MARKETSHARE RECOVERY INC
Form 10QSB/A
October 15, 2004

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

FORM 10-QSB/A

Quarterly Report Pursuant to Section 13 or 15(d)
of the Securities Exchange Act of 1934

For the Quarter Period Ended
June 30, 2004 — Commission File No. 0-15807

MARKETSHARE RECOVERY, INC.
(Exact name of Registrant as specified in its Charter)

Delaware	31-1190725
(State or jurisdiction of incorporation or organization)	(IRS Employer Identification No.)

95 Broadhollow Road, Suite 101, Melville, NY	11747
(Address of Principal Executive Office)	(Zip Code)

Registrant's telephone number, including area code: (631) 385-0007

Former name, former address and former fiscal year, if changed since last report:

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

Yes [X] No [ ]

The number of shares issued and outstanding of the Registrant's Common Stock, $0.10 par value, as of August 23, 2004 was 45,702,256.

MARKETSHARE RECOVERY, INC. AND SUBSIDIARY
(Formerly Health & Leisure, Inc. and subsidiary)

INDEX TO FORM 10-QSB

Page

PART I - FINANCIAL INFORMATION:

Item 1 - FINANCIAL STATEMENTS (Unaudited)

MARKETSHARE RECOVERY, INC AND SUBSIDIARY
(FORMERLY HEALTH & LEISURE, INC. AND SUBSIDIARY)

CONDENSED CONSOLIDATED BALANCE SHEET
(Unaudited)

June 30, 2004

ASSETS	
CURRENT ASSETS	
Cash	$ 16,078
Accounts Receivable	3,727
Marketable securities	23,106
Due From Affiliate	6,431
Prepaid expense and other current assets	400
TOTAL CURRENT ASSETS	49,742
PROPERTY AND EQUIPMENT, Net	1,844
SECURITY DEPOSITS	4,667
TOTAL ASSETS	$ 56,253
LIABILITIES AND STOCKHOLDERS' DEFICIENCY	
CURRENT LIABILITIES	
Notes payable - stockholders	$ 17,140
Loan Payable	100,000
Accrued expenses and other current liabilities	90,503
Deferred revenue	37,973
Due to stockholders	12,300
Accrued interest - stockholders	16,935
TOTAL CURRENT LIABILITIES	274,851
COMMITMENTS AND CONTINGENCIES	
STOCKHOLDERS' DEFICIENCY	
Preferred stock - $0.10 par value; 10,000,000 shares authorized; no shares issues or outstanding	--

Common stock - $0.10 par value; 50,000,000 shares authorized; 45,702,756 shares issues and outstanding	4,570,276
Additional paid-in capital	(2,690,106)
Accumulated deficit	(2,098,768)
TOTAL STOCKHOLDERS' DEFICIENCY	(218,598)
TOTAL LIABILITIES AND STOCKHOLDERS' DEFICIENCY	$ 56,253

See notes to unaudited condensed consolidated financial statements.

1

MARKETSHARE RECOVERY, INC AND SUBSIDIARY
(FORMERLY HEALTH & LEISURE, INC. AND SUBSIDIARY)

CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS
(Unaudited)

	For the Six Months Ended June 30, 2004	2003
NET REVENUES (including revenue from related party of $7,594 and -0-, respectively)	$ 228,224	$ 286,404
COST OF REVENUES (including compensatory element of stock issuances of $40,331 and -0-, respectively)	146,214	180,947
GROSS PROFIT	82,010	105,457
SELLING, GENERAL AND ADMINISTRATIVE EXPENSES	120,064	77,982
OPERATING (LOSS) INCOME	(38,054)	27,475
OTHER INCOME (EXPENSES)		
Interest expense - stockholders	(6,935)	--
Gain (loss) on sale of marketable securities	764	(6,871)
Unrealized loss on marketable securities	(41,705)	23,715
TOTAL OTHER (EXPENSES) INCOME	(47,876)	16,844
(LOSS) INCOME BEFORE INCOME TAXES	(85,930)	44,319
PROVISION FOR INCOME TAXES	--	9,000

NET (LOSS) INCOME	$ (85,930)	$ 35,319
Basic Net (Loss) Income Per Common Share	$ --	$ 0.03
Diluted Net (Loss) Income Per Common Share	$ --	$ --
Weighted Average Number of Common Shares Outstanding - Basic (1)	45,622,561	1,117,203
Weighted Average Number of Common Shares Outstanding - Diluted (1)	45,622,561	35,367,203

(1) Restated to reflect 1-for-10 reverse stock-split completed in August 2003.

See notes to unaudited condensed consolidated financial statements.

MARKETSHARE RECOVERY, INC AND SUBSIDIARY
(FORMERLY HEALTH & LEISURE, INC. AND SUBSIDIARY)

CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS
(Unaudited)

	For the Three Months Ended June 30, 2004	2003
NET REVENUES (including revenue from related party of $3,797 and -0-, respectively)	$ 123,261	$ 125,494
COST OF REVENUES (including compensatory element of stock issuances of $60 and -0-, respectively)	54,783	63,837
GROSS PROFIT	68,478	61,657
SELLING, GENERAL AND ADMINISTRATIVE EXPENSES	52,192	51,371
OPERATING (LOSS) INCOME	16,286	10,286
OTHER INCOME (EXPENSES)		
Interest expense - stockholders	(1,935)	--
Gain (loss) on sale of marketable securities	(4,514)	
Unrealized loss(gain) on marketable securities	(16,128)	27,523

TOTAL OTHER EXPENSES	(18,063)	23,009
(LOSS) INCOME BEFORE INCOME TAXES	(1,777)	33,295
PROVISION FOR INCOME TAXES	--	7,000
NET (LOSS) INCOME	$ (1,777)	$ 26,295
Basic Net (Loss) Income Per Common Share	$ (0.00)	$ (0.00)
Diluted Net (Loss) Income Per Common Share	$ (0.00)	$ (0.00)
Weighted Average Number of Common Shares Outstanding - Basic (1)	45,702,672	12,135,686
Weighted Average Number of Common Shares Outstanding - Diluted (1)	45,702,672	354,635,686

(1) Restated to reflect 1-for-10 reverse stock-split completed in August 2003.

See notes to unaudited condensed consolidated financial statements.

3

MARKETSHARE RECOVERY, INC AND SUBSIDIARY
(FORMERLY HEALTH & LEISURE, INC. AND SUBSIDIARY)

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(Unaudited)

	For the Six Months Ended June 30, 2004	2003
CASH FLOWS FROM OPERATING ACTIVITIES		
Net (loss) income	$ (85,930)	$ 35,319
Adjustments to reconcile net (loss) income to net cash provided by operating activities:		
Compensatory element of stock issuances	40,331	--
Depreciation	264	--
Changes in operating assets and liabilities:		
Accounts receivable	(3,727)	5,432

Prepaid and other current assets	(299)	0
Due to affiliate	(4,931)	--
Security deposits	--	(4,667)
Accrued expenses and other current liabilities	63,237	53,005
Marketable securities	7,224	(74,460)
TOTAL ADJUSTMENTS	102,099	(20,690)
NET CASH PROVIDED BY OPERATING ACTIVITIES	16,169	14,629
CASH USED IN INVESTING ACTIVITIES		
Purchase of property and equipment	(2,108)	--
CASH FLOWS FROM FINANCING ACTIVITIES		
Repayment of Note to Shareholders	(107,860)	$ --
Proceeds from loan payable	100,000	--
NET CASH USED IN FINANCING ACTIVITIES	(7,860)	--
NET INCREASE IN CASH	6,201	14,629
CASH - Beginning	9,877	4,697
CASH - Ending	$ 16,078	$ 19,326
SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION		
Cash paid during the years for:		
Income taxes	$ 0	$ 978
SUPPLEMENTAL DISCLOSURES OF NON-CASH INVESTING AND FINANCING		
Issuance of notes payable related to reverse merger		$ 137,700

See notes to unaudited condensed consolidated financial statements.

4

MARKETSHARE RECOVERY, INC. AND SUBSIDIARY
(Formerly Health and Leisure, Inc. and subsidiary)

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

NOTE 1 - Basis of Financial Statement Presentation

The unaudited condensed consolidated financial statements presented are those of MarketShare Recovery, Inc. - Delaware (formerly Health & Leisure, Inc.) and its wholly-owned subsidiary, MarketShare Recovery, Inc. - N.Y. ("MKSR"). Collectively, they are referred to herein as the

("Company").

The accompanying unaudited condensed consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America for interim financial statements and with the instructions to Form 10-QSB. Accordingly, they do not include all of the information and disclosures required for annual financial statements. These financial statements should be read in conjunction with the consolidated financial statements and related footnotes included in the Company's annual report on Form 10-KSB for the year ended December 31, 2003.

In the opinion of the Company's management, all adjustments (consisting of normal recurring accruals) necessary to make the presentation of the Company's financial position as of June 30, 2004 and the results of operations and cash flows for the six month periods ended June 30, 2004 and June 30, 2003 not misleading have been included.

The results of operations for the six-month period ended June 30, 2004 are not necessarily indicative of the results to be expected for the full year ended December 31, 2004.

NOTE 2 - Business and Reverse Merger

Effective on June 13, 2003, Health & Leisure, Inc. ("HLLS"), a publicly-traded Delaware corporation, and its wholly-owned subsidiary, Venture Sum, Inc., a Delaware corporation ("Mergerco"), entered into a Merger and Acquisition agreement with MKSR, a privately-held New York corporation, in the business of providing on-line direct marketing solutions for enterprises to customers through the United States. Pursuant to the agreement, Mergerco merged with and into MKSR and MKSR became the surviving corporation. As consideration for the merger, the shareholders of MKSR received from HLLS 1,019,767 common shares of HLLS and 3,425,000 shares of its voting convertible non-cumulative preferred stock ("HLLS Preferred Stock"). 267,000 shares of the HLLS common stock issued to the MKSR shareholders were from HLLS authorized but unissued shares and 752,767 shares of the HLLS common stock were returned to HLLS by the HLLS' former chief executive officer (Mr. Feldman) and then reissued by HLLS in the merger.

NOTE 2 - Business and Reverse Merger, continued

The 3,425,000 shares of HLLS Preferred Stock are convertible into 34,250,000 post reverse stock-split shares of HLLS common stock upon approval of an increase in the shares the Company is authorized to issue. After the issuance of common stock as described above and the conversion of HLLS Preferred Stock, the shareholders of MKSR own approximately 94% of HLLS. Accordingly, this transaction has been accounted for as a reverse merger with MKSR as the acquirer of HLLS. The reverse merger was accounted for as a recapitalization and the stockholders' equity was retroactively restated to January 1, 2002. The historical financial statements prior to the reverse merger are those of MarketShare Recovery, Inc. - N.Y.

Pursuant to the merger, the Company's former Chief Executive Officer cancelled all indebtedness owed by HLLS to him, except for $12,700, and cancelled all guarantees of debt by HLLS.

In addition, as part of the merger transaction, MKSR and HLLS agreed to pay $125,000 to H&L Concepts, Inc., a wholly-owned subsidiary of HLLS. After the execution of the promissory note, the former Chief Executive Officer purchased all of the outstanding shares of stock of H&L Concepts, Inc. for nominal consideration. The parties acknowledged that most of the trade payables and other consolidated liabilities of HLLS were liabilities of H&L Concepts, Inc., the subsidiary of HLLS, and by selling the stock of H&L Concepts, Inc. to Mr. Feldman it had the effect of removing substantially all of the trade payables and liabilities from the HLLS balance sheet and fixing the post closing liabilities of HLLS to that set forth in the promissory note, see Note 5.

NOTE 3 - Going Concern and Management's Plans

The accompanying unaudited condensed consolidated financial statements have been prepared in conformity with accounting principles generally accepted in the United States of America, assuming that the Company will continue as a going concern. For the six months ended June 30, 2004, the Company has incurred a loss of approximately $85,900 and has a working capital and stockholders' deficiency of approximately $220,000. These factors raise substantial doubt about the Company's ability to continue as a going concern. The Company's ability to continue as a going-concern is dependent upon obtaining additional financing, restructuring its existing liabilities, and the successful completion of its business plan. The consolidated financial statements do not include any adjustments that might result from the outcome of this uncertainty. No assurance can be provided that the Company will be successful in locating additional financing or completing its business plan.

NOTE 4 - Summary of Significant Accounting Policies

Principles of Consolidation

The unaudited condensed consolidated financial statements include the accounts of MarketShare Recovery, Inc. - Delaware (formerly Health & Leisure, Inc.) and its wholly-owned subsidiary, MarketShare Recovery, Inc. - N.Y. All significant intercompany balances and transactions have been eliminated in consolidation.

Revenue Recognition and Related Commission Expenses

Revenues include the sale of and/or electronic delivery of email distribution lists. Revenues from the sale of email distribution lists are recognized when the seller has delivered a list to the customer and the customer has accepted the list after an up to 30-day address replacement period. Revenues from consulting services are recognized ratably over the period of the contract. Commissions due to sales consultants are initially deferred and recognized ratably over the period revenue is recognized. Deferred commission expense is netted against deferred revenue for financial reporting purposes.

Use of Estimates

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

Cash and Cash Equivalents

For the purposes of the statements of cash flows, the Company considers all highly liquid debt instruments purchased with a maturity of three months or less to be cash equivalents.

Website Development Costs

The Company recognizes the costs associated with developing a website in accordance with the American Institute of Certified Public Accountants ("AICPA") Statement of Position ("SOP") No. 98-1, "Accounting for the Costs of Computer Software Developed or Obtained for Internal Use". Relating to website development costs the Company follows the guidance pursuant to the Emerging Issues Task Force (EITF) No. 00-2, "Accounting for Website Development Costs". Internal costs related to the development of website content are expensed as incurred. As of June 30, 2004, there are no capitalized website development costs.

Advertising Costs

Advertising costs are expensed as incurred. For the six months ended June 30, 2004 and 2003, advertising expenses were $2,500 and $0, respectively.

NOTE 4 - Summary of Significant Accounting Policies, continued

Marketable Securities

On certain engagements, the Company receives shares of common stocks of publicly-traded corporations from its customers in lieu of cash payments for services rendered. The fair value of the common stocks received is reflected as revenue. Subsequently, these marketable securities are classified as trading securities and reported at fair value with unrealized gains or losses reported as other income (expenses) in the statements of operations.

Loss or Earnings per Common Share

The Company displays earnings per share in accordance with Statement of Financial Accounting Standards ("SFAS") No. 128, "Earnings per Share". SFAS No. 128 requires dual presentation of basic and diluted earnings per share. Basic earnings per share include no dilution and is computed by dividing the net income (loss) by the weighted average number of common shares outstanding for the period. Diluted earnings per share include the potential dilution that could occur if securities or other contracts to issue common stock were exercised or converted into common stock. For the six months ended June 30, 2003, there were no potentially dilutive securities excluded from the calculation.

Stock-Based Compensation

The Company follows SFAS No. 123, "Accounting for Stock-Based Compensation." SFAS No. 123 establishes accounting and reporting standards for stock-based employee compensation plans. This statement allows companies to choose between the fair value-based method of accounting as defined in this statement and the intrinsic value-based method of accounting as prescribed by Accounting Principles Board Opinion No. 25 ("APB 25"), "Accounting for Stock Issued to Employees."

The Company has elected to continue to follow the accounting guidance provided by APB 25, as permitted for stock-based compensation relative to the Company's employees. Stock and options granted to other parties in connection with providing goods and services to the Company are accounted for under the fair value method as prescribed by SFAS No. 123.

NOTE 4 - Summary of Significant Accounting Policies, continued

Stock-Based Compensation, continued

In December 2002, the Financial Accounting Standard Board ("FASB") issued SFAS No. 148, "Accounting for Stock-Based Compensation - Transition and Disclosure - an Amendment of SFAS Statement No. 123". This statement amends SFAS No. 123 to provide alternative methods of transition for a voluntary change to the fair value-based method of accounting for stock-based employee compensation. In addition, SFAS No.148 amends the disclosure requirements of SFAS No. 123 to require prominent disclosures in both annual and interim financial statements about the method of accounting for stock-based employee compensation and the effect of the method used on reported results. SFAS No. 148 also requires that those effects be disclosed more prominently by specifying the form, content, and location of those disclosures. The Company adopted the increased disclosure requirements of SFAS No. 148 during the year ended December 31, 2003. The Company has no stock-based employee compensation.

NOTE 5 - Note Payable - Stockholders

At the closing of the merger, HLLS and MKSR entered into a $125,000 secured promissory note with H&L Concepts, Inc., a then wholly-owned subsidiary of HLLS. The loan is payable in twelve equal installments of $11,341, commencing July 2003. Interest is included in the monthly payment at a rate of 16% per annum. In October 2003, Mr. Ray Barton and Mr. Tim Schmidt, the Company's current executive officers and directors purchased the promissory note from H&L Concepts, Inc. for the full value of the note, in accordance with the terms of the note. The terms of repayment, including the interest rate and payment schedule are the same. During June 2003 the company repaid $107,860 in Principal. At June 30, 2004 the amount due to these stockholders and accrued interest amounted to $17,040 and $16,935, respectively.

NOTE 6 - Loan Payable - Third Party

On May 10, 2004 a third party advanced Marketshare Recovery , Inc $100,000 non-interest bearing, payable within one year.

NOTE 7 - Stockholders' Deficiency

Preferred Stock

In June of 2003, HLLS amended its designation of preferred stock and designated 3,425,000 shares of HLLS Preferred Stock. Each share of HLLS Preferred Stock is automatically convertible into 10 shares of common stock upon filing of an amendment to HLLS certificate of incorporation authorizing a sufficient number of shares of common stock to effect such a conversion. The HLLS Preferred Stock shall be entitled to receive when, if and as declared by the Board of Directors dividends at 6% of its par value per annum, payable in cash. Dividends on each share of the HLLS Preferred Stock shall be non-cumulative and shall not accrue if not declared. Each share of the HLLS Preferred Stock shall entitle its holders to vote in all matters submitted to a vote of the stockholders of the Company with the number of votes per Preferred share equal to the number of votes available on a converted basis.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

NOTE 7 - Stockholders' Deficiency, continued

Preferred Stock, continued

As discussed in Note 2, in connection with the June 2003 merger transaction with MKSR, 3,425,000 shares of the HLLS Preferred Stock were issued to the stockholders of MKSR. In September 2003, these preferred shares were converted into 34,250,000 shares of common stock.

Changes in Capital Structure

On August 5, 2003, HLLS filed with the Securities and Exchange Commission a definitive information statement notifying the stockholders of the Company that written consents from principal stockholders who collectively hold in excess of 50% of the Company's common stock were obtained and approved a 1 for 10 reverse split of the HLLS common stock, to authorize up to 50,000,000 shares of HLLS common stock and to change the name of HLLS to MarketShare Recovery, Inc.

The 1-for-10 reverse stock split became effective on August 29, 2003 and the $12,700 of debt owed to the former Chief Executive Officer was converted into 1,270,000 shares of common stock and the 3,425,000 shares of HLLS Preferred Stock was converted into 34,250,000 shares of common stock. All share and per share amounts in the consolidated financial statements and notes thereto, were retroactively adjusted to reflect the reverse stock split.

Stock Options

In September 2003, the Company adopted a 2003 Stock Option Plan (the "2003 Plan"). Under the 2003 Plan, up to 15,000,000 incentive stock options, or non-qualified stock options, could be granted to employees and consultants. As of June 30, 2004, no options have been granted.

Common Stock Issuances

During the six months ended June 30, 2004, the Company issued 287,650 shares of its common stock to two officers of the Company as additional compensation valued at $40,271 charged to operations for the six months ended June 30, 2004. The Company also issued 36,000 shares of its common stock to HLLS in connection with the merger recorded at par value in the statement of stockholders' deficiency. In addition the Company issued 500 shares to an individual valued at $60 charged to operations for the six months ended June 30, 2004.

NOTE 8 - Concentrations of Credit Risk

Revenue from two customers accounted for approximately 26% and 11%, respectively for the six months ended June 30, 2004. There were no revenues from any customer amounting to 10% or more of the total net revenues for the six months ended June 30, 2003.

MARKETSHARE RECOVERY, INC. AND SUBSIDIARY
(Formerly Health and Leisure, Inc. and subsidiary)

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

NOTE 9 - Commitments and Contingencies

Lease Obligations

Beginning January 1, 2004, the Company entered into a sub lease agreement with 110 Media Group, Inc and Subsidiaries (formerly known as Dominix) ("110 Media Group") to share the expense of office facilities occupied by them jointly under a lease held by the Company. The agreement includes future minimum rental payments to be received amounting to approximately $16,000 per annum through March 2008.

Rent expense charged to operations for the six months ended June 30, 2004 and 2003 amounted to $9,376 and $13,469, net of sub rental income from 110 Media Group amounting to $9,376 and $-0-, respectively.

NOTE 10 - Related Party Transactions

Deferred Revenue

The Company entered into a database license agreement with 110 Media Group to use and to sublicense the use of its database for a term of ten years. For financial reporting, revenue is recognized using the straight-line method, based upon the estimated economic useful life of three years. At June 30, 2004, deferred revenue was $37,973.

NOTE 11 - Terminated Proposed Merger

110 Media Group, Inc.

On November 25, 2003 110 Media Group, Inc a Delaware corporation traded on NASDAQ electronic bulletin board (OTEN) and the Company entered into a Stock Purchase Agreement (the "Stock Purchase Agreement") under which 110 Media Group, subject to certain conditions, would acquire all of the outstanding capital stock of MKSR. The parties have determined that it is in their mutual best interest to terminate the Stock Purchase Agreement. In March 2004, the Company entered into a database license with Jade Entertainment Group, Inc. ("Jade"), a wholly owned subsidiary of 110 Media Group (see Note 10).

NOTE 12 - Subsequent Event

Asset Purchase Agreement

On October 7, 2004, the Company entered into an Asset Purchase Agreement with Palomar Enterprises, Inc. (the "Agreement"). Pursuant to the Agreement, the Company agreed to purchase certain assets, including certain automotive notes and contracts, a business plan and model for an automotive financial services company and a data base of potential customers and $150,000 in cash from Palomar in exchange for 646,117 shares of the Company's Common Stock and 1,000,000 shares of the Company's Series A Preferred Stock. Each share of Series A Preferred Stock will convert into 65 shares of the Company's Common Stock.

Concurrently with the execution of the aforementioned Agreement, the

Company's officers and directors have agreed to sell to Palomar twenty-nine million (29,000,000) shares of the Company's Common Stock for $150,000. In the event the transactions discussed above are consummated, Palomar Enterprises and its affiliates will own approximately 85% of the issued and outstanding shares of the Company's Common Stock.

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OR PLAN OF OPERATION.

FORWARD-LOOKING STATEMENTS; MARKET DATA

The discussion in this report on Form 10-QSB contains forward-looking statements that involve risks and uncertainties. The statements contained in this Report that are not purely historical are forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended, including statements regarding our expectations, beliefs, intentions or strategies regarding the future. All forward-looking statements included in this document are based on information available to us on the date hereof, and we assume no obligation to update any such forward-looking statements. Our actual results could differ materially from those described in our forward-looking statements. Factors that could cause or contribute to such differences include, but are not limited to, our unproven business model and a limited operating history in a new and rapidly evolving industry; our ability to implement our business plan; and our ability to manage our growth, retain and grow our customer base and expand our service offerings.

We make forward-looking statements in the "Management's Discussion and Analysis of Financial Condition and, Results of Operations" below. These forward-looking statements include, but are not limited to, statements about our plans, objectives, expectations, intentions and assumptions and other statements that are not historical facts. We generally intend the, words "expect", "anticipate", "intend", "plan", "believe", "seek", "estimate" and similar expressions to identify forward-looking statements.

This Quarterly Report contains certain estimates and plans related to us and the industry in which we operate, which assumes certain events, trends and activities will occur and the projected information based on those assumptions. We do not know that all of our assumptions are accurate. In particular, we do not know what level of growth will exist in our industry, if any, and particularly in the foreign markets in which we operate, have devoted resources and in which we shall seek to expand. If our assumptions are wrong about any events, trends and activities, then our estimates for future growth for our business may also be wrong. There can be no assurances that any of our estimates as to our business growth will be achieved.

The following discussion and analysis should be read in conjunction with our financial statements and the notes associated with them contained elsewhere in this quarterly report. This discussion should not be construed to imply that the results discussed in this quarterly report will necessarily continue into the future or that any conclusion reached in this quarterly report will necessarily be indicative of actual operating results in the future. The discussion represents only the best present assessment of management.

Pursuant to an Acquisition Agreement and Plan of Merger dated June 13, 2003 (the "Merger Agreement"), by and among Health & Leisure, Inc (the "Registrant"); Venture Sum, Inc., a Delaware corporation and a wholly owned subsidiary of Registrant ("Mergerco"); and MarketShare Recovery, Inc., a New York corporation, ("MKSR"), Mergerco merged with and into MKSR, and MKSR became a wholly-owned subsidiary of the Registrant. The merger became effective June 13, 2003, (the "Effective Date,") however closing of the Agreement occurred on July 15, 2003. Subsequently, Health & Leisure, Inc. filed an amendment to its certificate of incorporation and thereby changed its name to MarketShare Recovery, Inc.

MarketShare Recovery the parent company's operating subsidiary similarly named MarketShare Recovery, Inc. was incorporated in New York in November 2000. The subsidiary, MarketShare Recovery, Inc. is a provider of online direct marketing solutions for enterprises. Our solutions enable corporations to create and deliver online direct marketing programs that drive revenue, influence behavior and deepen customer relationships. Our solutions provide customer insight and powerful program execution through a combination of hosted applications and technology infrastructure.

We derive our revenues from the sale of solutions that enable businesses to proactively communicate with their customers online. Primarily, these services have consisted of the design and execution of online direct marketing campaigns and additional services provided by our Professional Services organization, including the development and execution of Customer Acquisition programs. Revenue for direct marketing and acquisition campaigns are recognized when persuasive evidence of an arrangement exists, the campaign has been sent, the fee is fixed or determinable and collection of the resulting receivables is reasonably assured. Revenue generated by our professional service organization is typically recognized as the service is provided.

Currently our ability to growand operate our existing business is being constrained by new technologies and e-mail filtering devices installed at internet service providers and on consumers personal computers. These programs block our emails form reaching their final destination, which in turn is affecting our ability to effectively market our services. These technological obstacles have been put in place to combat spam however their effect has been more widesrpead and has adversely affected our ability to deliver our clients messages to our opt-in database of users. As a result, we are finding it harder to maintain and grow our business as we are not able to deliver as many advertisements for our clients and in turn are having difficulty in recruiting new sales persons as well as retaining members of our existing sales force.

Our principal customers and target market are e-commerce, consumer oriented product and service companies. We work with these customers, who are typically engaged is selling products via the internet, by driving traffic to their respective websites. This is accomplished through CPA and CPM campaigns, CPM campaigns or cost per thousand campaigns are programs which generate revenues based on service fees collected for delivering a specific pre-established number of e-mails to prospective customers, these fees vary based on the specificity of the demographic of the intended recipients. CPA campaigns are performance based campaigns, the earning potential of these type of campaigns is significant and as we expand our infrastructure we intend to allocate a certain portion of our resources to executing these performance based campaigns.

CRITICAL ACCOUNTING POLICIES AND ESTIMATES

The preparation of our consolidated financial statements requires us to make estimates and judgments that affect the reported amounts of assets, liabilities, revenues and expenses and the related disclosures. A summary of those accounting policies can be found in the footnotes to the consolidated financial statements included elsewhere in this report. Certain of our accounting policies are considered critical as they are both important to the portrayal of our financial condition and results of operations and require judgments on the part of management about matters that are uncertain. We have identified the following accounting policies that are important to the presentation of our financial condition and results of operations.

Revenue Recognition

Revenue recognition. We generate revenue from the sale of solutions that enable businesses to proactively communicate with their customers online.

MarketShare Recovery applies the provisions of Staff Accounting Bulletin 104 "Revenue Recognition" and recognizes revenue when persuasive evidence of an arrangement exists, the service has been delivered, the fee is fixed or determinable and collection of the resulting receivables is reasonably assured. Customer Marketing revenues are recognized upon sending of the campaigns. Revenues attributable to one-time set-up fees for service initiation are deferred and recognized ratably over the term of the client's service agreement. Customer Acquisition revenues are derived primarily from programs that assist clients in marketing their respective products or services. Customer Acquisition programs fall into two general categories: CPM mailing programs and CPA campaign programs. CPM mailing programs involve the execution and delivery of email campaigns to a defined number of individuals based on a fixed fee per number of e-mails delivered. The CPM, which stands for cost per thousand will vary based on the specificity of the demographic to whom the campaign is delivered to. CPA campaign programs are performance based campaigns which involve the execution and delivery of email campaigns wherein we are paid either a flat fee of a percentage of a successful sale or acquisition of a customer by one of our clients.

We assess probability of collection based on a number of factors, including our past transaction history with the customer and the credit-worthiness of the customer. New customers and certain existing customers may be subject to a credit review process which evaluates the customers' financial position and ultimately their ability to pay according to the original terms of the arrangement. Based on our review process, if it is determined from the outset or during the term of an arrangement that collection of the resulting receivable is not reasonably assured, then revenue is recognized on a cash-collected basis.

Results of Operations

The following table includes consolidated statements of operations data for the six months ended June 30, 2004 and 2003 expressed as dollar amounts and as a percentage of revenues.

	Six Months Ended June 30		Six Months Ended June 30	
	2004	2003	2004	2003
			%	%
Revenues				
Net Revenue	$ 228,224	$ 286,404	100.00	100.00

Total Net Revenue	228,224	286,404	100.00	100.00
Cost of Revenue				
Officer Compensation	40,331	0	18.00	0
Salesmen Commissions	105,883	180,947	46.00	63.00
Total cost of revenues	146,214	180,947	64.00	63.00
Operating Expenses				
Selling, general and administrative	119,800	77,982	52.00	27.00
Depreciation	264	0	0.00	0.00
Total operating expenses	120,064	77,982	52.00	27.00
Operating Loss	(38,054)	27,475		
Other Income (Expense)				
Interest	(6,935)	0	(3.00)	00.00
Gain on sale of marketable securities	764	(6,871)	0.00	(2.00)
Unrealized Loss/gain on marketable sec	(41,705)	23,715	(18.00)	8.00
Total Other Expenses	(47,876)	16,844	(21.00)	6.00
(Loss Income Before Taxes)	(85,930)	44,319	(38.00)	15.00
Provision For Income Taxes	0	9,000	0.00	3.00
Net (Loss) Income	$ (85,930)	$ 35,319		

16

Comparison of Six Month Periods Ended June 30, 2004 and 2003

Our net revenues decreased by 20% from $286,404 for the six months ended June 30, 2003 to $228,224 for the six months ended June 30, 2004. The decrease in revenues is due to our reduced outside sales force consisting of experienced salesmen with proven sales experience. Cost of revenues as a percent of net revenues increased from 63% of net revenues for the six months ended June 30, 2003 to 64% of net revenues for the six months ended June 30, 2004. The decrease in cost of revenues is due to lower commission rates paid to the outside sales force.

Selling, general and administrative expenses increased by 54% from $77,982 for the six months ended June 30, 2003 to $119,800 for the six months ended June 30,2004 this increase is due to professional fees incurred in connection with Marketshare Recovery being a publicly held company.

Other (expenses) income increased by 384% from $16,844 for the six months ended June 30, 2003 to $(47,876) for the six months ended June 30, 2004. This increase is attributed to interest accrued on amounts due to shareholders in connection with the acquisition as well as unrealized losses on marketable securities held for trading purposes.

Comparison of Quarters Ended June 30, 2004 and 2003

Our net revenue decreased by 2% from $125,494 for the three months ended June 30, 2003 to $123,261 for the three months ended June 30, 2004. The decrease in revenues is due to our reduced outside sales force consisting of experienced salesmen with proven sales experience. Cost of revenues as a percent of net revenues decreased from 51% of net revenues for the three months ended June 30, 2003 to 45% for net revenues for the three months ended June 30, 2004. The decrease in cost of revenues is due to lower commission rates paid to the outside sales force.

Selling, general and administrative expenses increased by 2% from $51,371 for the three months ended June 30, 2003 to $52,192 for the three months ended June 30, 2004. This increase is due to professional fees incurred in connection with MarketShare Recovery being a publicly held company.

Other (expenses) income increased by 179% from $23,009 for the three months ended June 30, 2003 to $(18,063) for the three months ended June 30, 2004. This increase is attributed to accrued on amounts due to shareholders in connection with the acquisition as well as unrealized losses on marketable securities held for trading purposes.

17

Liquidity and Capital Resources

Cash provided by operating activities during the six months ended June 30, 2004 amounted to $16,169 compared to $14,629 during the six months ended June 30, 2003. The increase in cash is due to more services being performed.

Cash used in operating activities increased due to professional fees incurred in connection with Marketshare Recovery becoming a publicly traded company and for commissions paid to outside sales consultants; for bringing new clientele to the company for promotion and marketing services.

Cash used in investing activities during the six months ended June 30,2004 amounted to $2,108 compared to $0 during the six months ended June 30,2003. The company purchased computer equipment necessary for expanding our direct marketing capabilities in order to meet customer demands.

Cash used in financing activities during the six months ended June 30, 2004 Amounted to 7,860 compared to $0 during the six months ended June 30, 2003. The company received an advance from a third party to secure the public shell of Marketshare Recovery. In addition the company repaid amounts due to shareholders who guaranteed a $125,000 secured promissory note with H&L concepts.

Beginning in 2004 the Company has expanded the manner in which the Company can accept payment from customers, previously we only accepted cash, like cash instruments and company check however, We can now accept payment by all major credit cards, by phone and have implemented an auto-draft system which is a billing system which allows us to directly debit funds from customers bank accounts. We anticipate that these additional payment options will allow us to sell our customers additional services and up-sell and cross-promote our different product offerings by allowing our customers the ability to extend their payment options, establish recurring billing. Although there can be no assurance, we feel that these additional payment options should positively impact revenues and cash flow.

Throughout 2003 and for the six months ended June 30, 2004 the company has made significant upgrades to its database and emailing technology. We have greatly increased capacity and can process and execute campaigns faster and more efficiently. In addition We now have the ability to evaluate the overall success of our campaigns by tracking how many people viewed the campaign. We can also generate detailed reports to show the customer how successful the campaign was, how many ads and emails were sent and received by the intended recipients and whether the campaign generated leads, sales or impressions. Our upgrades have also improved our ability to sort and analyze data to generate customized reports for our customers.

In view of our accumulated deficit and recurring losses, our auditors have added an explanatory paragraph to their report on our financial statements stating

that there is substantial doubt about our ability to continue as a going concern. In this regard management is adopting a plan for the development of our video and website product lines as well as seeking additional capital through the private sale of our debt or equity securities. There is no assurance that we will complete any financing or that we will achieve profitable operations. The financial statements do not include any adjustments that might result from the outcome of this uncertainty.

We expect to fund development expenditures and incur losses until we are able to generate sufficient income and cash flows to meet such expenditures and other requirements. We do not currently have adequate cash reserves to continue to cover such anticipated expenditures and cash requirements. These factors, among others, raise substantial doubt about our ability to continue as a going concern.

The discussion and analysis of our financial condition and results of operations are based upon our consolidated financial statements, which have been prepared in accordance with accounting principles generally accepted in the United States. The preparation of these financial statements requires us to make estimates and judgments that affect the reported amounts of assets, liabilities, revenues and expenses, and related disclosure of contingent assets and liabilities. On an on-going basis, we evaluate our estimates, including those related to income tax and marketing related agreements with our affiliates. We base our estimates on historical experience and on various other assumptions that are believed to be reasonable under the circumstances, the results of which form the basis for making judgments about the carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates under different assumptions or conditions.

Item 3. Controls and Procedures

We maintain a set of disclosure controls and procedures designed to ensure that information required to be disclosed by us in the reports filed under the Securities Exchange Act, is recorded, processed, summarized and reported within the time periods specified by the SEC's rules and forms. Disclosure controls are also designed with the objective of ensuring that this information is accumulated and communicated to our management, including our chief executive officer and chief financial officer, as appropriate to allow timely decisions regarding required disclosure.

Based upon their evaluation as of the end of the period covered by this report, our chief executive officer and chief financial officer concluded that, if we are able to successfully address the material weaknesses in our internal accounting controls as discussed below, our disclosure controls and procedures are effective to ensure that information required to be included in our periodic SEC filings is recorded, processed, summarized, and reported within the time periods specified in the SEC rules and forms.

Our board of directors were advised by Marcum & Kliegman, LLP, our independent registered public accounting firm, that during their performance of review procedures related to Marketshare Recovery's unaudited interim financial statements for the quarter ended June 30, 2004 Marcum & Kliegman LLP identified two material weaknesses, as defined in Public Company Accounting Oversight Board Standard No. 2, in our internal control over financial reporting as follows:

- Insufficiently skilled personnel compounded by a lack of human resources and expected near-term significant turnover within our accounting and financial reporting function. Also, we must improve controls surrounding adequate monitoring and oversight of the work performed by accounting and financial reporting personnel.

- Insufficient analysis, documentation and review of the selection and application of generally accepted accounting principles to significant non-routine transactions, including the preparation of financial statement disclosures relating thereto.

These material weaknesses result in deficiencies in the processes, procedures and competencies within our accounting and financial reporting function and contributed to post-closing adjustments and delays in the completion and filing of our June 30, 2004 Form 10-QSB.

20

We have assigned a high priority to the short-term and long-term improvement of our internal control over financial reporting. Actions to address the material weaknesses described above that we will undertake, or have undertaken, include the following among others:

- We periodically review staffing of our accounting and financial reporting functions to ensure appropriate staffing and supervision of those functions. In January 2004, we hired a new controller. In August 2004, based on an evaluation of our existing accounting resources, management developed a plan to restructure the accounting and financial reporting function. This plan includes both the addition of new resources and the replacement of certain existing resources. At that time, we began recruiting efforts for various positions within our accounting department. In September 2004, and after details of the restructuring plan became known to members of our accounting staff, our controller announced his resignation. In September 2004, we hired an outside consultant as a replacement.

- During the third quarter of 2004, we will continue our internal control review process to remediate the internal control material weaknesses identified above by Marcum & Kliegman LLP.

Other than regarding the material weaknesses discussed above, there have been no changes in our internal control over financial reporting during the period covered by this report that significantly affect our control environment.

In addition to the matters discussed above, the independent registered public accounting firm responsible for the audit of Marketshare's financial statements as of and for the year ending December 31, 2005 must attest to and issue a report on management's assessment of the design and operational effectiveness of our internal control over financial reporting. Although we intend to conduct a rigorous review of our internal control over financial reporting to help achieve compliance with the Section 404 requirements of the Sarbanes-Oxley Act, if our independent registered public accounting firm is not satisfied with our internal control over financial reporting or with the level at which it is documented, designed, operated or reviewed, they may decline to attest to management's assessment or may issue a qualified report identifying either a significant deficiency or a material weakness in our internal controls. This could result in significant additional expenditures responding to the Section 404 internal control audit, a diversion of management attention and potentially an adverse reaction to our common stock in the financial markets.

Limitations of Disclosure Controls and Procedures

Our management, including our chief executive officer and chief financial officer, does not expect that our disclosure controls or internal control over financial reporting will prevent all errors or all instances of fraud. A control system, no matter how well designed and operated, can provide only reasonable, not absolute, assurance that the control system's objectives will be met. Further, the design of a control system must reflect the fact that there are resource constraints, and the benefits of controls must be considered relative to their costs. Because of the inherent limitations in all control systems, no evaluation of controls can provide absolute assurance that all control issues and instances of fraud, if any, within our company have been detected. These inherent limitations include the realities that judgments in decision-making can be faulty, and that breakdowns can occur because of simple error or mistake. Controls can also be circumvented by the individual acts of some persons, by collusion of two or more people, or by management override of the controls. The design of any system of controls is based in part upon certain assumptions about the likelihood of future events, and any design may not succeed in achieving its stated goals under all potential future conditions. Over time, controls may become inadequate because of changes in conditions or deterioration in the degree of compliance with policies or procedures. Because of the inherent limitation of a cost-effective control system, misstatements due to error or fraud may occur and not be detected.

PART II - 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 Vote of Security Holders

None

Item 5. Other Information

ITEM 6 - EXHIBITS AND REPORTS ON FORM 8-K

(a) Exhibits

31.1 Chief Executive Officer's Certificate pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.

31.2 Chief Financial Officer's Certificate pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.

32.1 Chief Executive Officer's Certificate pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

32.2 Chief Financial Officer's Certificate pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

(b) Reports on Form 8-K

The following reports have been filed on Form 8-K during the quarter ended June 30, 2004.

On April 1, 2004, MarketShare filed a current report on Form 8-K to announce that the Compay terminated an acquisition agreement with Dominix, Inc. Attached to the 8-k filing are: the Termination Agreement between the Company and Dominix, Inc.; the Database License Agreement between Jade Entertainment Group, Inc. and MarketShare Recovery, Inc. (NY); the Memorandum of Understanding between Jade Entertainment Group, Inc. and MarketShare Recovery, Inc. (NY) relating to Suite 101, 95 Broadhollow Road, Melville, New York; and the Press Release announcing the termination of the Agreement to sell the Company's operating subsidiary, MarketShare Recovery, Inc. a New York corporation.

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.

MARKETSHARE RECOVERY, INC.

Date: October 15, 2004

Raymond Barton,
Chief Executive Officer

Date: October 15, 2004

Timothy Schmidt,
Chief Financial Officer