

CONSUMERS BANCORP INC /OH/  
Form DEF 14A  
September 23, 2009

**UNITED STATES**  
**SECURITIES AND EXCHANGE COMMISSION**

Washington, D.C. 20549

**SCHEDULE 14A**

**Proxy Statement Pursuant to Section 14(a) of the**  
**Securities Exchange Act of 1934**  
**(Amendment No. \_\_ )**

Filed by the Registrant

Filed by a Party other than the Registrant

Check the appropriate box:

Preliminary Proxy Statement

**Confidential, for Use of the Commission Only (as permitted by Rule 14a-6(e)(2))**

Definitive Proxy Statement

Definitive Additional Materials

Soliciting Material Pursuant to §240.14a-12

# Consumers Bancorp, Inc.

(Name of Registrant as Specified In Its Charter)

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(Name of Person(s) Filing Proxy Statement, if other than the Registrant)

Payment of Filing Fee (Check the appropriate box):

No fee required.

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(1) Title of each class of securities to which transaction applies:

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(4) Date Filed:

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**CONSUMERS BANCORP, INC.**

614 East Lincoln Way

P.O. Box 256

Minerva, Ohio 44657

**NOTICE OF ANNUAL MEETING OF SHAREHOLDERS**

**TO BE HELD ON OCTOBER 28, 2009**

To Our Shareholders:

Notice is hereby given that the Annual Meeting of Shareholders of Consumers Bancorp, Inc. will be held at Great Trail Tee House, 10154 Great Trail Drive NE, Minerva, Ohio, on Wednesday, October 28, 2009, at 9:00 a.m. (local time), for the following purposes:

1. To elect three Class III directors to serve a three-year term until the Annual Meeting of Shareholders in 2012 or until their successors are elected and qualified;
  2. To consider and vote upon a proposal to adopt amendments to Consumers Bancorp, Inc.'s Amended and Restated Articles of Incorporation to increase the number of authorized shares of common stock from 2.5 million to 3.5 million and to authorize 350 thousand shares of preferred stock; and
  3. For the transaction of any other business that may properly come before the meeting or any adjournment thereof.
- Only those shareholders of record at the close of business on August 31, 2009 are entitled to notice of and to vote at the Annual Meeting of Shareholders and any adjournment thereof.

By Order of the Board of Directors

Laurie L. McClellan

Chairman

Minerva, Ohio

September 23, 2009

**YOUR VOTE IS IMPORTANT. WE URGE YOU TO SIGN, DATE AND RETURN THE ENCLOSED PROXY AS PROMPTLY AS POSSIBLE WHETHER OR NOT YOU PLAN TO ATTEND THE MEETING IN PERSON. IF YOU ATTEND THE MEETING AND SO DESIRE, YOU MAY WITHDRAW YOUR PROXY BY GIVING A WRITTEN NOTICE OF REVOCATION AND VOTE IN PERSON.**

**CONSUMERS BANCORP, INC.**

614 East Lincoln Way

P.O. Box 256

Minerva, Ohio 44657

**PROXY STATEMENT FOR ANNUAL MEETING OF SHAREHOLDERS**

**TO BE HELD ON OCTOBER 28, 2009**

**GENERAL INFORMATION**

This Proxy Statement is furnished in connection with the solicitation of proxies by the Board of Directors of Consumers Bancorp, Inc. (the Company or Consumers Bancorp) for use at the Annual Meeting of Shareholders (the Annual Meeting) to be held at Great Trail Tee House, 10154 Great Trail Drive NE, Minerva, Ohio, on Wednesday, October 28, 2009, at 9:00 a.m., E.S.T and any adjournments thereof.

This Proxy Statement and the accompanying proxy are first being mailed to shareholders on or about September 23, 2009. It is contemplated that solicitation of proxies generally will be by mail. However, officers or employees of Consumers Bancorp or Consumers National Bank, a wholly-owned subsidiary of Consumers Bancorp, may also solicit proxies by electronic media without additional compensation. Consumers Bancorp will pay the costs associated with the solicitation of proxies.

Shareholders of record at the close of business on August 31, 2009 are entitled to notice of and to vote at the Annual Meeting. As of August 31, 2009, 2,029,558 Consumers Bancorp common shares, no par value, were issued and outstanding. Each shareholder will be entitled to one vote for each common share on all matters that come before the Annual Meeting.

Proxies solicited by the Board of Directors will be voted in accordance with the instructions given, unless revoked. Where no instructions are provided, all properly executed proxies will be voted (1) **for** the election to the Board of Directors of all nominees for Class III directors named in this Proxy Statement; (2) **for** the amendment to Consumers Bancorp, Inc.'s Amended and Restated Articles of Incorporation to increase the number of authorized shares of common stock to 3.5 million and to authorize 350 thousand shares of preferred stock; and (3) at the discretion of the holders of the proxies, on such other business that may properly come before the meeting or any adjournment thereof.

The shareholders present in person or by proxy shall constitute a quorum. The three nominees receiving the highest number of votes cast, including votes cast cumulatively shall be elected Directors. Abstentions and broker non-votes will be counted in establishing the quorum. A proxy may be revoked at any time before it is voted by providing written notice to Consumers Bancorp, by submitting a later dated proxy or by voting in person at the Annual Meeting. Any written notice revoking a proxy should be sent to Ms. Theresa Linder, Secretary, Consumers Bancorp, Inc., P.O. Box 256, Minerva, Ohio 44657.

**PROPOSAL 1**

**ELECTION OF DIRECTORS**

*Election of Directors*

On September 19, 2008, Ralph J. Lober, II was appointed by the Board of Directors as President and Chief Executive Officer of Consumers Bancorp, Inc. to replace Steven L. Muckley. The Board of Directors currently consists of nine members. Section Five of the Company's Amended and Restated Articles of Incorporation provides that the Board of Directors be divided as equally as possible into three classes designated as Class I, Class II and Class III. Generally, the directors in each class are elected to serve staggered three year terms so that the term of office of one class of directors expires at each annual meeting. Currently, the Board of Directors has four directors in Class I with terms expiring in 2010, three directors in Class II with terms expiring in 2011 and two directors in Class III with terms expiring in 2009.

The terms of office of current Class III directors John P. Furey and Thomas M. Kishman will expire at the Annual Meeting upon the election of their successors. In order to divide the classes as equally as possible Mr. Furey, Mr. Kishman and Mr. Lober have been nominated by the Board of Directors to serve as Class III directors for three-year terms that will expire at the 2012 annual meeting upon the election of their successors. Additional information concerning the nominees for director, the directors and executive officers of Consumers Bancorp is provided in the following pages.

The common shares represented by the accompanying proxy will be voted **for** the election of the nominees to serve as directors, unless contrary instructions are indicated on the proxy card. The nominees for director receiving the greatest number of **for** votes will be elected as directors. If the election of directors is by cumulative voting, the persons appointed by the accompanying proxy intend to cumulate the votes represented by the proxies they receive and distribute such votes in accordance with their best judgment.

If one or more of the nominees should at the time of the Annual Meeting be unavailable or unable to serve as a director, the common shares represented by the proxies will be voted to elect the remaining nominees and any substitute nominee or nominees designated by the Board of Directors. The Board of Directors knows of no reason why any of the nominees will be unavailable or unable to serve.

**The Board of Directors recommends that the shareholders vote **FOR****

**the election of the nominees as Class III directors.**

**PROPOSAL 2**

**PROPOSAL TO AMEND CONSUMERS BANCORP S AMENDED**

**AND RESTATED ARTICLES OF INCORPORATION**

The Amended and Restated Articles of Incorporation of Consumers Bancorp authorize the issuance of up to 2.5 million shares of common stock. The Board of Directors is requesting that shareholders approve an increase in the number of authorized shares of common stock from 2.5 million to 3.5 million. In addition, the Board has adopted a resolution to amend the Company's Amended and Restated Articles of Incorporation to authorize 350 thousand shares of preferred stock, with no par value ( Preferred Shares ). A copy of the amendment is set forth in Exhibit A to this proxy statement. The Amended and Restated Articles of Incorporation currently authorize only the issuance of common stock.

The additional shares of common stock that remain authorized but unissued would be available for issuance at such times and for such purposes as the Board of Directors may deem advisable without further action by Consumers Bancorp's shareholders, except as may be required by the preemptive rights granted to the shareholders in the TENTH Article of the Amended and Restated Articles of Incorporation or any applicable laws or regulations. We expect authorized but unissued shares of common stock will be issued as part of the Dividend Reinvestment and Stock Purchase Plan. Other purposes for the issuance of shares of common stock may include stock dividends, employee benefit programs, business combinations, acquisitions or other corporate purposes as may be deemed advisable by the Board of Directors. Other than shares issued for the Dividend Reinvestment and Stock Purchase Plan, the Board of Directors has no current plans to issue any shares of common stock and does not intend to issue any common stock except on terms or for reasons the Board of Directors would deem to be in the best interests of Consumers Bancorp and its shareholders.

The amendment to authorize shares of Preferred Shares will vest in the Board the authority to determine by resolution the terms of one or more series of Preferred Shares, including the preferences, rights and limitations of each series. Provisions in a company's articles of incorporation authorizing preferred stock in this manner are often referred to as "blank check" provisions because they give a board of directors the flexibility, at any time or from time to time, without further shareholder approval (except as may be required by applicable laws, regulatory authorities or the rules of any stock exchange on which the company's securities are then listed), to create one or more series of preferred stock and to determine by resolution the terms of each such series. The Board believes that authorization of the Preferred Shares in the manner proposed will provide the Company with greater flexibility in meeting future capital requirements by creating series of Preferred Shares customized to meet the needs of particular transactions and then prevailing market conditions.

At the present time, the Board does not have any plans calling for the issuance of Preferred Shares.

The additional common stock or Preferred Shares would be available for issuance from time to time for any proper corporate purposes, including in connection with strategic alliances, joint ventures, or acquisitions. Also, the Board believes the flexibility to issue Preferred Shares can enhance the Board's arm's-length bargaining capability on behalf of the Company's shareholders in a takeover situation. However, under some circumstances, the ability to designate the rights of, and issue, Preferred Shares could be used by the Board to make a change in control of the Company more difficult. The Board of Directors is not aware of any attempt to take control of Consumers Bancorp and the Board of Directors has not presented the proposal with the intent that it be utilized as an anti-takeover device.

The authorization of additional common stock would not, by itself, have any effect on your rights as a Consumers Bancorp shareholder. The issuance of common stock for corporate purposes, other than a stock split or stock dividend in pro rata distribution to existing shareholders could have, among other things, a dilutive effect on earnings per share and on the equity and voting power of a shareholder at the time of their issuance if a shareholder does not exercise his or her preemptive rights if such rights are available in a given situation.

The rights of the holders of common stock will be subject to, and may be adversely affected by, the rights of the holders of any Preferred Shares that may be issued in the future. To the extent that dividends would be payable on any issued Preferred Shares, the result would be to reduce the amount otherwise available for payment of dividends on outstanding shares of common stock and there might be restrictions placed on the Company's ability to declare dividends on the common stock or to repurchase shares of common stock. The issuance of Preferred Shares having voting rights would dilute the voting power of the holders of common stock. To the extent that Preferred Shares is made convertible into shares of common stock, the effect, upon such conversion, would also be to dilute the voting power and ownership percentage of the holders of common stock. In addition, holders of Preferred Shares would normally receive superior rights in the event of any dissolution, liquidation, or winding up of the Company, thereby diminishing the rights of the holders of common stock to distribution of the Company's assets.

The affirmative vote of the holders of two-thirds of the outstanding shares of common stock of Consumers Bancorp is necessary for the adoption of the proposed amendment to the Amended and Restated Articles of Incorporation.

Unless otherwise indicated, the accompanying proxy will be voted for the proposed amendment to the Amended and Restated Articles of Incorporation.

**The Board of Directors recommends that shareholders vote FOR the proposal to amend the Amended and Restated Articles of Incorporation to increase the number of authorized shares of common stock and authorize shares of Preferred Shares.**



**DIRECTORS AND EXECUTIVE OFFICERS**

The following table sets forth information for each person who is a nominee to serve on the Board of Directors or whose term as a Director will continue after the Annual Meeting.

Name	Age	Principal Occupations And Employment During		Positions Held with Consumers Bancorp or Consumers National Bank	Served as Director Since	Term to Expire
		Past Five Years				
<b>Nominees to serve as Class III Directors</b>						
John P. Furey	57	Corporate President of Furey's Wheel World, Inc., Malvern, Ohio, an automotive retail sales business		Director	1995	2012 <sup>1</sup>
Thomas M. Kishman	60	Co-owner of Kishman's IGA and GasNGo, Minerva, Ohio, a retail grocery and fuel center		Director	1995	2012 <sup>1</sup>
Ralph J. Lober, II	42	President and Chief Executive Officer; President and Chief Operating Officer (January 2008 September 2008); Executive Vice President and Chief Operating Officer of Consumers National Bank and Consumers Bancorp, Inc. (2007); Executive Vice President and Chief Financial Officer of Morgan Bank National Association (2001 May 2007)		Director,  President and Chief Executive Officer, President and Chief Operating Officer (January 2008 September 2008), Executive Vice President and Chief Operating Officer (2007)	2008	2012 <sup>2</sup>
<b>Class I Directors</b>						
James V. Hanna	66	Deputy Sheriff, Carroll Co. Sheriff's Dept. (1999 Present), Maintenance, Louisville YMCA (1992 Present)		Director	2005	2010
James R. Kiko, Sr.	65	Director of Kiko Auctioneers, Inc., Canton, Ohio, a real estate brokerage and auction service, Partner, owner and operator of Kiko Farms		Director	1997	2010
John E. Tonti	68	President of Salem Community Foundation; Retired, former Key Bank, Canton-Mahoning Valley advisory board member (2001 2004); Executive Director Northern Columbiana County United Way (2003 2006); Certified Public Accountant, former Partner, Hill, Barth & King, Salem, Ohio (1963 2000)		Director	2004	2010
<b>Class II Directors</b>						
David W. Johnson	49	Corporate President of Summitville Tiles, Inc., Summitville, Ohio, a tile manufacturing business; President of Spread Eagle Tavern & Inn, fine dining restaurant and inn; Partner of PCJ Ltd. and Johnson Joint Venture,		Director	1997	2011

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		family holding companies			
Laurie L. McClellan	56	Chairman of the Board of Consumers Bancorp, Inc. and Consumers National Bank; Acting Treasurer of Consumers Bancorp, Inc. (2005); Radiologic Technologist, Westwood Urgent Care, Alliance, Ohio (1994 - 2002) and IMS, Alliance, Ohio (2003 - 2004)	Director, Chairman	1987	2011
Harry W. Schmuck, Jr.	60	Operations Manager of Schmuck Partnership, an agricultural business; Farm Sales Associate of Russ Kiko & Associates, Inc.	Director	2005	2011

1 Current term as Class III director expire in 2009.

2 Current term as Class I director expire in 2010.

The following information is provided with respect to each person who currently serves as an executive officer of the Company.

Name	Age	Positions Held with	Principal Occupations And Employment During Past Five Years	Served as Officer Since
		Consumers Bancorp or Consumers National Bank		
<b>Non-Director Executive Officers:</b>				
Stormie L. Gross	52	Vice President Risk Management, Compliance Officer; Internal Audit Manager (2005 - 2006); Risk Management Loan Review (2003 - 2005)	Internal Audit Manager (2005 - 2006); Risk Management Loan Review Consumers National Bank (2003 - 2005)	2007
Paul B. Hugenberg, III	37	Chief Information Officer	Adjunct Faculty, Stark State Technical College (2007 - 2008); Senior Manager, Information Risk & Performance Services, Crowe Chizek and Company LLC (2003 - 2005)	2005
Phillip M. Suarez	60	Chief Credit Officer, Senior Vice President and Senior Loan Officer (2000 - July 2009)	Senior Vice President and Senior Loan Officer (2000 - July 2009), Consumers National Bank	2000
Larry P. Marcus	50	Senior Vice President and Senior Loan Officer	Vice President of Finance, Stark Development Board (1999 - July 2009)	2009
Renee K. Wood	38	Chief Financial Officer and Treasurer; Controller (Jan 2005 - July 2005)	Controller, Consumers Bancorp, Inc. and Consumers National Bank (Jan 2005 - July 2005); Vice President Finance Dept., Unizan Bank, National Association (2002 - 2005)	2005

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**THE BOARD OF DIRECTORS AND**

**ITS COMMITTEES**

The Board of Directors conducts its business through meetings of the Board and its committees. Consumers Bancorp held 17 Board meetings during the 2009 fiscal year. All directors attended at least 75% of the total number of Consumers Bancorp Board meetings and meetings held by all committees of the Board on which they served during the 2009 fiscal year. Currently, each member of the Board of Directors of Consumers Bancorp also serves as a member of the Board of Directors of Consumers National Bank. Consumers National Bank held 15 Board of Directors meetings during the 2009 fiscal year, plus two days of Strategic Planning meetings. The Company has determined that all directors, except Mr. Hanna, Ms. McClellan and Mr. Lober are independent directors under the listing standards of the NASDAQ Stock Market Marketplace Rules and the additional independence requirements of the Company.

Although the Company does not have a formal policy with respect to Board member attendance at the annual meeting of shareholders, each member is encouraged to attend. All Board members attended the 2008 Annual Meeting of Shareholders.

Consumers Bancorp has an Asset/Liability Committee, Audit Committee, Compensation Committee, Corporate Governance Committee, Executive Committee, Loan Committee and Nominating Committee, each of which serves in dual capacity as a committee of Consumers Bancorp and Consumers National Bank.

The Asset/Liability Committee is comprised of Mr. Hanna, Mr. Johnson, Mr. Schmuck, Mr. Tonti and Mr. Lober, who serves as chairman. Mr. Muckley served on the committee from July 1, 2008 until September 19, 2008. The Asset/Liability Committee is primarily responsible for ensuring both Consumers Bancorp and Consumers National Bank have adequate investment and funds management policies. The committee makes recommendations relative to the strategic direction of the Company and establishes key benchmarks relative to performance. The Asset/Liability Committee is also responsible for establishing procedures for monitoring the management of the investment portfolio and Consumers National Bank's liquidity, capital and interest rate risk position. During the fiscal year 2009, the Asset/Liability Committee met four times.

The Audit Committee is comprised of Mr. Furey, Mr. Kiko, Mr. Kishman, Mr. Schmuck and Mr. Tonti, who serves as chairman. The oversight function of the Audit Committee includes the review of all internal and external audit functions and the approval and engagement of the Company's independent auditors. The Board of Directors of Consumers Bancorp adopted a revised Audit Committee Charter in May 2009 which is attached as Exhibit B and is also available on the Company's website [www.consumersbancorp.com](http://www.consumersbancorp.com). The Board of Directors of Consumers Bancorp has determined that each member of the Audit Committee meets the independence standards of Rule 4200 (a) (15) of the NASDAQ Stock Market Marketplace Rules and that Mr. Tonti satisfies the requirements of a financial expert as defined by the applicable Security and Exchange Commission rules and regulations. The Report of the Audit Committee is on page 17 of this Proxy Statement. During fiscal year 2009, the Audit Committee met five times.

The Compensation Committee reviews overall bank compensation policy and executive management compensation. This committee is comprised of Mr. Kishman, Mr. Johnson, Ms. McClellan and Mr. Furey, who serves as chairman. The Report of the Compensation Committee is on page 16 of this Proxy Statement. Our compensation philosophy and objectives are described in the Compensation Discussion and Analysis section beginning on page 12 of this proxy statement. During the fiscal year 2009, the Compensation Committee met five times. The Compensation Committee Charter is available on the Company's website [www.consumersbancorp.com](http://www.consumersbancorp.com).

The Corporate Governance Committee is comprised of Mr. Kishman, Mr. Schmuck and Mr. Johnson, who serves as chairman. The committee is responsible for making independent recommendations to the Board of Directors as to best practices for Board governance and conducting an evaluation of Board performance. During the fiscal year 2009, the Corporate Governance Committee met two times.

The Executive Committee reviews various executive and interim Board matters as outlined by its charter. This committee is comprised of Mr. Furey, Mr. Kiko, Mr. Tonti and Ms. McClellan, who serves as the chairperson. During the fiscal year 2009, the Executive Committee met seven times.

The Loan Committee is comprised of Mr. Furey, Mr. Hanna, Mr. Lober, Ms. McClellan, Mr. Schmuck, and Mr. Kiko, who serves as chairman. The Loan Committee reviews loan requests and is responsible for approving loans that exceed an individual loan officer's or Internal Loan Committee's lending authority. During the fiscal year 2009, the Loan Committee met 23 times.

The Nominating Committee is comprised of Mr. Kiko, Mr. Johnson, Ms. McClellan and Mr. Kishman, who serves as chairman. The Board of Directors of Consumers Bancorp has determined that Mr. Johnson, Mr. Kiko and Mr. Kishman meet the independence standards of Rule 4200 (a) (15) of the NASDAQ Stock Market Marketplace Rules. In addition, the Board of Directors has determined that it is in the best interest of the Company to have Ms. McClellan, who owns or controls more than 20% of the Company's voting securities, serve on the Nominating Committee. During the fiscal year 2009, the Nominating Committee met twice.

Under the terms of the Nominating Committee Charter the Nominating Committee is responsible for developing and implementing a process and guidelines for the selection of individuals for nomination to the Board of Directors and considering incumbent directors for nomination for re-election. The Nominating Committee will consider candidates for director who are recommended by shareholders in accordance with the Company's Code of Regulations and the Board Addition/Replacement Procedures found in the Board Supervision Policy. Candidates must be individuals with a good reputation who demonstrate civic character, business success and community involvement. They must be willing to commit their time to Board and committee meetings, keep apprised of banking issues and complete continuing education courses. The Nominating Committee is responsible for the selection of the final slate of nominees for election to the Board of Directors. Those nominees recommended by the Committee are then submitted to the Board of Directors for approval. The Nominating Committee Charter is available on the Company's website [www.consumersbancorp.com](http://www.consumersbancorp.com).

Shareholders desiring to nominate a candidate for election as a director at the 2010 Annual Meeting of Shareholders other than for inclusion in Consumers Bancorp's proxy statement and form of proxy must deliver written notice to the Secretary of Consumers Bancorp, at its executive offices, 614 East Lincoln Way, Minerva, Ohio 44657, not later than August 8, 2010 or such nomination will be untimely. Consumers Bancorp reserves the right to exercise discretionary voting authority on the nomination if a shareholder has failed to submit the nomination by August 8, 2010 or if the candidate does not meet criteria set forth in the Company's Amended and Restated Regulations.

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**Compensation of Directors**

Directors, excluding directors that are employees of Consumers National Bank, are compensated for each meeting of the Consumers National Bank Board of Directors and each committee meeting they attend. Compensation for attendance at a Board of Directors meeting was \$800 per meeting. The following table details the fees paid to each non-employee director for attendance at committee meetings:

	Asset/ Liability	Audit	Compensation	Corporate Governance	Executive	Loan	Nominating
Committee Chair	\$ *	\$ 300	\$ 200	\$ 200	\$ *	\$ 200	\$ 200
Committee Member	\$ 100	\$ 200	\$ 100	\$ 100	\$ 200	\$ 100	\$ 100

\* Denotes committee chaired by an Executive of the Company

The Company maintains an annual retainer compensation program, which provides each director who was not an employee of Consumers National Bank, eligible to receive an annual retainer equal to \$2,000. In addition, an incentive pool based on overall Company profitability was available. For the 2009 fiscal year, the Compensation Committee selected a return on equity (ROE) of 10.75% as the corporate performance target. A reduced incentive was available if the Company achieved at least 95.0% of the ROE target, or 10.21% ROE. Reported ROE results for the 2009 fiscal year were below 95.0% of the targeted level therefore, there was no incentive available to the directors as part of this program. The aggregate amount paid to non-employee directors for the fiscal year ended June 30, 2009 under these arrangements was \$129,100. The Compensation Committee recommends to the Board the proposed director fees after consideration of information from peer surveys and the Company's performance. The Board is responsible for approving the fees for attending Board meetings and committee meetings. The Board believes the fees are competitive with the fees paid by other peer banks of a comparable size and will ensure the Company attracts and retains qualified Board members.

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**SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS**
**AND MANAGEMENT****Security Ownership of Certain Beneficial Owners**

Generally, under the rules of the Securities and Exchange Commission, a person is deemed to be the beneficial owner of securities, such as common shares, if such person has or shares voting power or investment power in respect of such securities. In addition, a person is deemed to be the beneficial owner of a security if he or she has the right to acquire such voting or investment power over the security within sixty days, for example, through the exercise of a stock option. Information is provided below about each person known to the Company to be the beneficial owner of more than 5% of the outstanding shares of the Company's common stock as of June 30, 2009.

Name and Address of Beneficial Owner	Amount and Nature of Beneficial Ownership as of June 30, 2009	Percent of Common Shares
Laurie L. McClellan	432,200(1)	21.30%
28 Tepee Drive		
Minerva, Ohio 44657		
James V. Hanna	154,850(2)	7.63%
14269 Lincoln S.E.		
Minerva, OH 44657		

(1) Includes 426,100 shares owned by or jointly with family members, trusts, various corporations and partnerships.

(2) Includes 151,000 shares owned by or jointly with family members, trusts, various corporations and partnerships.

### Security Ownership of Management

The following table shows the beneficial ownership of the Company's common stock as of June 30, 2009 for each director and named executive officers of the Company and for all current directors and named executive officers as a group.

Name of Beneficial Owner	Amount and Nature of Beneficial Ownership	Percent of Common Shares (if 1% or Greater)
John P. Furey	28,864(1)	1.42%
James V. Hanna	154,850(2)	7.63%
David W. Johnson	9,100	
James R. Kiko, Sr.	8,085(3)	
Thomas M. Kishman	11,801(4)	
Ralph J. Lober, II	4,389(5)	
Laurie L. McClellan	432,200(6)	21.30%
Harry W. Schmuck, Jr.	9,122(7)	
John E. Tonti	3,100(8)	
Paul B. Hugenberg, III	239	
Stormie Gross	160	
Phillip M. Suarez	1,200	
Renee K. Wood	1,000(9)	
All directors and named executive officers as a group (13 persons)	664,110	32.72%

- (1) Includes 24,464 shares owned by or jointly with family members or trusts.
- (2) Includes 151,000 shares owned by or jointly with family members, trusts, various corporations and partnerships.
- (3) Includes 2,500 shares owned by or jointly with family members or trusts.
- (4) Includes 5,801 shares owned by or jointly with family members or trusts.
- (5) Includes 4,389 shares owned by or jointly with family members or trusts.
- (6) Includes 426,100 shares owned by or jointly with family members, trusts, various corporations and partnerships.
- (7) Includes 2,700 shares owned by or jointly with family members or trusts.
- (8) Includes 2,100 shares owned by or jointly with family members or trusts.
- (9) Includes 1,000 shares owned by or jointly with family members or trusts.



## EXECUTIVE COMPENSATION

### Compensation Discussion and Analysis

#### Introduction and Overview

This Compensation Discussion and Analysis discusses the compensation awarded to, earned by, or paid to the named executive officers serving as of June 30, 2009 whose compensation is detailed in this proxy statement. These named executive officers are the president and chief executive officer, chief financial officer and the chief information officer. The Board of Directors has delegated to the Compensation Committee responsibility for the oversight and administration of compensation of the Company. The committee reviews and recommends company benefit and incentive plans, as well as, reviewing the individual performance of the chief executive officer and executive management.

#### Compensation Philosophy and Objectives

The objective of the Company's compensation program is to fairly compensate the executive officers in light of their individual performances and their contributions to the performance of the Company, thereby aligning executives' incentives with shareholder value creation. The compensation philosophy is designed to reward effort and achievement by the officers and provide them with compensation targeted at market competitive levels. The Company's compensation program includes the following core components: base salary, cash incentive compensation, long-term compensation and certain change of control agreements. The Committee manages all components on an integrated basis to achieve the following objectives: to attract and retain highly qualified management, to provide shorter-term incentive compensation that varies directly with the Company's financial performance and to focus management on both annual and long-term goals. The Company believes that, by setting and adjusting these elements, it has the flexibility to offer appropriate incentives to its executive officers.

#### Components of Compensation

##### *Base Salary*

Base salary is a major factor in attracting and retaining key personnel and therefore is the primary component of our executive officers' compensation. In setting an officer's base salary, the Company considers parameters set by its size and complexity and the salaries offered by peers. The Company does not have a formal policy to target compensation at a specific level of market compensation; however, executive compensation packages are currently at or above the 50<sup>th</sup> percentile of peer banks of comparable size. Some of the resources used to compare the compensation offered by peers banks were Ohio Bankers League Bank Compensation and Benefits Survey and Crowe Chizek Financial Institutions Survey. The Company's performance as measured by its results compared to previous years is also considered in determining the overall adjustments to executive officers' salaries. Specific salaries are adjusted to reflect the contributions of the executive officer to the Company's operations and the accomplishment of its long-term goals. Based on a review of the company's strategic direction, individual career path objectives and succession planning in conjunction with the broad databases and other publicly available information, the Company believes that its executive compensation practices are in line with its compensation philosophy and objectives described above.

On September 19, 2008, Mr. Lober was promoted from the position of President and Chief Operating Officer to President and Chief Executive Officer. In establishing the President and Chief Executive Officer's compensation for 2009, the Committee considered the Company's short-term and long-term goals, past compensation practices, comparative peer data, competitive market guidelines for the position and the additional responsibilities assumed within his new position. The Compensation Committee, in conjunction with the Board of Directors, will periodically review compensation of the President and Chief Executive Officer in relation to performance goals achieved during the 2009 fiscal year.

***Incentive Compensation***

On January 1, 2008, an annual incentive compensation program went into effect in which all participants are eligible to earn incentive compensation based on corporate financial performance, departmental, and individual goals as determined by each participant's manager. All employees, except seasonal and part-time employees working less than an average of 24 hours per week, are eligible to participate in the annual incentive plan. Positions are classified into various levels according to overall responsibilities within the organization and the impact each position has on the organization's overall financial performance.

For the 2009 fiscal year, the Compensation Committee selected return on equity (ROE) as the corporate performance target for the plan. The targeted ROE for the 2009 fiscal year was 10.75%, with a reduced bonus amount available for payment if the Company achieved at least 95.0% of the ROE target, or 10.21% ROE. Reported ROE results for the 2009 fiscal year were below 95.0% of the targeted level of financial performance. Based on these ROE results, there was no bonus available based on corporate performance and \$50,000 available company wide based on individual and departmental goals.

The table below shows how each plan component for 2009 is weighted when evaluating each of the named executive officers:

	<b>Corporate Performance</b>	<b>Individual/ Departmental Goals</b>
Ralph J. Lober, II	75.0%	25.0%
Renee K. Wood	50.0%	50.0%
Paul B. Hugenberg, III	50.0%	50.0%

The total amount awarded for the incentive plan for each executive officer is disclosed under the Bonus column of the Summary Compensation Table.

***Long-term Compensation***

Long-term compensation includes a qualified retirement plan in the form of a 401(k) Plan and a non-qualified Salary Continuation Program. The Company provides safe harbor contributions under the 401(k) Plan, matching up to 100% of the first 4.0% contributed by the employee. The amount contributed on behalf of the executive officers is determined in accordance with the provisions of the plan applicable to all employees. The Salary Continuation Plan is designed to retain executive and senior management personnel. Entrance to the Salary Continuation Plan is limited and is subject to meeting performance criteria, established by the Compensation Committee and approved by the Board of Directors. The Company expects these plans to promote longevity with the Company and discourage turnover among its executive officers and other employees.

***Change of Control Agreements***

The Company recognizes change of control agreements can help it to attract and keep talented executives and can minimize the impact on key executives of a job loss due to a change of control. In the event a transaction that would lead to a change of control is proposed, such agreements can help assure the executives analyze the transaction without undue focus on its effect upon them personally. In addition, if a transaction would occur, change of control agreements can encourage key executives to stay and help accomplish a smooth transition. As a result, the Board believes offering such agreements to certain executives who are important to the Company's operation and whose jobs may be impacted as the result of a change of control, is in the best interests of the shareholders of the Company, and it has offered them to selected executive officers of the Company who satisfy this criteria.

The following table sets forth the cash compensation and certain other compensation paid or earned by the Company's President and Chief Executive Officer, the former Chief Executive Officer who served during 2009, Chief Financial Officer and Chief Information Officer for each of the last three fiscal years ended June 30, 2009. The individuals listed in this table are sometimes referred to in this proxy statement as the named executive officers.

## Summary Compensation Table

Name and Principal Position	Year	Salary (\$)	Bonus (\$)	Stock Awards (\$)	Option Awards (\$)	Non-Equity Incentive Plan Compensation (\$)	Change in Pension Value and Nonqualified Deferred Compensation Earnings (\$)	All Other Comp. (\$) (1)(2)	Total (\$)
Ralph J. Lober, II President and Chief Executive Officer(3)	2009	\$ 170,668	\$ 1,000	\$	\$	\$	\$ 33,320	\$ 6,869	\$ 211,857
	2008	139,542	6,915					500	146,957
Steven L. Muckley  Chief Executive Officer(4)	2009	\$ 39,278	\$	\$	\$	\$		\$ 2,874	\$ 42,152
	2008	186,123	2,139				63,553	18,353	270,168
	2007	164,892					56,980	18,848	240,720
Renee K. Wood Chief Financial Officer  and Treasurer							\$		
	2009	\$ 91,755	\$ 1,574	\$	\$	\$		\$ 3,748	\$ 97,077
	2008	90,196	2,735					3,661	96,592
	2007	88,188	250					3,543	91,981
Paul B. Hugenberg, III Chief Information Officer							\$		
	2009	\$ 109,272	\$ 778	\$	\$	\$		\$ 4,465	\$ 114,515
	2008	109,538	3,278					4,443	117,259
	2007	107,690	250					4,324	112,264

- (1) This column includes contributions by the Company for each of the named executive officers to the Consumers National Bank 401(k) Savings and Retirement Plan and Trust.
- (2) This column also includes perquisites and personal benefits for Mr. Muckley. Perquisites and personal benefits for Mr. Muckley totaled \$1,810 and included payment of health insurance premiums and personal use of a company car. None of the other named executive officers have any perquisites.
- (3) On September 19, 2008 Mr. Lober was promoted to the position of President and Chief Executive Officer from the position of President and Chief Operating Officer.
- (4) Mr. Muckley's employment with the Company ended on September 19, 2008.

**DEFINED CONTRIBUTION PLAN**

Under the Consumers National Bank 401(k) Savings and Retirement Plan & Trust (401(k) Plan) as in effect during the fiscal year ended June 30, 2009, the Consumers National Bank's Board of Directors has the discretion and authority to determine the amount to be contributed to the 401(k) Plan. The 401(k) Plan is administered by Consumers National Bank. Each participant in the 401(k) Plan has credited to their account a maximum of 4.0% of their annual salary, provided they have voluntarily contributed the same amount. The 401(k) Plan states that each participant shall be fully vested in the 401(k) Plan immediately upon contribution. Benefits under the 401(k) Plan cannot be estimated for the participants because the benefits are based upon future earnings of Consumers National Bank and future compensation of the participants. Part of the funds in the 401(k) Plan is vested in the participants in accordance with the 401(k) Plan. An eligible participant is one who has completed one year of service, works 1,000 hours per year, and has attained the age of 21. At the time of retirement, death, disability or other termination of employment, a participant is eligible to receive a distribution of all vested amounts credited to their account in either a single lump sum payment or a series of substantially equal installment payments over a period not longer than the joint life expectancy of the participant and beneficiary. The trustees of the 401(k) Plan are Ralph J. Lober and Laurie L. McClellan.

### SALARY CONTINUATION PROGRAM

In September 1995, the Board of Directors of Consumers National Bank adopted a salary continuation program (Plan) to encourage the long-term retention of Consumers National Bank executives and avoid the cost of executive turnover. Pursuant to the Plan, salary continuation agreements were entered into between Consumers National Bank and certain executives. In 2001, several of the Agreements were amended and restated to reflect changes in the Plan approved by the Board of Directors. In 2008, all of the agreements were amended to comply with Internal Revenue Code Section 409A (Amended Agreements). The Amended Agreements provide such executives (and, in the event of the executive's death, surviving beneficiary) with 180 months of salary continuation payments equal to a certain percentage of an executive's average compensation, as defined within each agreement, using three full calendar years prior to Normal Retirement Age. For purposes of these Amended Agreements, Normal Retirement Age means the executive's 65th birthday. Vesting under the Amended Agreements commences at age 50 and is prorated until age 65. If an executive dies during active service, the executive's beneficiary is entitled to the Normal Retirement Benefit. The executive can become fully vested in the Accrual Balance upon termination of employment following a disability or a change in control of the Bank. For purposes of these Amended Agreements, Accrual Balance means the liability that should be accrued by the Company for the Company's obligation to the executive under the Amended Agreements. For purposes of calculating the Accrual Balance, the discount rate in effect at June 30, 2009 was 6.0%. Mr. Muckley became eligible to participate in the Plan as of August 11, 2004 and entered the plan on March 1, 2005. Mr. Lober became eligible to participate in the Plan as of May 8, 2008 and entered the plan on August 29, 2008.

### PENSION BENEFITS

Name	Plan Name	Present Value of Accumulated Benefit (\$)	Payments During Last Fiscal Year (\$)
Steven L. Muckley	Salary Continuation Program	\$ 56,157	\$ 4,382
Ralph J. Lober	Salary Continuation Program	\$ 33,320	\$

### CHANGE OF CONTROL AGREEMENTS

Change of control agreements (Change of Control Agreements) were entered into with certain executive officers in order to provide severance benefits in the event of their termination of employment following a change of control of Consumers National Bank within five years of the effective date of each agreement.

If within 12 months following a change of control, a termination of employment occurs for any reason other than death, Disability (as defined below), or Cause (as defined below), a participant may receive a lump sum payment based on the agreement schedule in effect at the date of such termination. In addition, the participant shall be entitled to receive Company-paid COBRA premiums, relating to employee's group medical insurance continuation premiums under the Company's group health plan, for a period of 12 months after the date of termination. For purposes of these Change of Control Agreements, a Change of Control means the transfer of shares of the Company's voting common stock during the term such that one entity or one person acquires (or is deemed to acquire when applying Section 318 of the Internal Revenue Code) more than 50 percent of the Company's outstanding voting common stock. The date of the employee's termination shall be the date specified by the Company in a written notice to the employee. The employee shall be considered to have a Disability during the period in which the employee is unable, by reason of a medically determinable physical or mental impairment, to engage in the material and substantial duties of employee's regular employment with the Company, which condition is expected to be permanent. For purposes of these Change of Control Agreements, the term Cause means, in the reasonable judgment of the Compensation Committee or the President of the Company, (i) the willful and continued failure by the employee to substantially perform the employee's duties with the Company after written notification by the Company, (ii) the willful engaging by the employee in conduct which is demonstrably injurious to the Company, monetarily or otherwise, or (iii) the engaging by the employee in egregious misconduct involving serious moral turpitude. For purposes of these Agreements, no act or failure to act on the employee's part shall be deemed willful unless done, or omitted to be done, by the employee not in good faith and without reasonable belief that such action was in the best interest of the Company.

**POTENTIAL PAYMENTS UPON TERMINATION OR CHANGE IN CONTROL**

As of June 30, 2009, if a change of control had occurred and Mr. Lober was terminated or if Mr. Lober had become disabled, then Mr. Lober would have received a payment of \$33,320 under the Salary Continuation Program. If Mr. Lober was terminated for cause as of June 30, 2009, then Mr. Lober would not have received a benefit payment under the Salary Continuation Program.

If a change of control had occurred on June 30, 2009 and each named executive officer with a Change of Control Agreement was terminated, then Mr. Lober would have received a termination/severance payment of \$71,680 and the cost of COBRA premiums, assuming no increase after that date, would have been \$13,320. Mr. Hugenberg would have received a termination/severance payment of \$43,709 and the cost of COBRA premiums, assuming no increase after that date, would have been \$13,320. Ms. Wood would have received a termination/severance payment of \$36,702 and the cost of COBRA premiums, assuming no increase after that date, would have been \$5,114.

**COMPENSATION COMMITTEE REPORT**

The Company's Compensation Committee has reviewed the Compensation Discussion and Analysis and discussed it with Management. Based upon this review and discussion, it has recommended to the Board of Directors that the Compensation Discussion and Analysis be included in the Company's annual report on Form 10-K, proxy or information statement.

Respectfully Submitted,

The Compensation Committee

Mr. Furey, Chairman

Mr. Johnson

Mr. Kishman

Ms. McClellan

**COMPENSATION COMMITTEE INTERLOCK**

**AND INSIDER PARTICIPATION**

Ms. Laurie L. McClellan, the Company's Chairman served on the Executive and Compensation Committees during the fiscal year ended June 30, 2009. Ms. McClellan, in serving on the Executive and Compensation Committees, did not participate in discussions or decision-making relative to her own compensation.

**SECTION 16(a) BENEFICIAL OWNERSHIP REPORTING COMPLIANCE**

Section 16(a) of the Securities Exchange Act of 1934 requires the Company's directors and certain of its officers to file reports with the Securities and Exchange Commission indicating their holdings of, and transactions in, the Company's equity securities. Based solely on a review of the copies of such reports it received, and written representations from reporting persons, the Company believes that during the fiscal year ended June 30, 2009, its reporting persons complied with all Section 16(a) filing requirements, except a late Form 4 filing for Mr. Tonti and the former chief executive officer, Mr. Muckley.

**CERTAIN TRANSACTIONS AND RELATIONSHIPS**

Directors and executive officers of Consumers Bancorp and Consumers National Bank and their associates were customers of, or had transactions with, Consumers Bancorp or Consumers National Bank in the ordinary course of business during fiscal year ended June 30, 2009. Transactions with these persons are expected to continue to take place in the future. In the ordinary course of business, loans are made to officers and directors on substantially the same terms as those prevailing at the same time for comparable transactions with unrelated third parties. Such loans do not, and will not, involve more than the normal risk of collectability or present other unfavorable features.

Mr. Kiko, a director, is a real estate auctioneer and, in the ordinary course of business, the Company has retained the services of Kiko Auctioneers to liquidate property and may continue to retain their services in the future.

Consumers National Bank is party to an operating lease agreement for the Malvern Branch location with Furey Holdings, LLC. Mr. Furey is the managing member of Furey Holdings, LLC. This leasing arrangement and the terms of the lease were unanimously approved by directors without an interest in the transaction.

The SEC rules require disclosure of any family relationship among directors and executive officers. Mr. Kiko, director, is first cousin to Janice E. Kishman, spouse of director, Mr. Kishman.

**AUDIT COMMITTEE REPORT**

Consumers Bancorp's Audit Committee has reviewed and discussed with management the audited financial statements for the fiscal year ended June 30, 2009. In addition, the Audit Committee has discussed with Crowe Horwath LLP, the independent registered public accounting firm for Consumers Bancorp, the matters required by Statements on Auditing Standards No. 61, *Communications with Audit Committees*, as amended, and Rule 2-07, *Communication with Audit Committees*, of Regulation S-X.

The Audit Committee has received written disclosures from Crowe Horwath LLP required by Independence Standards Board Standard No. 1. The Audit Committee has discussed with Crowe Horwath LLP its independence from Consumers Bancorp.

Based on the foregoing discussions and reviews, the Audit Committee has recommended to Consumers Bancorp's Board of Directors that the audited financial statements be included in Consumers Bancorp's Annual Report on Form 10-K for the fiscal year ended June 30, 2009 for filing with the Securities and Exchange Commission.

Respectfully Submitted,

The Audit Committee

Mr. Tonti, Chairman

Mr. Furey

Mr. Kiko

Mr. Kishman

Mr. Schmuck

**Independent Registered Public Accounting Firm**

Crowe Horwath LLP audited the consolidated financial statements for the year ended June 30, 2009. Representatives of Crowe Horwath LLP will attend the Annual Meeting and will have an opportunity to make a statement if they so desire and to respond to appropriate questions.

**Principal Accountant Fees and Services**

The Audit Committee has sole responsibility, in consultation with management, for approving the terms and fees for the engagement of the independent auditors for audits of the Company's financial statements. In addition, the Audit Committee has sole responsibility for determining whether and under what circumstances the Company's independent auditors may be engaged to perform audit-related services and must pre-approve 100% of any non-audit related service performed by the independent auditors.

Crowe Horwath LLP billed the Company \$92,345 and \$74,824 for the fiscal years ended June 30, 2009 and June 30, 2008, respectively. The table below sets forth the aggregate fees billed by Crowe Horwath LLP for services rendered to the Company and its affiliates for the fiscal years 2009 and 2008.

	<b>Audit Fees</b>	<b>Audit-Related Fees</b>	<b>Tax Fees</b>	<b>All Other Services</b>
2009	\$ 83,435	\$	\$ 7,300	\$ 1,610
2008	\$ 67,600	\$	\$ 6,950	\$ 274

The Tax Fees for 2009 and 2008 related principally to filing, compliance and tax strategy planning. The All Other Services for 2009 related principally to review of correspondence with SEC and 2008 related principally to the purchase of miscellaneous bank performance data.

The Audit Committee has reviewed all non-audit services described above and has concluded that the provision of these non-audit services is compatible with maintaining Crowe Horwath LLP's independence.

### SHAREHOLDER PROPOSALS FOR 2010 ANNUAL MEETING

Any shareholder who intends to present a proposal at the 2010 Annual Meeting of Shareholders and who wishes to have the proposal included in Consumers Bancorp's proxy statement and form of proxy for that meeting must deliver the proposal to Consumers Bancorp at its executive offices, 614 East Lincoln Way, Minerva, OH 44657, not later than May 7, 2010.

Any shareholder who intends to present a proposal, other than as set forth above, at the 2010 Annual Meeting of Shareholders other than for inclusion in Consumers Bancorp's proxy statement and form of proxy must deliver the proposal to Consumers Bancorp at its executive offices, 614 East Lincoln Way, Minerva, OH 44657, not later than August 8, 2010 or such proposal will be untimely. Consumers Bancorp reserves the right to exercise discretionary voting authority on the proposal if a shareholder has failed to submit the proposal by August 8, 2010.

### SHAREHOLDER COMMUNICATIONS

Any shareholder may send communications to the Board of Directors through the Company's Corporate Secretary, Consumers Bancorp, Inc., 614 East Lincoln Way, P.O. Box 256, Minerva, Ohio 44657. Communications sent by qualified shareholders for proper, non-commercial purposes will be transmitted to the Board of Directors, or the appropriate committee, as soon as practicable. Shareholders may also send communications to the presiding non-management director of the Board by sending correspondence to Audit Chairman, Consumers Bancorp, Inc., 614 East Lincoln Way, P.O. Box 256, Minerva, Ohio 44657.

### FORM 10-K ANNUAL REPORT

The Form 10-K Annual Report for the fiscal year ended June 30, 2009 has been mailed concurrently with this Proxy Statement to shareholders of record. The Form 10-K Annual Report does not constitute a part of the proxy material. Shareholders may request a copy of any of the Company's filings at no cost by writing or e-mailing the Company at the following address or e-mail address: Consumers Bancorp, Inc., Attn: Theresa J. Linder, 614 East Lincoln Way, Minerva, Ohio 44657 or e-mail to [shareholderrelations@consumersbank.com](mailto:shareholderrelations@consumersbank.com).

### OTHER BUSINESS

The Board of Directors is not aware of any business to be addressed at the meeting other than those matters described above in this Proxy Statement. However, if any other matters should properly come before the meeting, it is intended that the common shares represented by proxies will be voted with respect thereto in accordance with the judgment of the person or persons voting the proxies.

### CUMULATIVE VOTING

Under the General Corporation Law of Ohio, if a shareholder desires cumulative voting for election of the directors, then the shareholder must provide written notice to the President or the Secretary of Consumers Bancorp not less than 48 hours before the time fixed for holding the Annual Meeting. Upon announcement of this notice at the Annual Meeting, each shareholder will have cumulative voting rights. Cumulative voting means that each shareholder may cast as many votes in the election of directors as the number of directors to be elected multiplied by the number of shares held. The votes may be cast for one nominee or distributed among as many nominees as the shareholder desires.

At this time it is not known whether there will be cumulative voting for the election of directors at the meeting. If the election of directors is by cumulative voting, the persons appointed by the accompanying proxy intend to cumulate the votes represented by the proxies they receive and distribute such votes in accordance with their best judgment.

By Order of the Board of Directors

Laurie L. McClellan  
Chairman

Minerva, Ohio

September 23, 2009



**Exhibit A**

**AMENDMENT OF THE AMENDED AND RESTATED ARTICLES OF  
INCORPORATION OF CONSUMERS BANCORP, INC.**

The FOURTH Article is deleted in its entirety and the following new FOURTH Article is inserted in its place:

**FOURTH:** The aggregate number of shares of stock of all classes which the corporation shall have authority to issue is three million eight hundred and fifty thousand (3,850,000) shares, of which three million five hundred thousand (3,500,000) shares shall be common stock with no par value ( Common Stock ) and of which three hundred fifty thousand (350,000) shares shall be preferred stock, with no par value ( Preferred Shares ).

The shares of such classes shall have the following express terms:

**EXPRESS TERMS OF THE PREFERRED SHARES**

(A) The Board of Directors of the corporation is hereby granted the authority, subject to the provisions of this FOURTH Article and to the limitations prescribed by law, to classify the unissued shares of Preferred Shares into one or more series of Preferred Shares and with respect to each such series to fix by resolution or resolutions providing for the issuance of such series the terms, including the preferences, rights and limitations, of such series. Each series shall consist of such number of shares as shall be stated in the resolution or resolutions providing for the issuance of such series together with such additional number of shares as the Board of Directors by resolution or resolutions may from time to time determine to issue as a part of the series. The Board of Directors may from time to time decrease the number of shares of any series of Preferred Shares (but not below the number thereof then outstanding) by providing that any unissued shares previously assigned to such series shall no longer constitute part thereof and restoring such unissued shares to the status of authorized but unissued shares of Preferred Shares.

The authority of the Board of Directors with respect to each series of Preferred Shares shall include, but not be limited to, the determination or fixing of the following:

- (i) The number of shares constituting such series, including the authority to increase or decrease such number, and the distinctive designation of the series.
- (ii) The dividend rate, if any, of the series, the conditions and dates upon which any dividends shall be payable, the relation which the dividends payable on the series shall bear to the dividends payable on any other class or classes of stock or any other series of Preferred Shares, and whether the dividends shall be cumulative, noncumulative or partially cumulative.
- (iii) Whether the shares of the series shall be subject to redemption by the Corporation and whether such redemption is at the option of the Corporation, the holder of shares of the series or any other person, and, if made subject to redemption, the times, prices and other terms and conditions of the redemption.
- (iv) The rights of the holders of the shares of the series upon the dissolution of, or upon the distribution of assets of, the Corporation, and the amount payable on the shares of the series in the event of voluntary or involuntary liquidation of the Corporation.
- (v) The terms and amount of any sinking fund provided for the purchase or redemption of the shares of the series.
- (vi) Whether or not the shares of the series shall be convertible into or exchangeable for shares of any other classes or of any other series of any class or classes of stock of the Corporation and, if provision be made for conversion or exchange, the times, prices, rates, adjustments, and other terms and conditions of the conversion or exchange.
- (vii) The extent, if any, to which the holders of the shares of the series shall be entitled to vote with respect to the election of directors or otherwise.
- (viii) Any other rights, preferences or limitations of the shares of such series as may be permitted by law.

The Board of Directors is authorized to adopt from time to time amendments to the Articles of Incorporation fixing, with respect to each such series, the matters described in clauses (i) through (viii), inclusive, of this Section A.

(B) The holders of shares of each series of Preferred Shares shall be senior to the Common Stock in payment of dividends and payment in respect of liquidation or dissolution.

(C) Except as otherwise required by law and except for such voting rights with respect to the election of directors or other matters as may be stated in the resolution or resolutions of the Board of Directors providing for the issuance of any series of Preferred Shares, no holder of any series of Preferred Shares shall have any right to vote shares of Preferred Shares on any matters voted upon by shareholders of the Corporation.

**EXPRESS TERMS OF THE COMMON STOCK**

The Common Stock shall be subject to the express terms of the Preferred Shares and any series thereof. Each share of Common Stock shall be equal to every other share of Common Stock and except as otherwise provided by law; the holders thereof shall be entitled to one vote for each share of such stock on all matters voted upon by shareholders of the Corporation.

**Exhibit B**

**CONSUMERS BANCORP, INC.**

**AUDIT COMMITTEE OF THE BOARD OF DIRECTORS**

**CHARTER**

**I. PURPOSE**

The primary function of the Audit Committee of Consumers Bancorp, Inc. (the Corporation) is to assist the Board of Directors in fulfilling its oversight responsibilities by reviewing: the financial reports and other financial information provided by the Corporation to any governmental body or the public; the Corporation's systems of internal controls regarding finance, accounting, legal compliance and ethics that management and the Board have established; and the Corporation's auditing, accounting and financial reporting processes generally. Consistent with this function, the Audit Committee should encourage continuous improvement of, and should foster adherence to, the Corporation's policies, procedures and practices at all levels. The Audit Committee's primary duties and responsibilities are to:

Serve as an independent and objective party to monitor the Corporation's financial reporting process and internal control system.

Review and appraise the audit efforts of the Corporation's independent accountants and internal auditing department.

Provide an open avenue of communication among the independent accountants, financial and senior management, the internal auditing department, and the Board of Directors.

The Audit Committee will primarily fulfill these responsibilities by carrying out the activities enumerated in Section IV of this Charter. In carrying out the general responsibilities set forth above and the specifically enumerated responsibilities described below, the Audit Committee may consult or retain, at the Corporation's expense, its own outside legal, accounting or other advisors and shall have unrestricted access to the Corporation's personnel and documents and will be given all resources the Committee determines are necessary to discharge its responsibilities.

**II. COMPOSITION**

The Audit Committee shall be comprised of three or more directors as determined by the Board, all of whom shall be independent directors in accordance with FINRA rules and regulations, and free from any relationship that, in the opinion of the Board, would interfere with the exercise of his or her independent judgment as a member of the Audit Committee. The Audit Committee members may receive no compensation from the Corporation other than director's fees. All members of the Audit Committee shall have a working familiarity with basic finance and accounting practices, including the ability to read and understand financial statements, and at least one independent member of the Audit Committee shall have accounting or related financial management expertise. Audit Committee members may enhance their familiarity with finance and accounting by participating in educational programs conducted by the Corporation or an outside consultant.

The members of the Audit Committee shall be elected by the Board at the annual organizational meeting of the Board or until their successors shall be duly elected and qualified. Unless an independent Chair is elected by the full Board, the members of the Audit Committee may designate an independent Chair by majority vote of the full Audit Committee membership.

**III. MEETINGS**

The Audit Committee shall meet at least four times annually, or more frequently as circumstances dictate. As part of its job to foster open communication, the Audit Committee should meet at least annually with management, the director of the internal auditing department and the independent accountants in separate executive sessions to discuss any matters that the Audit Committee or each of these groups believe should be discussed privately. In addition, the Audit Committee or at least its Chair should meet with the independent accountants and management

quarterly to review the Corporation's financial statements consistent with IV.4 below.

#### **IV. RESPONSIBILITIES AND DUTIES**

To fulfill its responsibilities and duties the Audit Committee shall:

##### Documents/Reports Review

1. Review and reassess the adequacy of this Charter periodically (but at least annually) as conditions dictate and perform an evaluation of the Audit Committee's performance.
2. Review the Corporation's annual financial statements and any reports or other financial information submitted to any governmental body or the public, including any certification, report, opinion or review rendered by the independent accountants.
3. Review the regular internal reports to management prepared by the internal auditing department and management's responses.
4. Review with financial management and the independent accountants each Form 10-Q prior to its filing or prior to the release of earnings. The Chair of the Audit Committee may represent the entire Audit Committee for purposes of this review.
5. Recommend to the Board of Directors that the audited statements be included in the bank's annual report.

##### Independent Accountants

6. Approve and engage the independent accountants after discussions with management, considering independence and effectiveness and approve the fees and other compensation to be paid to the independent accountants. On an annual basis, the Audit Committee should review and discuss with the accountants all significant relationships the accountants have with the Corporation to determine the accountants' independence.
7. Review the performance of the independent accountants, discuss with management expectations and determination, and discharge the independent accountants when circumstances warrant.
8. Review and approve in advance all non-audit services the independent accountant may perform for the Corporation and disclose such approved non-auditor services as required by applicable law in periodic reports to shareholders. Review all hours performed by any persons other than the independent accountants full-time permanent employees.
9. Periodically consult with the independent accountants and approve any proposed changes in internal controls and review the accuracy of the Corporation's financial statements.

##### Financial Reporting Processes

10. In consultation with the independent accountants and the internal auditors, review the integrity of the Corporation's financial reporting processes, both internal and external.
11. Consider the independent accountants' judgments about the quality and appropriateness of the Corporation's accounting principles as applied in its financial reporting.
12. Consider and approve, if appropriate, major changes to the Corporation's auditing and accounting principles and practices as suggested by the independent accountants, management, or the internal accounting department.

##### Internal Audit

13. Review with management, the internal auditor, and/or outsourced internal audit firm the charter, plans, activities, staffing and organizational structure of the internal audit activity.
14. Ensure there are no unjustified restrictions or limitations, and review and concur with management in the appointment, replacement or dismissal of the internal auditor.

15. Review the effectiveness of the internal audit activity, including compliance with The Institute of Internal Auditors *Standards for the Professional Practice of Internal Auditing*.

16. On a regular basis, meet separately with the internal auditor, and/or outsourced internal audit firm to discuss any matters that the committee or internal audit believes should be discussed privately.

#### Process Improvement

17. Establish regular and separate systems of reporting to the Audit Committee by each of management, the independent accountants and the internal auditors regarding any significant judgments made in management's preparation of the financial statements and the view of each as to the appropriateness of such judgments.

18. Following completion of the annual audit, review separately with each of management, the independent accountants and the internal auditing departments any significant difficulties encountered during the course of the audit, including any restrictions on the scope of work or access to required information.

19. Review any significant disagreement among management and the independent accountants or the internal auditing department in connection with the preparation of the financial statements.

20. Review with the independent accountants, the internal auditing department and management the extent to which changes or improvements in financial or accounting practices, as approved by the Audit Committee, have been implemented. (This review should be conducted at an appropriate time subsequent to implementation of changes or improvements, as decided by the Audit Committee.)

21. Establish and maintain free and open means of communication between employees and the Audit Committee for the processing of complaints received by the Corporation regarding questionable accounting or auditing matters, including suspicions of fraudulent activity. The Audit Committee shall assure that such complaints are treated confidentially and anonymously.

#### Ethical and Legal Compliance

22. Prepare the Audit Committee Report required by the rules of the Securities and Exchange Commission to be included in the Corporation's annual proxy statement.

23. Review the Code of Ethics (the Ethical Code) and ensure that management has established a system to enforce the Ethical Code. Review the process for communicating the code of conduct to company personnel.

24. Review management's monitoring of the Corporation's compliance with the Corporation's Ethical Code, and ensure that management has the proper review system in place to ensure that the Corporation's financial statements, reports and other financial information submitted to any governmental bodies or the public satisfy legal requirements.

25. Review, with the Corporation's counsel, legal compliance matters including corporate securities trading policies.

26. Review, with the Corporation's counsel, any legal matter that could have a significant impact on the Corporation's financial statements.

27. Perform any other activities consistent with this Charter, the Amended and Restated Articles of Incorporation, Code of Regulations, the Ethical Code or governing law, as the Audit Committee or the Board deems necessary or appropriate.

28. Annually review and update this charter for consideration by the Board of Directors

PLEASE MARK VOTES  
**X**  
 AS IN THIS EXAMPLE  
**PROXY FOR ANNUAL MEETING**  
**OF SHAREHOLDERS**  
**OCTOBER 28, 2009**

**This Proxy is solicited on behalf of the Board of Directors.**

The undersigned shareholder of Consumers Bancorp, Inc., 614 East Lincoln Way, Minerva, Ohio, hereby appoints Theresa Linder and Cipriano Beredo, or either of them (each with full power to act alone), as attorneys and proxies for the undersigned, with full power of substitution, to vote all common shares of Consumers Bancorp, Inc. that the undersigned is entitled to vote at the Annual Meeting of Shareholders to be held on Wednesday, October 28, 2009, at 9:00 A.M. (local time), or at any and all adjournments thereof, with all the powers the undersigned would possess if personally present, such proxies being directed to vote as specified hereon:

Unless otherwise indicated, the proxies will vote **FOR** the Proposal

**REVOCABLE PROXY**

	<b>For All</b>
	<b>With- hold    Except</b>
<b>CONSUMERS BANCORP, INC.</b>	<b>For    With- hold    Except</b>
<b>Proposal One:</b> To elect the following nominees to the Board of Directors as Class III directors to serve a three-year term until the Annual Meeting of Shareholders in 2012:	<b>..    ..    ..</b>

**Class III Directors:**  
**John P. Furey**

**Thomas M. Kishman**  
**Ralph J. Lober, II**

**INSTRUCTION: To withhold authority to vote for any individual nominee, mark For All Except and write that nominee's name in the space provided below.**

	<b>For</b>	<b>Against</b>	<b>Abstain</b>
<b>Proposal Two:</b> To consider and vote upon a proposal to adopt amendments to Consumers Bancorp, Inc. Amended and Restated Articles of Incorporation to increase the number of authorized shares of common stock from 2.5 million to 3.5 million and to authorize 350 thousand shares of preferred stock.	<b>..</b>	<b>..</b>	<b>..</b>

**Proposal Three:** For the transaction of any other business that may properly come before the meeting or any adjournment thereof.

**Other Business:**

In their discretion, the proxies are authorized to vote upon such other business that may properly come before the meeting or any and all adjournments thereof.

**Mark here if you have an interest in obtaining future Consumers Bancorp, Inc. annual reports and proxy statements electronically in lieu of mail delivery.** **..**

Please be sure to date and sign \_\_\_\_\_ Date

this proxy card in the box below.

Sign above

**⤵ Detach above card, sign, date and mail in postage paid envelope provided. ⤵**

**CONSUMERS BANCORP, INC.**

**PLEASE ACT PROMPTLY**

**PLEASE COMPLETE, DATE, SIGN, AND MAIL THIS PROXY CARD PROMPTLY IN THE ENCLOSED POSTAGE-PAID ENVELOPE.**

Note: The signature(s) on this proxy should correspond with the name(s) in which your shares are registered. When shares are registered jointly in the names of two or more persons, all should sign. When signing as an attorney, executor, administrator, trustee or guardian, please give your full title as such. A proxy given by a corporation should be signed in the corporate name by the Chairman of its Board of Directors, its President, Vice President, Secretary or Treasurer.

IF YOUR ADDRESS HAS CHANGED, PLEASE CORRECT THE ADDRESS IN THE SPACE PROVIDED BELOW AND RETURN THIS PORTION WITH THE PROXY IN THE ENVELOPE PROVIDED.

income (loss) per share, except that the denominator is increased to include the number of additional common shares that would have been outstanding if the potential common shares had been issued and if the additional common shares were dilutive. Stock options and warrants are anti-dilutive, and accordingly, are not included in the calculation of income (loss) per share. 53 Urban Television Network Corporation NOTES TO CONSOLIDATED FINANCIAL STATEMENTS September 30, 2006 and 2005 1. Significant Accounting Policies - continued Comprehensive Income Comprehensive income (loss) and net income (loss) are the same for the Company. Cash For purposes of the statement of cash flows, the Company considers unrestricted cash and all highly liquid debt instruments purchased with an original maturity of three months or less to be cash. Concentration of Credit Risk The Company at times maintains cash in excess of federally insured limits. The amount in excess of the federally insured limits at September 30, 2006 was \$-0-. Advertising Costs The Company expenses non-direct advertising costs as incurred. The Company did not incur any direct response advertising costs for the periods ended September 30, 2006 and 2005. Stock Based Compensation The Company accounts for equity instruments issued to employees for services based on the fair value of the equity instruments issued and accounts for equity instruments issued to other than employees based on the fair value of the consideration received or the fair value of the equity instruments, whichever is more reliably measurable. The determined value is recognized as an expense in the accompanying consolidated statements of operations. Use of Estimates The preparation of financial statements in conformity with generally accepted accounting principles 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. Recent Accounting Standards In December 2004, the FASB issued SFAS No. 153, "Exchanges of Nonmonetary Assets - an



amendment of APB Opinion No. 29." This Statement eliminates the exception for nonmonetary exchanges of similar productive assets and replaces it with a general exception for exchanges of nonmonetary assets that do not have commercial substance. A nonmonetary exchange has commercial substance if the future cash flows of the entity are expected to change significantly as a result of the exchange. This Statement is effective for nonmonetary asset exchanges occurring in fiscal periods beginning after June 15, 2005. The Company does not expect application of SFAS No. 153 to have a material effect on its financial statements. In December 2004, the FASB issued a revision to SFAS No. 123, "Share-Based Payment." This Statement supercedes APB Opinion No. 25, "Accounting for Stock Issued to Employees" and its related implementation guidance. It establishes standards for the accounting for transactions in which an entity exchanges its equity instruments for goods or services. It also addresses transactions in which an entity incurs liabilities in exchange for goods or services that are based on the fair value of the entity's equity instruments or that may be settled by the issuance of those equity instruments. This Statement does not change the accounting guidance for share-based payment transactions with parties other than employees provided in Statement No. 123 as originally issued and EITF Issue No. 96-18. This Statement is effective for public entities that file as small business issuers as of the beginning of the first fiscal period that begins after December 15, 2005. The Company has not yet determined the impact of SFAS No. 123 (revised) on its financial statements. 54 Urban Television Network Corporation NOTES TO CONSOLIDATED FINANCIAL STATEMENTS September 30, 2006 and 2005 1. Significant Accounting Policies - continued In May 2005, the Financial Accounting Standards Board ("FASB") issued Statement of Financial Accounting Standard ("SFAS") No. 154, "Accounting Changes and Error Corrections." SFAS 154 changes the requirements for the accounting for and reporting of a change in accounting principle, requiring, in general, retrospective application to prior periods' financial statements of changes in accounting principle. The Company has adopted the provisions of SFAS No. 154 which are effective for accounting changes and corrections of errors beginning after December 15, 2005. The adoption did not have a material effect on the results of operations of the Company. In February 2006, FASB issued SFAS No. 155, "Accounting for Certain Hybrid Financial Instruments". SFAS No. 155 amends SFAS No 133, "Accounting for Derivative Instruments and Hedging Activities", and SFAS No. 140, "Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities". SFAS No. 155, permits fair value remeasurement for any hybrid financial instrument that contains an embedded derivative that otherwise would require bifurcation, clarifies which interest-only strips and principal-only strips are not subject to the requirements of SFAS No. 133, establishes a requirement to evaluate interest in securitized financial assets to identify interests that are freestanding derivatives or that are hybrid financial instruments that contain an embedded derivative requiring bifurcation, clarifies that concentrations of credit risk in the form of subordination are not embedded derivatives, and amends SFAS No. 140 to eliminate the prohibition on the qualifying special-purpose entity from holding a derivative financial instrument that pertains to a beneficial interest other than another derivative financial instrument. This statement is effective for all financial instruments acquired or issued after the beginning of the Company's first fiscal year that begins after September 15, 2006. In March 2006, FASB issued SFAS 156 'Accounting for Servicing of Financial Assets'. This Statement amends FASB Statement No. 140, Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities, with respect to the accounting for separately recognized servicing assets and servicing liabilities. This Statement: 1. Requires an entity to recognize a servicing asset or servicing liability each time it undertakes an obligation to service a financial asset by entering into a servicing contract. 2. Requires all separately recognized servicing assets and servicing liabilities to be initially measured at fair value, if practicable. 3. Permits an entity to choose 'Amortization method' or 'Fair value measurement method' for each class of separately recognized servicing assets and servicing liabilities: 4. At its initial adoption, permits a one-time reclassification of available-for-sale securities to trading securities by entities with recognized servicing rights, without calling into question the treatment of other available-for-sale securities under Statement 115, provided that the available-for-sale securities are identified in some manner as offsetting the entity's exposure to changes in fair value of servicing assets or servicing liabilities that a servicer elects to subsequently measure at fair value. 5. Requires separate presentation of servicing assets and servicing liabilities subsequently measured at fair value in the statement of financial position and additional disclosures for all separately recognized servicing assets and servicing liabilities. This Statement is effective as of the beginning of the Company's first fiscal year that begins after September 15, 2006. The management is currently evaluating the effect of this pronouncement on financial statements. 55 Urban Television Network Corporation NOTES TO CONSOLIDATED FINANCIAL STATEMENTS September 30, 2006 and 2005 1. Significant Accounting Policies - continued In July 2006, the FASB issued Interpretation No. 48,

"Accounting for Uncertainty in Income Taxes" (FIN 48), effective for fiscal years beginning after December 15, 2006. FIN 48 requires a two-step approach to determine how to recognize tax benefits in the financial statements where recognition and measurement of a tax benefit must be evaluated separately. A tax benefit will be recognized only if it meets a "more-likely-than-not" recognition threshold. For tax positions that meet this threshold, the tax benefit recognized is based on the largest amount of tax benefit that is greater than 50 percent likely of being realized upon ultimate settlement with the taxing authority. We are currently evaluating the impact of adopting FIN 48, and have not yet determined the significance of this new rule to our overall results of operations, cash flows or financial position. In September 2006, FASB issued SFAS 157 'Fair Value Measurements.' This Statement defines fair value, establishes a framework for measuring fair value in generally accepted accounting principles (GAAP), and expands disclosures about fair value measurements. This Statement applies under other accounting pronouncements that require or permit fair value measurements, the Board having previously concluded in those accounting pronouncements that fair value is the relevant measurement attribute. Accordingly, this Statement does not require any new fair value measurements. However, for some entities, the application of this Statement will change current practice. This Statement is effective for financial statements issued for fiscal years beginning after November 15, 2007, and interim periods within those fiscal years. The management is currently evaluating the effect of this pronouncement on financial statements. In September 2006, FASB issued SFAS 158 'Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans--an amendment of FASB Statements No. 87, 88, 106, and 132(R)' This Statement improves financial reporting by requiring an employer to recognize the over funded or under funded status of a defined benefit postretirement plan (other than a multiemployer plan) as an asset or liability in its statement of financial position and to recognize changes in that funded status in the year in which the changes occur through comprehensive income of a business entity or changes in unrestricted net assets of a not-for-profit organization. This Statement also improves financial reporting by requiring an employer to measure the funded status of a plan as of the date of its year-end statement of financial position, with limited exceptions. An employer with publicly traded equity securities is required to initially recognize the funded status of a defined benefit postretirement plan and to provide the required disclosures as of the end of the fiscal year ending after December 15, 2006. An employer without publicly traded equity securities is required to recognize the funded status of a defined benefit postretirement plan and to provide the required disclosures as of the end of the fiscal year ending after June 15, 2007. However, an employer without publicly traded equity securities is required to disclose the following information in the notes to financial statements for a fiscal year ending after December 15, 2006, but before June 16, 2007, unless it has applied the recognition provisions of this Statement in preparing those financial statements: a) A brief description of the provisions of this Statement b) The date that adoption is required c) The date the employer plans to adopt the recognition provisions of this Statement, if earlier. The requirement to measure plan assets and benefit obligations as of the date of the employer's fiscal year-end statement of financial position is effective for fiscal years ending after December 15, 2008. The management is currently evaluating the effect of this pronouncement on financial statements. In September 2006, the Securities and Exchange Commission issued Staff Accounting Bulletin ("SAB") No. 108, "Considering the Effects of Prior Year Misstatements When Quantifying Current Year Misstatements." SAB No. 108 requires analysis of misstatements using both an income statement (rollover) approach and a balance sheet (iron curtain) approach in assessing materiality and provides a one-time cumulative effect transition adjustment. SAB No. 108 is effective for the Company's 2006 annual financial statements. The Company is currently assessing the potential impact that the adoption of SAB No. 108 will have on its financial statements. The adoption of SAB No. 108 is not expected to materially impact the financial statements. 56 Urban Television Network Corporation NOTES TO CONSOLIDATED FINANCIAL STATEMENTS September 30, 2006 and 2005 1. Significant Accounting Policies - continued Other recent accounting pronouncements issued by the FASB (including its EITF), the AICPA, and the SEC did not or are not believed by management to have a material impact on the Company's present or future financial statements. Stock Options The Company accounts for non-employee stock options under SFAS 123, whereby option costs are recorded at the fair value of the consideration received or the fair value of the equity instrument issued, whichever is more reliable measurement, in accordance with EITF 96-18 "Accounting for Equity Instruments That Are Issued to Other Than Employees for Acquiring or in Conjunction with Selling Goods or Services". Reclassification of Prior Year Amounts Certain prior year amounts have been reclassified to conform with current year presentation. 2. Accounts receivable Accounts receivable consists of normal trade receivables. The Company assesses the collectibility of its accounts receivable regularly. Based on this assessment, an allowance for doubtful accounts is recorded. At September

30, 2006 and 2005, an allowance for doubtful accounts was not considered necessary. 3. Network Assets - Amortization Network assets consist of intangibles other than Goodwill. These assets are recorded at cost and consist of amounts paid to acquire the television network affiliate base from Hispanic Television Network, plus technology consulting directly related to setting up the affiliate network. These assets automatically renew every year unless either party terminates the agreement by such notification to the other party. A useful life of five (5) years is estimated for the assets. These agreements are not expected to be terminated by either party prior to its useful life period. Total amortization of these assets has been \$157,586 and the amortization for the periods ended September 30, 2006 and 2005 was \$25,040 and \$35,258, respectively. Future amortization of the Network assets at September 30, 2006 will be \$38,042 and on an annual basis be as follows: Year ended September 30, 2007 \$25,040 Year ended September 30, 2008 \$13,002

4. Coal Reserves By agreement dated September 30, 2005 with GeoTec Thermal Generators, Inc., the Company acquired 200,000 tons of mined coal in exchange for 100,000 shares of preferred Stock, which may be converted into the Company's common stock, at the sole discretion of the GeoTec Thermal Generators, Inc., at any time in an amount equal to the purchase price, which based on the bid price of \$.10 price on September 30, 2005, was valued at \$4,600,000. GeoTec Thermal Generators, Inc. has other coal in other locations in the United States and the agreement allows the Company to substitute coal in these other locations, which the Company may exercise this right if it for example would expedite the delivery process. In evaluating the coal assets in accordance with SFAS No. 144 "Accounting for the Impairment or Disposal of Long-Lived Assets" as discussed in Note 1 -Significant Accounting Policies, the Company has recorded an impairment expense of \$4,600,000 against the coal assets.

57 Urban Television Network Corporation NOTES TO CONSOLIDATED FINANCIAL STATEMENTS September 30, 2006 and 2005

5. Furniture, Fixtures and Equipment Furniture, fixtures and equipment, their estimated useful lives, and related accumulate depreciation at September 30, 2006 and 2005 are summarized as follows: Range of Lives in Years

2006	2005	Master Control, Editing Equipment 3-5		Studio and Production Equipment 3-5		Production Van 5		Affiliate Receiver Equipment 5	
-----	-----	\$ 84,074	\$ 84,074	60,500	60,500	45,000	45,000	20,247	20,247
-----	-----	\$ 209,821	209,821	Less: Accumulated Depreciation (169,577)		(112,301)		-----	-----
=====	=====							\$ 40,244	\$ 97,520

===== The Company acquired equipment totaling \$18,325 during the year ended September 30, 2005. Depreciation expense for the periods ended September 30, 2006 and 2005 was \$57,276 and \$56,935, respectively.

6. Related Party Transactions In May 2002, the Company issued 16,000,000 (800,000 after the 1 for 20 reverse) shares to Urban Television Network Corporation, a Texas corporation for asset purchase of network assets - See footnote 1. The Company has leased office space from one its shareholders and director for \$2,000 per month. The total rental expense for the year ended September 30, 2004 \$24,000. In year 2003, the Company began using the services of a company owned by shareholders, one being a director of the Company, that provides the Company with the equipment and master control services to put the Company's programming on the satellite for the broadcast affiliates to receive and rebroadcast to their local markets. During the periods ended September 30, 2004 and 2003 the total expense paid out for these services was \$430,367 and \$345,081, respectively. The Company uses the services of a company owned by shareholders to provide it with technology services including Internet and affiliate relations. During the years ended September 30, 2006 and 2005, the total expense paid out for these services was \$124,914 and \$215,068, respectively. During the period ended September 2003, the Company executed an interest bearing note with a shareholder. The principal borrowed of \$168,765 plus accrued interest of \$29,750 were converted to a non-interest payable to the shareholder. As discussed below, the shareholder agreed to reduce the Company payable by \$198,515 to apply towards the purchase of common stock by Wright Entertainment LLC during the period ended September 30, 2004. In December 2004, this payable was reinstated in conjunction with the termination of the Wright Entertainment LLC subscription agreement and the execution of the World One Media Group, Inc. subscription agreement discussed later in this Note 6. This note was converted to 1,000,000 shares of common stock in February of 2005. The Company executed an interest bearing note with a shareholder of the Company during the period ended September 30, 2003 to pay operating expenses. During the period ended September 30, 2003 the amounts loaned totaled \$132,200. During the period ended September 30, 2004, the Company repaid \$130,000 of the note principal and the remaining \$2,200 was repaid during the year ended September 30, 2005.

58 Urban Television Network Corporation NOTES TO CONSOLIDATED FINANCIAL STATEMENTS September 30, 2006 and 2005

6. Related Party Transactions -continued The Company executed an interest bearing note with a shareholder of the Company during the period ended September 30, 2004 to pay operating expenses. During the year ended September 30, 2004 the amounts loaned totaled \$400,000. In September 2005, \$228,290 of this note was converted to 2,282,900 shares of common stock by

the noteholder and the remaining balance of \$171,710 was increased to \$358,016 at September 30, 2006. See Note 7 for disclosure of terms, interest rate and conversion privileges. On October 30, 2003, the Company entered into a stock subscription agreement with Wright Entertainment, LLC, a Nevada limited liability company, whose owner and managing director is Lonnie G. Wright, Chairman and Chief Executive Officer of the Company. Wright Entertainment, LLC entered into the stock subscription agreement for Fourteen Million (14,000,000) common shares for Seven Million (\$7,000,000) Dollars or Fifty (\$0.50) Cents per share. The stock sale was structured as an installment stock sale with the terms being as follows: \$500,000 down, the \$6,500,000 balance payable on a promissory note at \$875,000 Dollars quarterly, including 6% interest on the declining balance. A portion (\$200,000) of the \$500,000 down payment was satisfied by one of the Company's lenders forgiving \$198,515 of advances due the lender and \$1,485 of accrued interest on a note payable to the lender. As part of the definitive agreement, between the Company, Wright Entertainment LLC and World One Media Group, Inc. discussed in the next Paragraph, this stock subscription agreement for 14,000,000 shares was terminated and the 4,000,000 shares that had been issued to Wright Entertainment LLC's for management services and to be vested upon Wright Entertainment LLC's completed the payment for its subscription agreement were cancelled. The definitive agreement called for the Company to pay Wright Entertainment LLC, owned by Lonnie G. Wright, \$300,000 (\$60,000 at the signing and \$15,000 per month for sixteen months beginning January 15, 2005) and issue Wright Entertainment LLC 1,000,000 shares of the Company's restricted common stock. In the year ended September 30, 2006, Wright Entertainment LLC converted \$75,000 of the note to 750,000 shares of the Company's restricted common stock. The balance due on the note at September 30, 2006 is \$90,000. On December 13, 2004, we entered into a definitive agreement with World One Media Group, Inc. (name later changed to Dove Media Group, Inc.), a Nevada corporation. The definitive agreement called for World One to purchase 70,000,000 restricted common shares for \$7,000,000. The subscription agreement signed on December 23, 2004 set the terms of the installment purchase at \$100,000 being paid on December 23, 2004 and with a promissory note bearing no interest being executed for the remaining \$6,900,000 and being paid at the rate of \$150,000 every 45 days beginning on January 31, 2005 until promissory note has been paid in full. All the shares were pledged as collateral for the promissory note and were physically held by the Company. Additionally, World One was to be issued warrants for 30,000,000 (reduced by mutual agreement from the original 80,000,000 warrant) shares of common stock that can be exercised for \$.01 per share at any time after the Company's stock price has maintained a \$10 bid price for 20 consecutive trading days. On July 26, 2005, the Board of Directors voted to (1) terminate the stock subscription agreement with Dove Media Group, Inc. (formerly known as World One Media Group, Inc.) due to its nonpayment of required installment payments, (2) cancel the 70,000,000 shares issued and held by the Company as security on the stock subscription agreement, (3) reissue 2,500,000 shares to Dove Media Group, Inc. for \$250,000 that it paid towards the stock subscription agreement and (4) cancel the 5,000,000 shares that had been authorized for Dr. Ajibike Akinkoye for services to be rendered. On July 29, 2005, we entered into a stock subscription agreement with Miles Investment Group, Inc., a Texas limited liability company owned by Jacob R. Miles III, a shareholder and the Company's Chief Executive Officer. The agreement called for Miles Investment Group, LLC to purchase 69,000,000 restricted common shares for \$6,900,000 on an installment basis over a 28 month period with the terms being \$100,000 as a down payment and \$250,000 per month beginning on September 1, 2005 and the first each month thereafter until the total of \$6,800,000 has been paid in full. The Company had deferred payments on the stock subscription agreement at various times with the final deferment being August 15, 2006, in consideration for Miles Investment 59 Urban Television Network Corporation NOTES TO CONSOLIDATED FINANCIAL STATEMENTS September 30, 2006 and 2005 6. Related Party Transactions - continued Group LLC bringing the coal reserves deal to the Company. All the shares were pledged as collateral for the promissory note and were physically held by the Company. Additionally, Miles Investment Group, LLC was to be issued warrants for 30,000,000 shares of restricted common stock that could have been exercised for \$.01 per share in various amounts depending on the future stock price of the Company's stock. During the fiscal year ended September 30, 2005, Randy Moseley, CFO advanced the Company \$30,900 for operating expenses. During the fiscal year ended September 30, 2006, Jacob R. Miles, CEO advanced the Company \$30,000 for operating expenses. During the fiscal year ended September 30, 2006, Randy Moseley, CRO advanced the Company \$43,500 for operating expenses and received reimbursements of \$22,000. On September 29, 2006, the Board of Directors voted to terminate the stock subscription agreement and warrants with Miles Investment Group, LLC due to non-performance on the payment terms as called for in the subscription agreement, after allowing Miles Investment Group, LLC a number of extension to come into compliance with the

subscription agreement. The impact of this action was to (1) remove 67,000,000 shares from the issued \$0.0001 par value common stock, which reduced the number of issued and outstanding from 144,822,277 shares to 77,822,277 shares and (2) cancel the 30,000,000 warrants. 7. Notes Payable and Advances Notes payable at September 30, 2006 and 2005 consist of: 2006 2005 ----- Note payable to stockholder at 20% interest payable on or before September 20, 2008 (1) 358,016 172,367 Notes payable to stockholders at 6% due Upon sale of coal reserves 231,000 -- Note payable to stockholder at no Interest, payable \$15,000 per month, on 15th of the month, final payment due April 15, 2006 (2) 90,000 165,000 Note payable to vendor at 12% interest (18% on past due amounts) payable on April 30, 2006 (3) 63,511 -- Advances from shareholders (4) 120,565 151,015 Advances from a non-related party that has been assumed by a receiver (5) 665,000 665,000 ----- \$1,528,093 \$1,153,382 ----- (1) The holders of the March 2006 note and vendor note have a UCC-1 lien against the Company's assets. The March 2006 note originally due on August 31, 2005 was extended by the noteholder to June 30, 2006 in consideration for the Company issuing the noteholder 200,000 shares of common stock, which the Company valued at \$20,000 and the conversion ratio from five shares to ten shares of common stock for each dollar of loan amount plus accrued interest through the date of conversion. In September 2006 the note was made part of an increased bridge loan of \$492,400 of which \$358,016 had been advanced at September 30, 2006. The note is associated with a stock subscription agreement with R.J. Halden Holdings, Inc. discussed in Note 9. (2) The holder of the \$165,000 note converted \$75,000 of the note balance into 750,000 shares of the Company's common stock in October 2005. 60 Urban Television Network Corporation NOTES TO CONSOLIDATED FINANCIAL STATEMENTS September 30, 2006 and 2005 7. Notes Payable and Advances -continued (3) Westar Satellite Services was granted 100,000 warrants at an exercise price \$0.12 per share for a period of three years from November 7, 2005. The noteholder has filed suit against the Company for payment of this note and accrued interest. See Note 11 - Commitments and Contingencies for a discussion of this liability. (4) The advances from shareholders are due on demand and do not bear interest. (5) See Note 12 - Commitments and Contingencies and Note 13 - Subsequent Events for a discussion of this liability. 8. Income Tax The Company accounts for income taxes under the provisions of Statement of Financial Accounting Standards No. 109, "Accounting for Income Taxes". This standard requires, among other things, recognition of future tax consequences, measured by enacted tax rates attributable to taxable and deductible temporary differences between financial statement and income tax bases of assets and liabilities. Valuation allowances are established, when necessary, to reduce deferred tax assets to the amount expected to be realized. Income tax expense is the tax payable for the period and the change during the period in the deferred tax asset and liability. Temporary differences between the financial statement carrying amounts and tax basis of assets and liabilities did not give rise to significant portions of deferred taxes at September 30, 2006 and 2005. The (provision) benefit for income tax consist of the following: 2006 2005 ----- Current \$ -0- \$ -0- Deferred -0- -0- ----- \$ -0- \$ -0- ===== The Company's utilization of any tax loss carryforward available to it will be significantly limited under Internal Revenue Code Section 382, if not totally, by recent stock issuances and changes in control. The Company has established a 100% valuation allowance until such time as it is decided that any tax loss carryforwards might be available to it. The Company accounts for income taxes pursuant to the Statement of Financial Accounting Standards No.109. The Company has no current or Deferred income tax component. For the year ended September 30, 2006, the valuation allowance increased by approximately \$350,000. 9. Capital Stock The Company has authorized 200,000,000 common shares with a par value of \$0.0001 per share. Each common share entitles the holder to one vote, in person or proxy, on any matter on which action of the stockholders of the corporation is sought. The Company began operations by completing the acquisition of Urban Television Network Corporation, a Texas corporation, in two steps; (1) in May of 2002 the Company issued 16,000,000 shares (800,000 after the 1 for 20 reverse)and (2) in February of 2003, the Company entered into an Exchange Agreement with the majority shareholders of Urban Television Network Corporation, a Texas corporation (Urban-Texas) to acquire 90% of the issued and outstanding capital stock of Urban-Texas in return for 13,248,000 shares of the Company's common stock - See footnote 1. In September 2002, the Company issued 100,000 (5,000 after the 1 for 20 reverse) shares to Hispanic Television Network, Inc. as part of the mutual settlement agreement between the two companies to cancel the Satellite Transponder Service Agreement and notes payable/receivable. On November 21, 2002 the Company completed a 1:20 reverse stock split and amending its Articles of Incorporation to increase its authorized common shares to 200,000,000 and adjust its par value to \$0.0001 per share. 61 Urban Television Network Corporation NOTES TO CONSOLIDATED FINANCIAL STATEMENTS September 30, 2006 and 2005 9. Capital Stock - continued During the year ended September 30,

2003, the Company issued 7,275,000 shares of its common stock to for consulting, legal and management services which the company valued at \$811,250. During the year ended September 30, 2004, the Company issued 21,308,000 shares of its common stock to for consulting, legal, vendor payments and management services which the company valued at \$4,771,450. During the year ended September 30, 2005, the Company issued 4,150,000 shares of its common stock to for consulting, legal, vendor payments and management services which the company valued at \$427,000. During the period ended September 30, 2003, the Company issued 1,957,300 shares of its common stock to Bridge Loan Lenders who elected to convert \$978,650 of bridge loans to common stock at the rate of 2 shares for each dollar of bridge loan converted. During the period ended September 30, 2004, the Company issued 4,135,441 shares of its common stock to Bridge Loan Lenders who elected to convert \$1,852,648 of bridge loans to common stock at an average conversion price of \$.45 per share. During the period ended September 30, 2005, the Company issued 9,276,100 shares of its common stock to Bridge Loan Lenders who elected to convert \$936,922 of bridge loans to common stock at an average conversion price of \$.10 per share. In the fiscal years ended September 30, 2004, 2005 and 2006 the Company has entered into four stock subscription agreements, of which three have been terminated, of which three were with different minority groups for a majority ownership interest in the Company's common stock. Following is a summary of the three terminated stock transactions involved in the terminated agreements, which or more fully described in Note 6 - Related Party Transactions; Number of Value Date of Shares Assigned Note Warrants Agreement Name of Group Issued To Shares Value Issued -----

-----	10/30/03	Wright Entertainment	18,000,000	\$ 9,000,000	\$ 6,800,000	12/13/04	Wright Entertainment	(18,000,000)	\$ (9,000,000)	\$ (6,800,000)
						12/13/04	World One Media Group	70,000,000	\$ 7,000,000	\$ 6,750,000
						30,000,000	7/26/05	World One Media Group	(67,500,000)	\$ (6,750,000)
						(30,000,000)	7/29/05	Miles Investment Group	69,000,000	\$ 6,900,000
						6,690,000	30,000,000	9/29/06	Miles Investment Group	(67,000,000)
						(6,690,000)	(30,000,000)	-----	Net Effect at 9/30/06	4,500,000
						\$ 450,000	\$ -	-----		

----- In February 2005, the Company issued 1,000,000 shares of its common stock to a bridge loan holder who converted a \$200,000 bridge loan at the rate of 5 shares for each \$1.00 of bridge loan. In September 2005, the Company issued 200,000 shares of its common stock to the noteholder of the \$171,710 note payable discussed in Note 5 as part of the consideration for the noteholder agreeing to extend the note to March 31, 2006. In October 2005, a stockholder who had a note balance of \$165,000 due from the Company converted \$75,000 of the note into 750,000 shares of the Company's restricted common stock. In December 2005, the Company issued 100,000 shares of its restricted common stock for consulting services rendered to the Company, which the Company valued at \$10,000. In February 2006, the Company issued 750,000 shares of its restricted common stock to management for services rendered, which the Company valued at \$22,500. 62 Urban Television Network Corporation NOTES TO CONSOLIDATED FINANCIAL STATEMENTS September 30, 2006 and 2005 9. Capital Stock - continued In March 2006, the Company issued 4,000,000 shares of its restricted common stock to management and the board of directors for services rendered, which the Company valued at \$120,000. In March 2006, the Company issued 809,000 shares of its restricted common stock to consultants for services rendered, which the Company valued at \$24,270. In March 2006, the Company issued 205,000 shares of its restricted common stock to employees for services rendered, which the Company valued at \$6,150. In March 2006, the Company issued 2,482,000 of its restricted common stock to lenders who elected to convert \$85,000 of loans to the Company's common stock. In June 2006, the Company issued 265,000 shares of its restricted common stock to consultants for services rendered, which the Company valued at \$7,950. On September 29, 2006, the Board of Directors voted to terminate the stock subscription agreement and warrants with Miles Investment Group, LLC due to non-performance on the payment terms as called for in the subscription agreement, after allowing Miles Investment Group, LLC a number of extension to come into compliance with the subscription agreement. The impact of this action was to (1) remove 67,000,000 shares from the issued \$0.0001 par value common stock, which reduced the number of issued and outstanding from 144,822,277 shares to 77,822,277 shares and (2) cancel the 30,000,000 warrants. On September 29, 2006, the Board of Directors approved effective as of September 23, 2006, a subscription agreement R. J. Halden Holdings, Inc. ("RJHH"). RJHH is one of the largest, if not largest shareholders in the Company. The Subscription Agreement calls for RJH to fund \$1.5 million on or before January 31, 2007. RJHH is entitled to purchase 64% interest in the Company, or a total of 136,104,486 shares. The subscription vest with pro rata advances in increments of a minimum of 500,000 shares as paid. The Company's currently authorized shares of 200,000,000 will have to be amended in the future to allow for the full issuance of the 136,104,486 shares, should R.J.

Halden Holdings, Inc. fund the entire \$1,500,000. Warrants In connection with a vendor converting a payable to note payable, the Company issued the vendor 100,000 warrants that can be exercised over a five year period at the exercise price of \$.25 per share. The Company issued management 950,000 warrants in March 2006 which are vested Immediately and exercisable at \$0.05 per shares on or before December 31, 2007 in return for loans made to the Company for operating expenses. The Company has not recognized any expense related to these warrants as the market price of the Company's stock at issuance was equal to the exercise price. Non-Qualified Stock Grant and Option Plan The Company is authorized to issue up to 6,800,000 shares of common stock under its 2003 Non-Qualified Stock Grant and Option Plan (the "Plan") through an S-8 registration, as amended. This Plan is intended to serve as an incentive to and to encourage stock ownership by certain directors, officers, employees of and certain persons rendering service to the Company, so that they may acquire or increase their proprietary interest in the success of the Company, and to encourage them to remain in the Company's service. During the year ended September 30, 2003, the Company had distributed 1,900,000 of the shares through grants. During the year ended September 30, 2004, the Company had distributed 1,586,000 of the shares through grants. During the year ended September 30, 2005, the Company distributed 200,000 of the shares through grants. 63 Urban Television Network Corporation NOTES TO CONSOLIDATED FINANCIAL STATEMENTS September 30, 2006 and 2005 10. Preferred Stock The Articles of Incorporation of the Company authorize issuance of a maximum of 500,000 shares of nonvoting preferred stock with a par value of \$1.00 per share. The Articles of Incorporation grant the Board of Directors of the Company authority to determine the designations, preferences, and relative participating, optional or other special rights of any preferred stock issued. On September 30, 2005, the Company entered into an agreement with GeoTec Thermal Generators, Inc. to acquire 200,000 tons of coal in exchange for 100,000 shares of preferred Stock, which may be converted into the Company's common stock, at the sole discretion of the GeoTec Thermal Generators, Inc., at any time in an amount equal to the purchase price at the stock bid price of \$.10 on September 30, 2005. The 100,000 shares of preferred stock do not have any voting rights or preferences, except for the conversion privilege. 11. Commitments and Contingencies Satellite Transponder Lease In December 2005, the Company renewed its Satellite space segment service agreement with Intelsat, Inc. for 6 MHz of satellite bandwidth on Intelsat 5 for a period of five years ending on October 31, 2010 at the rate of \$17,850 per month. This agreement was terminated by Intelsat in April of 2006 for non-payment by the Company. For the periods ended September 30, 2006 and 2005, the amounts expensed were \$326,638 and \$215,516, respectively. Signal Uplink Lease The Company renewed its Full Time Broadcast Agreement with Westar Satellite Services, LP on October 15, 2005 for a full time redundant 6 MHz digital C-band uplink service for a period of five years ending on October 31, 2010 at the rate of \$8,800 per month plus taxes. For periods ended September 30, 2006 and 2005 the amounts expensed for uplink services were \$159,850 and \$96,000, respectively. Westar Satellite Services, LP has sued the Company for non-payment of this contract. Future lease payments due during the term of the master service agreement ending on October 31, 2010 will equal \$413,600 and be due as follows: Year ended September 30, 2007 \$105,600 Year ended September 30, 2008 \$105,600 Year ended September 30, 2009 \$105,600 Year ended September 30, 2010 \$ 96,800 Facilities Space Lease The Company entered into a lease for office and uplink space on March 1, 2004 for a period of one year ending on February 28, 2005 and renewed the lease through February 28, 2007 at the rate of \$2,569 per month. For periods ended September 30, 2006 and 2005, the amount expensed for this office space lease was \$33,720 and \$22,491, respectively. The Company entered into a lease for additional space at the its corporate headquarters facilities on April 1, 2005 for one year ending on March 31, 2006, at the rate of 4,100 per month. The Company exercised its option to terminate this lease on its March 31, 2006 anniversary date. For the period ended September 30, 2006 the amount expensed for this office space lease was \$24,600. Future lease payments due in the year ending September 30, 2007 for the term of the lease ending on February 28, 2007, equals \$21,414. 64 Urban Television Network Corporation NOTES TO CONSOLIDATED FINANCIAL STATEMENTS September 30, 2006 and 2005 11. Commitments and Contingencies - continued Employment Agreements Mr. Randy Moseley is employed pursuant to a five-year employment agreement that commenced on October 2, 2002. The agreement provides for a base annual salary equal to \$200,000 and a possible annual cash bonus as determined by the Board of Directors and/or the Compensation Committee. In October 2003, the employment agreement of Mr. Moseley was extended and amended to allow for the naming of a new President and Chief Executive Officer for the Company. Mr. Moseley accepted the officer position of Executive Vice President and Chief Financial Officer and agreed to defer the payment of his salary for the period from October 2, 2002 to September 30, 2003 with this deferred year being added to the end of the original

employment term to make the term of the employment agreement now end on September 30, 2008. During the periods ended September 30, 2006 and 2005, \$175,000 and \$150,000 of Mr. Moseley's annual compensation was accrued as a payable. At September 30, 2006, a total of \$376,000 in compensation was accrued as a payable to Mr. Moseley. Mr. Jacob R. Miles III, is employed as the Company's President and Chief Executive Officer pursuant to a three-year employment agreement that commenced effective January 1, 2006. The agreement provides for a base annual salary equal to \$225,000 with a minimum of annual increases of 5% and a possible annual cash bonus as determined by the Board of Directors and/or the Compensation Committee. During the period ended September 30, 2006, \$56,250 of Mr. Miles' annual compensation was accrued as a payable. At September 30, 2006, a total of \$121,750 in compensation was accrued as a payable to Mr. Miles.

**Legal Matters** The Company's motion to dismiss was granted on February 23, 2006 by the United States District Court, Central District of California, Los Angeles Division in a legal action styled *Walter E. Morgan, Jr. vs. Urban Television Network Corporation et al.* The Company claimed that the Plaintiff claims should have been brought in a previous case wherein the Company took a judgment against Mr. Morgan in excess of \$1,500,000 in June 2204 in the U.S. District Court for the Northern District of Texas, Fort Worth Division. Mr. Morgan and his related companies appealed the judgment, which was dismissed sua sponte by the U.S. Court of Appeals for the Fifth Circuit. The Company has made the decision not to record the default judgment as an asset until at such time as it is confident that asset value can be recovered from the defendants. The Company is party to legal action pending in the United States District Court for the Northern District of Texas. The Company has been served with a summons in a civil case styled *Michael J. Quilling, Receiver For MegaFund Corporation and Stanley A. Leitner vs. Urban Television Network Corporation.* The Receiver has filed complaint against the Company to recover advances in the amount of \$665,000 to the Company by Mega Fund Corporation on behalf of Dove Media Group, Inc. related to its stock subscription agreement. The Company has recorded these advances as a liability on its financial statements and believes that the ultimate disposition will not have a material adverse effect on the Company's consolidated financial position, results of operations and liquidity. See Note 13 - Subsequent Event which discloses that this suit was dismissed without prejudice. The Company is party to legal action pending in the 162nd District Court, Dallas, Texas. The Company has been served with a summons in a civil case styled *Westar Satellite Services, L.P. vs. Urban Television Network Corporation.* The Plaintiff has filed complaint against the Company to Recover amounts due Plaintiff under a promissory note and Master Service Agreement. The Company has recorded the related liabilities for the promissory note and master service agreement on its financial statements and believes that the ultimate disposition will not have a material adverse effect on the Company's consolidated financial position, results of operations and liquidity.

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12. **Going Concern** The Company has suffered recurring losses from operations and has a deficit in both working capital and stockholders' equity. In order for the Company to sustain operations and execute its television broadcast and programming business plan, capital will need to be raised to support operations as the company executes its business plan. These conditions raise substantial doubt about the Company's ability to continue as a going concern. The Company may raise additional capital through operating cash flows, the sale of its equity securities, or debt securities. Subsequent to year end the Company has raised additional capital of approximately \$65,000 from collections on the stock subscription agreement.

13. **Subsequent Events** On December 6, 2006, presiding judge for the United States District Court For the Northern District of Texas, Dallas Division, signed an Agreed Order Of Dismissal that dismissed without prejudice the lawsuit of Michael J. Quilling, Receiver for Megafund Corporation and Stanley A. Leitner which Sought to have the Company disgorge \$665,000 advanced to the Company by Megafund Corporation. 66