

**UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549**

**FORM 10-QSB**

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

For the quarterly period ended: **October 31, 2002**

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

For the transition period ended \_\_\_\_\_

Commission file number 333-52268

**DIRECT RESPONSE FINANCIAL SERVICES, INC.**

(Exact name of small business as specified in its charter)

Colorado

(State or other jurisdiction of  
incorporation or organization)

84-1547578

(IRS Employer Identification #)

7080 N. Whitney, Suite 101

Fresno, California 93720

(Address of principal executive offices)

(559) 434-1565

(Telephone Number)

\_\_\_\_\_  
(Former name, former address, and former fiscal year, if changed since last report)

The number of shares outstanding of each of the issuer's classes of common equity, as of the last practicable date: Common Stock 16,737,500 as of July 31, 2002

Transitional Small Business Disclosure Format: ☒ YES ☐ NO

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# Quarterly Report

## FINANCIAL STATEMENTS

### Direct Response Financial Services, Inc. (A Development Stage Company) Consolidated Balance Sheets

#### ASSETS

	October 31, 2002 <u>(Unaudited)</u>	January 31, 2002 <u>(Note 1)</u>
<b>CURRENT ASSETS</b>		
Cash	\$ -	\$ 61,696
Prepaid Rent	-	3,021
Total Current Assets	-	64,717
<b>PROPERTY AND EQUIPMENT</b>		
Net of \$12,432 depreciation at January 31, 2002	-	32,330
<b>INTANGIBLE ASSETS</b>	-	-
<b>OTHER ASSETS</b>		
Investment in Direct Card Services, LLC	-	-
Lease deposit	-	3,021
Total Assets	<u>\$ -</u>	<u>\$ 100,068</u>

#### LIABILITIES AND STOCKHOLDERS' EQUITY (DEFICIT)

<b>CURRENT LIABILITIES</b>		
Bank overdraft	\$ 79	\$ -
Accounts payable and accrued expenses	50,963	4,556
Accrued interest payable - related parties	-	7,747
Payable to Direct Card Services, LLC	1,500	-
Advances from stockholders	11,040	-
Current portion of notes payable	-	31,000
Total current liabilities	63,582	43,303
<b>NOTES PAYABLE -Related Parties</b>	-	-
Total Liabilities	63,582	43,303
Commitments and contingencies	-	-
<b>STOCKHOLDER'S EQUITY (DEFICIT)</b>		
Common Stock, authorized 100,000,000 shares, no par value, 16,737,500 and 42,875,000 shares issued and outstanding at October 31, 2002 and January 31, 2002	354,950	430,200
Accumulated (deficit)	(354,950)	(373,435)
(Deficit) accumulated during the development stage	(63,582)	-
Total stockholders' equity (deficit)	<u>\$ (63,582)</u>	<u>\$ 56,765</u>
Total liabilities and stockholders' equity (deficit)	<u>\$ -</u>	<u>\$ 100,068</u>

The accompanying notes to financial statements are an integral part of this statement.

**Direct Response Financial Services, Inc.**  
 (A Development Stage Company)  
**Consolidated Statements of Operations**  
 (Unaudited)

	Three Months Ending <u>October 31, 2002</u>	Three Months Ending <u>October 31, 2001</u>
Revenues	\$ -	\$ -
Costs and Expenses:		
Website development	-	-
Professional fees	23,990	-
Administrative expenses	1,822	-
Equity in earnings of Direct Card Services, LLC	<u>-</u>	<u>-</u>
	25,812	-
Earnings (loss) from operations	(25,812)	-
Interest income	-	367
Interest expense	<u>-</u>	<u>(1,224)</u>
Earnings (loss) from continuing operations	\$ (25,812)	\$ (857)
Discontinued Operations:		
(Loss) from discontinued operations	-	(40,396)
Gain on disposal of discontinued operations	-	-
Net (loss)	<u>\$ (25,812)</u>	<u>\$ (41,253)</u>
(Loss) per share	<u>\$ *</u>	<u>\$ *</u>
* less than \$.01 per share		
Weighted average shares outstanding	<u>16,737,500</u>	<u>42,875,000</u>

The accompanying notes to financial statements are an integral part of this statement.

**Direct Response Financial Services, Inc.**  
 (A Development Stage Company)  
**Consolidated Statements of Operations**  
 (Unaudited)

	Nine Months Ending <u>October 31, 2002</u>	Nine Months Ending <u>October 31, 2001</u>	April 30, 2002 (inception) through <u>October 31, 2002</u>
Revenues	\$ -	\$ -	\$ -
Costs and Expenses:			
Website development	7,500	-	7,500
Professional fees	45,993	-	45,994
Administrative expenses	8,588	-	8,588
Equity in earnings of Direct Card Services, LLC	<u>1,500</u>	<u>-</u>	<u>1,500</u>
	63,581	-	63,582
Earnings (loss) from operations	(63,581)	-	(63,582)
Interest income	55	1,893	-
Interest expense	<u>-</u>	<u>(3,672)</u>	<u>-</u>
Earnings (loss) from continuing operations	\$ (63,526)	\$ (1,779)	\$ (63,582)
Discontinued Operations:			
(Loss) from discontinued operations	(63,812)	(130,246)	-
Gain on disposal of discontinued operations	82,242	-	-
Net (loss)	<u>\$ (45,096)</u>	<u>\$ (132,025)</u>	<u>\$ (63,582)</u>
(Loss) per share	<u>\$ *</u>	<u>\$ *</u>	<u>\$ *</u>
* less than \$.01 per share			
Weighted average shares outstanding	<u>22,988,889</u>	<u>42,875,000</u>	<u>32,044,556</u>

The accompanying notes to financial statements are an integral part of this statement.

**Direct Response Financial Services, Inc.**  
 (A Development Stage Company)  
**Consolidated Statement of Cash Flows**  
 (Unaudited)

	Nine Months Ending <u>October 31, 2002</u>	Nine Months Ending <u>October 31, 2001</u>	April 30, 2002 (inception) through <u>October 31, 2002</u>
Cash flows from operating activities:			
Net (loss)	\$ (45,096)	\$ (132,025)	\$ (63,582)
Adjustments to reconcile net loss to net cash used in operating activities:			
Depreciation	15,872	6,408	-
Gain on disposal of discontinued operations	(82,242)	-	-
Equity in earnings of Direct Card Services, LLC	1,500	-	1,500
Net change in operating assets and liabilities:			
Accounts receivable	-	2,981	-
Prepaid rent	-	-	-
Security deposit	-	-	-
Accounts payable and accrued liabilities	<u>51,041</u>	<u>3,280</u>	<u>51,042</u>
Net cash (used) by operating activities	(58,925)	(119,356)	(11,040)
Cash flows from investing activities:			
Purchase of investment	-	-	-
Purchase of property and equipment	(2,025)	(31,416)	-
Cash disbursed in disposal of discontinued operations	<u>(4,536)</u>	<u>-</u>	<u>-</u>
Net cash (used) by investing activities	(6,561)	(31,416)	-
Cash flows from financing activities:			
Loans payable - related parties	11,040	-	11,040
Proceeds from issuance of common stock	-	-	-
Repurchase of common stock	(250)	-	-
Repayment of debt	<u>(7,000)</u>	<u>-</u>	<u>-</u>
Net cash provided (used) by financing activities	(3,790)	-	11,040
Net increase (decrease) in cash	(61,696)	(150,772)	-
Cash at beginning of period	<u>61,696</u>	<u>193,671</u>	<u>-</u>
Cash at end of period	<u>\$ -</u>	<u>\$ 42,899</u>	<u>\$ -</u>

The accompanying notes to financial statements are an integral part of this statement.

**Direct Response Financial Services, Inc.**  
(A Development Stage Company)  
**Consolidated Statement of Cash Flows, Continued**  
(Unaudited)

	Nine Months Ending <u>October 31, 2002</u>	Nine Months Ending <u>October 31, 2001</u>	April 30, 2002 (inception) through <u>October 31, 2002</u>
Supplemental disclosure of cash flow information:			
Cash paid during the period for:			
Interest	\$ -	\$ 3,672	\$ -
Income taxes	\$ -	\$ -	\$ -
Supplemental schedule of noncash investing and financing activities:			
Stock issued for acquisition of subsidiary	0	-	0
Assets exchanged for liabilities and stock in disposal of discontinued operations	<u>36,304</u>	<u>-</u>	<u>-</u>

The accompanying notes to financial statements are an integral part of this statement.

**Direct Response Financial Services, Inc.**  
(A Development Stage Company)  
**Notes to Consolidated Financial Statements**  
**July 31, 2002**  
**(Unaudited)**

**Note 1 - Financial Statements**

The accompanying financial statements included herein have been prepared by Direct Response Financial Services, Inc. without audit, pursuant to the rules and regulations of the Securities and Exchange Commission for reporting on Form 10-QSB. Certain information and footnote disclosure normally included in the financial statements prepared in accordance with generally accepted accounting have been condensed or omitted as allowed by such rules and regulations, and the Company believes that the disclosures are adequate to make the information presented not misleading. It is suggested that these financial statements be read in conjunction with the January 31, 2002 audited financial statements and the accompanying notes thereto contained in the Annual Report on Form 10-KSB filed with the Securities and Exchange Commission. While management believes the procedures followed in preparing these financial statements are reasonable, the accuracy of the amounts are in some respects dependent upon the facts that will exist, and procedures that will be accomplished by the Company later in the year. The results of operations for the interim periods are not necessarily indicative of the results of operations for operations for the full year. In management's opinion all adjustments necessary for a fair presentation of the Company's financial statements are reflected in the interim periods included.

Amounts shown for January 31, 2002 were taken from the audited financial statements of that date.

**Note 2 - Summary of Significant Accounting Policies**

**Organization and Description of Business**

The Company was incorporated in the State of Colorado on April 7, 2000 to develop software and internet portals.

On April 29, 2002 the Company acquired 100% of Direct Response Financial Services, Inc., a Delaware Corporation (Note 3), and changed the focus to the development of financial services for the direct response industry.

In June of 2002, the company changed its name to Direct Response Financial Services, Inc.

**Development Stage Company**

The Company is in the development stage and has had no significant operations. Prior to April 29, 2002, the Company was in a development stage relating to its internet portal operations. Subsequent to that date, the Company is in a new development stage relating to the development of its financial services business.

**Basis of Consolidation**

The consolidated financial statements include the Company and its majority and wholly owned subsidiary. All significant inter-company accounts and transactions have been eliminated.

**Reclassifications**

Certain reclassifications have been made to previously reported statements to conform to the Company's current financial statement format and to give effect to the discontinuance of operations.



**Note 3 - Stock Transactions**

In April of 2002, the Company issued a stock dividend of 24 shares for each existing share. All share figures in the financial statements have been restated to reflect the dividend.

In April of 2002, the Company repurchased 6,250 shares of common stock. On April 29, 2002, in connection with an Agreement and Plan of Reorganization (Note 4), two shareholders returned 34,125,000 shares of common stock to the Company in exchange for certain assets. In accordance with Colorado, the shares were cancelled when returned to the corporation.

**Note 4 - Reorganization and Discontinued Operations**

On April 29, 2002, the Company entered into an Agreement and Plan of Reorganization between itself and Direct Response Financial Services, Inc., a Delaware Corporation (DEL). Under the agreement, the Company acquired all of the outstanding stock of DEL in exchange for 6,000,000 shares of the Company's stock, which the Company has accounted for using the purchase method. Prior to the acquisition, DEL had no operations, assets or liabilities and therefore no value was assigned to the exchange. The consolidated statements include the results of operations of DEL from the date of acquisition.

In addition, the Company disposed of its software development and internet portal operations, along with the related assets (including intangible assets) and liabilities, to two shareholders in exchange for 34,125,000 shares of the Company's stock. The Company assigned an estimated value of \$75,000 to the stock.

**Note 5 - Direct Card Services, LLC**

On May 16, 2002, the Company entered into an agreement to form Direct Card Services, LLC, a Delaware limited liability company, for the purpose of marketing debit and credit card processing services. The Company contributed \$1,500 for a 50% interest. The Company accounts for its investment in the 50%-owned subsidiary using the equity method.

Results of operations of the subsidiary are as follows:

	For the 3 months ending October 31, 2002	For the 9 months ending October 31, 2002
Sales	\$ 219	\$ 219
Cost of sales	221	221
Administrative and other expenses	<u>58</u>	<u>3,078</u>
(Loss) from operations	<u>(60)</u>	<u>(3,080)</u>
Net (Loss)	<u>\$ (60)</u>	<u>\$ (3,080)</u>

The Company's share of the net loss for the three and nine months ending October 31, 2002 was \$30 and \$1,540, respectively. Under the equity method, the Company includes its share of the net loss in its income statement as equity in subsidiary earnings and reduces the carrying value of its investment by the same amount until the carrying value of the investment reaches zero, after which the Company will not recognize further income or losses until the subsidiary has earnings sufficient to create a positive carrying value. Accordingly, the Company recognized losses of zero and \$1,500 for the three and nine months ending October 31, 2002, respectively.

## **Management's Discussion and Analysis of Financial Condition**

This statement may include projections of future results and “forward looking statements” as that term is defined in Section 27A of the Securities Act of 1933 as amended (the “Securities Act”), and Section 21E of the Securities Exchange Act of 1934 as amended (the “Exchange Act”). All statements that are included in this Quarterly Report, other than statements of historical fact, are forward looking statements. Although management believes that the expectations reflected in these forward looking statements are reasonable, it can give no assurance that such expectations will prove to have been correct.

### **Financial Summary**

Results of Operations for the Nine Months ending October 31, 2002:

The majority of the net loss was comprised of professional fees of \$45,993, and loss from discontinuing operations of \$63,812; offset by a gain on disposal of discontinued operations of \$82,242.

On May 16, 2002 the Company entered into an agreement to form Direct Card Services, LLC, a Delaware limited liability company, for the purpose of marketing debit and credit card processing services. The Company contributed \$1,500 for a 50% interest.

### **Management Plan of Operations**

*Direct Response Financial Services, Inc.*

Direct Response Financial Services, Inc. intends to serve merchant banking needs that are unique to the global direct response industry. The direct response industry provides a means for direct marketing companies to market products directly to the consumer; and may include direct offers made through newspapers and magazines or other print media, television, and the Internet. Merchant banking needs unique to the global direct response industry include an ability to obtain banking and credit card processing capabilities that are accessible and affordable.

The company currently has limited operations and is reliant on contributions from officers and shareholders. Liquidity demands have been met through cash advances. No formal agreements between any officer or shareholder and the company currently exist to continue funding operations.

The company is providing credit card processing services through agreements with various subcontractors and strategic partners. The company is establishing this infrastructure directly, through its subsidiary DRFS, Delaware and Direct Card Services, LLC, a Delaware Limited Liability Company of which the company owns a 50% interest.

An equity offering to raise capital to help expand operations remains in a planning stage, no terms have been determined.

Direct Response Financial Services began trading on the Berlin Exchange under the ticker symbol DFS on December 3, 2002. The trading number is 804239. The company has also applied for a listing on the Frankfurt Stock Exchange.

## Quarterly Report

### *Direct Card Services, LLC*

Direct Card Services, LLC, partially-owned by DRFL, began offering card processing services for business merchants on October 10, 2002. As of October 31, 2002, sales totaled \$219 resulting in a net loss attributable to the company of \$30. (see note 5 of the financial statements on page 9 of this report)

Direct Card Services, LLC has initiated a sales campaign for signup of business merchants for card processing services. On November 14, 2002, Direct Card Services, LLC, reached a three year agreement with Hughes & Kaye Products and Services, LLC for merchant card processing. Under the terms of the agreement Hughes & Kaye will act as an independent sales organization to Direct Card Services, LLC. Hughes & Kaye will focus on the Southern California marketplace.

## OTHER INFORMATION

### Item 1. Legal Proceedings

None

### Item 2. Changes in Securities and Use of Proceeds

None

### Item 3. Defaults Upon Senior Securities

None

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

None

### Item 5. Other Information

None

### Item 6. Exhibits and Reports on Form 8-K

#### Reports on Form 8-K

None during this reporting period.

#### Exhibits

*Direct Response Financial Services includes herewith the following exhibit:*

- 99.2 Certification of Chief Executive Officer and Principal Accounting Officer Direct Response Financial Services, Inc. pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

**SIGNATURES**

In accordance with the requirements of the Exchange Act, the registrant caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

Direct Response Financial Services, Inc.  
(Registrant)

Date December 22, 2002

By: /s/ Rodney Ray  
(Rodney Ray, President)