open market and in the tender offer described above, no sinking fund payment for the preferred stock is due until July 1, 2006. However, in connection with the exercise of the option by CFC Partners, the Company deposited $331,434 into

a bank escrow account for the benefit of the remaining preferred shareholders (see Note 6).

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

Dividends at an annual rate of $.85 per share are cumulative from the original issue date of the preferred stock. Dividends are payable quarterly on January 1, April1, July 1 and October1 of each year. The dividends payable on January 1, 2004 and for all four quarters of 2003 have not been declared or paid by the Company. Dividends in arrears for the five quarters total $74,205, $60,783 of which relate to the four quarterly dividends for 2003. When the Company is in arrears as to dividends or sinking fund appropriations for the preferred stock, dividends to holders of the Company's common stock as well as purchases, redemptions or acquisitions by the Company of shares of the Company's common stock are restricted. Since the Company is in default with respect to the payment of preferred dividends and the aggregate amount of the deficiency is equal to at least four quarterly dividends, the holders of the preferred stock are entitled, only while such arrearage exists, to elect two additional members to the then existing Board of Directors. . The preferred shareholders have not elected these two additional directors as of this date.

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

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

The difference between the fair value of the preferred stock at the date of issue and the mandatory redemption value is being recorded through periodic accretions with an offsetting charge to the deficit. Such accretions totaled $3,479 and $9,627 in the first nine months of 2003 and 2002, respectively.

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Item 3. Quantitative and Qualitative Disclosure About Market Risk

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

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

Item 4. Controls and Procedures

Evaluation of Disclosure Controls and Procedures

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.

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

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

PART II. OTHER INFORMATION

Item 1. Legal Proceedings

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

Item 2. Changes in Securities and Use of Proceeds

During the three months ended September 30, 2003, there have been no limitations or qualifications, through charter documents, loan agreements or otherwise, placed upon the holders of the registrant's common or preferred stock to receive dividends, except as described in Item 3 below.

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

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

Item 3. Defaults upon Senior Securities

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

When the registrant is in arrears as to dividends or sinking fund appropriations for the preferred stock, dividends to holders of the registrant's common stock as well as purchases, redemptions or acquisitions by the registrant of shares of its common stock are restricted. Since the registrant is in default with respect to the payment of preferred dividends and the aggregate amount of the deficiency is equal to four quarterly dividends, the holders of the preferred stock are entitled, only while such arrearage exists, to elect two additional members to the then existing Board of Directors.

Item 4. Submission of Matters to a Vote of Security Holders

On August 7, 2003, the Company mailed an Information Statement to its shareholders in connection

with a special meeting of shareholders to be held on August 27, 2003 (the Special Meeting). At the Special Meeting, the shareholders were asked to consider and vote upon a proposal to amend the Company's Articles of Incorporation (i) to effect a one-for-10 reverse stock split of the Company's common stock by reducing the number of issued and outstanding shares of common stock from 5,276,781 to approximately 527,678, (ii) to authorize 50 million shares of capital stock of the Company, of which 40 million shares will relate to common stock and 10 million shares will relate to preferred stock and (iii) to permit action upon the written consent of less than all shareholders of the Company, pursuant to section 2524 of the Pennsylvania Business Corporation Law of 1988. CFC Partners owns a majority of the Company's issued and outstanding shares of common stock and has voted to approve the proposal presented above. Although the meeting occurred and the three actions were approved by the shareholders, at this time the Company's management has only effected two out of three of such authorized actions. On January 27, 2004, an amendment to the Company's Articles of Incorporation was filed with the Pennsylvania Department of State Corporation Bureau which (i) increased the authorized share capital of the Company to 50 million shares, divided into 40 million shares of common stock and 10 million shares of preferred, and (ii) authorized the Company to take action upon the written consent of stockholders holding the minimum number of votes that would be necessary to authorize the action at a meeting at which all stockholders entitled to vote thereon were present and voting.

Item 5. Other Information

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

The Company is not directly or indirectly liable for any of the obligations of Vaughn and its exposure is limited solely to its investment in Vaughn which is carried at zero in these condensed consolidated financial statements.

The 47.5% equity interest in Vaughn is being accounted for under the equity method in the Company's condensed consoldated financial statements at September 30, 2003.

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

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

$21,000.

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

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

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

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

Item 6. Exhibits and Reports on Form 8-K

(a) Exhibits:

4.1 Employment Agreement effective September 1, 2003, by and between Consumers Financial Corporation and Donald J. Hommel

4.2 Employment Agreement effective September 1, 2003, by and between Consumers Financial Corporation and Jack Ehrenhaus

4.3 Agreement dated October 27, 2003 between Consumers Financial Corporation and David Sassoon & Co. PLC

4.4 Agreement dated as of September 10, 2003 by and between Hudson Valley Home Builders & Developers Corp. and Consumers Financial Corp.

31 Rule 13a-14(a)/15d-14(a) Certifications

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

32 Section 1350 Certifications

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

(b) Reports on Form 8-K

On September 25, 2003, the Company filed a Current Report on Form 8-K under Item 4 to announce the resignation of Stambaugh Ness, PC as the Company's independent accountants and the engagement of Marcum & Kliegman LLP engaged as the new principal independent accountants, commencing with the

interim financial statement review for the third quarter ending September 30, 2003, and the audit for the year ending December 31, 2003.

SIGNATURES

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

CONSUMERS FINANCIAL CORPORATION
Registrant

Date May 20, 2004 By /s/ Donald J. Hommel

Donald J. Hommel
President and Chief Executive Officer

Date May 20, 2004 By /s/ Donald J. Hommel

Donald J. Hommel
Chief Financial Officer