MARKETSHARE RECOVERY INC
Form 10QSB
November 22, 2004

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

FORM 10-QSB

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

For the Quarter Period Ended
September 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 November 22, 2004 was 45,702,256.

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

INDEX TO FORM 10-QSB

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

CONDENSED CONSOLIDATED BALANCE SHEET
(Unaudited)

	September 30, 2004
ASSETS	
CURRENT ASSETS	
Cash	$ 41
Accounts Receivable	390
Marketable securities	21,392
Due From Affiliate	3,209
TOTAL CURRENT ASSETS	25,032
PROPERTY AND EQUIPMENT, Net	1,669
SECURITY DEPOSITS	4,667
TOTAL ASSETS	$ 31,368
LIABILITIES AND STOCKHOLDERS' DEFICIENCY	
CURRENT LIABILITIES	
Notes payable - stockholders	$ 10,185
Loan Payable	100,000
Accrued expenses and other current liabilities	86,306
Deferred revenue	41,631
Due to stockholders	12,300
Accrued interest - stockholders	17,200
TOTAL CURRENT LIABILITIES	267,622
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	(2,116,424)
TOTAL STOCKHOLDERS' DEFICIENCY	(236,254)

TOTAL LIABILITIES AND STOCKHOLDERS' DEFICIENCY	$ 31,368

See notes to unaudited condensed consolidated financial statements.

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

CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS
(Unaudited)

	For the Nine Months Ended September 30, 2004	2003
NET REVENUES (including revenue from related party of $11,392 and -0-, respectively)	$ 244,728	$ 594,545
COST OF REVENUES (including compensatory element of stock issuances of $40,331 and 0, respectively)	158,115	427,668
GROSS PROFIT	86,613	(166,877)
SELLING, GENERAL AND ADMINISTRATIVE EXPENSES (including compensatory element of stock issuances of $0 and 1,964,739, respectively)	136,099	2,107,789
OPERATING (LOSS) INCOME	(49,486)	(1,940,912)
OTHER (Expense)		
Interest expense - stockholders	(7,199)	--
Loss on sale of marketable securities	(45,049)	(7,383)
Unrealized loss on marketable securities	(1,851)	
TOTAL OTHER EXPENSES	(54,099)	(7,383)
LOSS BEFORE INCOME TAXES	(103,585)	(1,948,295)
PROVISION FOR INCOME TAXES	--	9,000
NET LOSS	$ (103,585)	$ (1,957,295)
Basic Net (Loss) Per Common Share	$ --	$ (0.40)
Diluted Net (Loss) Per Common Share	$ --	$ --
Weighted Average Number of Common Shares Outstanding - Basic (1)	45,650,180	6,181,466

Weighted Average Number of Common Shares Outstanding - Diluted (1)	45,650,180	6,181,466

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

See notes to unaudited condensed consolidated financial statements.

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

CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS
(Unaudited)

	For the Three Months Ended September 30, 2004	2003
NET REVENUES (including revenue from related party of $3,797 and -0-, respectively)	$ 16,504	$ 308,141
COST OF REVENUES	11,901	246,721
GROSS PROFIT	4,603	61,420
SELLING, GENERAL AND ADMINISTRATIVE EXPENSES (including compensatory element of stock issuances of $0 and 1,964,739, respectively)	16,035	2,029,807
OPERATING (LOSS) INCOME	(11,432)	(1,968,387)
OTHER INCOME (EXPENSES)		
Interest expense - stockholders	(265)	--
Loss on sale of marketable securities	(45,049)	(24,227)
Unrealized loss(gain) on marketable securities	39,090	--
TOTAL OTHER EXPENSES	(6,224)	(24,227)
LOSS BEFORE INCOME TAXES	(17,656)	(1,992,614)
PROVISION FOR INCOME TAXES	--	--
NET LOSS	$ (17,656)	$ (1,992,614)
Basic Net (Loss) Income Per Common Share	$ (0.00)	$ (0.12)
Diluted Net (Loss) Income Per Common Share	$ (0.00)	$ (0.12)
Weighted Average Number of Common Shares		

Outstanding - Basic (1)	45,702,756	16,457,748
Weighted Average Number of Common Shares Outstanding - Diluted (1)	45,702,756	16,457,748

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

See notes to unaudited condensed consolidated financial statements.

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

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(Unaudited)

	For the Nine Months Ended September 30, 2004	2003
CASH FLOWS FROM OPERATING ACTIVITIES		
Net loss	$ (103,585)	$ (1,957,295)
Adjustments to reconcile net loss to net cash provided by operating activities:		
Compensatory element of stock issuances	40,331	1,964,739
Depreciation	439	--
Changes in operating assets and liabilities:		
Accounts receivable	(390)	6,385
Prepaid and other current assets	(1,601)	1,567
Due to affiliate	(3,886)	--
Security deposits	--	(4,667)
Accrued expenses and other current liabilities	59,306	(59,132)
Marketable securities	16,533	60,571
TOTAL ADJUSTMENTS	110,672	1,969,463
NET CASH PROVIDED BY OPERATING ACTIVITIES	7,087	12,168
CASH USED IN INVESTING ACTIVITIES		
Purchase of property and equipment	(2,108)	--
CASH FLOWS FROM FINANCING ACTIVITIES		
Repayment of Note to Shareholders	(114,815)	--
Proceeds from loan payable	100,000	--
NET CASH USED IN FINANCING ACTIVITIES	(14,815)	--
	(9,836)	
12,168		
CASH - Beginning	9,877	4,697

CASH - Ending	$ 41	$ 16,865
	============	============
SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION		
Cash paid during the years for:		
Income taxes	$ 455	$ 978
SUPPLEMENTAL DISCLOSURES OF NON-CASH INVESTING AND FINANCING		
Issuance of notes payable related to reverse merger		$ 137,700
Issuance of common stock to satisfy notes payable		$ 12,700

See notes to unaudited condensed consolidated financial statements.

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MARKETSHARE RECOVERY, INC AND SUBSIDIARY
(FORMERLY HEALTH & 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 Company discontinued its operations on November 7, 2004 and is seeking privately held businesses to complete a merger transaction with. There is no assurance that the Company will be successful in locating a candidate and completing a business combination.

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 MarketShare Recovery, Inc. and Subsidiaries (the "Company") 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 September 30, 2004 and the results of operations and cash flows for the nine month periods ended September 30, 2004 and September 30, 2003 have been included.

The results of operations for the nine-month period ended September 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 nine months ended September 30, 2004, the Company has incurred a loss of approximately $104,000 and has a working capital deficiency of approximately $243,000. 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 or Cash Equivalents

For the purpose of the statements of cash flows, the company considers all highly liquid debt investment purchased with a maturity of three months or less to be cost 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 September 30, 2004, there are no capitalized website development costs.

Advertising Costs

Advertisement costs are expensed as incurred. For the nine months ended September 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 except for securities related to commissions amounting to $0 during 2004. Unrealized gains or losses related to marketable securities to be transferred to sales consultants as commissions are reflected as an increase or decrease in the accrued commission liability.

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. During the nine months ended September 30, 2004 and 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 the nine months ending September 30, 2004 the company repaid $114,500 in Principal. At September 30, 2004 the amount due to these stockholders and accrued interest amounted to $10,185 and $17,200, respectively.

NOTE 6 - loan Payable

As of September 30, 2004, the Company had a $100,000, 8% note, due within one year, payable to a third party, secured by an interest in the public shell of MarketShare Recovery for future acquisitions.

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.

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 September 30, 2004, no options have been granted.

Common Stock Issuances

During the nine months ended September 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 nine months ended September 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 nine months ended September 30, 2004.

NOTE 8 - Concentrations of Credit Risk

Revenue from four customers accounted for approximately 37% and 0%, respectively for the nine months ended September 30, 2004 and 2003.

There were no revenues from any customer amounting to 10% or more of the total net revenues for the nine months ended September 30, 2004.

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 nine months ended September 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 economic useful life of three years. At September 30, 2004, deferred revenue was $41,631.

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.

NOTE 12 - Subsequent Event, continued

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.

On November 2, 2004, by mutual agreement, the Company and Palomar terminated the Agreement. The Company's officers and directors along with

Palomar agreed to terminate their agreement as well. There will be no change of control of the Company.

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.

Our 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.

Our ability to grow and operate our existing business has been 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 widespread 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.

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As a result of the foregoing, we decided to discontinue our existing business and sought out new business opportunities. 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.

On November 2, 2004, by mutual agreement, the Company and Palomar terminated the Agreement. The Company's officers and directors along with Palomar agreed to terminate their agreement as well.

As a result of the foregoing, there will be no change of control of the Company as reported in the Company's Form 8-K filed with the SEC on October 13, 2004.

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 nine months ended September 30, 2004 and 2003 expressed as dollar amounts and as a percentage of revenues.

	Nine Months Ended September 30 2004	2003	Nine Months Ended September 30 2004 %	2003 %
Revenues				
Net Revenue	$ 244,728	$ 594,545	100.00	100.00
Total Net Revenue	244,728	594,545	100.00	100.00
Cost of Revenue				
Officer Compensation	40,331	103,544	16.47	17.41
Salesmen Commissions	117,784	324,124	48.12	54.51
Total cost of revenues	158,115	427,668	64.60	71.92
Operating Expenses				
Selling, general and administrative	135,660	143,050	55.43	24.06
Compensatory Element of stock issuance	--	1,964,739	--	330.46
Depreciation	439	0	0.17	0.00
Total operating expenses	136,099	2,107,789	55.60	354.52
Operating Loss				
Other Income (Expense)				
Interest Expense-stockholders	(7,199)		2.94	0.00
Loss on sale of marketable securities	(45,049)	(7,383)	15.49	1.24
Unrealized Loss on marketable securities	(1,851)		3.66	
Total Other Expenses	(54,099)	(7,383)	22.10	1.24
(Loss) Income Before Taxes	(103,585)	(1,948,295)	42.32	327.70
Provision For Income Taxes	0	9,000	0.00	3.00
Net (Loss) Income	$ (103,585)	$(1,957,295)		

COMPARISON OF NINE MONTH PERIODS ENDED SEPTEMBER 30, 2004 AND 2003

Our net revenues decreased by 59% from $594,545 for the nine months ended September 30, 2003 to $244,728 for the nine months ended September 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 72% of net revenues for the nine months ended September 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 and reduction in services.

Selling, general and administrative expenses decreased by 5% from $143,050 for the nine months ended September 30, 2003 to $136,099 for the nine months ended September 30,2004 this decrease is due to a reduction of services and decision to discontinue existing operations.

Other expenses increase by 46,718 from $7,383 for the nine months ended September 30, 2003 to $54,099 for the nine months ended September 30, 2004. This increase is attributed to both the realized and unrealized loss on the sale of marketable securities.

COMPARISON OF QUARTERS ENDED SEPTEMBER 30, 2004 AND 2003

Our net revenue decreased by 95% from $308,141 for the three months ended September 30, 2003 to $16,504 for the three months ended September 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 80% of net revenues for the three months ended September 30, 2003 to 72% for net revenues for the three months ended September 30, 2004. The decrease in cost of revenues is due to lower commission rates paid to the outside sales force and decision to cease existing operations.

Selling, general and administrative expenses decrease by 76% from $65,608 for the three months ended September 30, 2003 to $16,035 for the three months ended September 30, 2004. This decrease is due to reduction of services offered and the decision to to discontinue existing operations.

Other expenses decreased by 75% from $(24,227) for the three months ended September 30, 2003 to $(6,224) for the three months ended September 30, 2004. This decrease is due to the sale of maketable securities.

LIQUIDITY AND CAPITAL RESOURCES

Cash provided by operating activities during the nine months ended September 30, 2004 amounted to $7,087 compared to $12,168 during the nine months ended September 30, 2003. The decrease in cash is due to the reduction of services offered and the decision to discontinue existing operations.

Cash used in investing activities during the nine months ended September 30, 2004 amounted to $2,108 compared to $0 during the nine months ended September 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 nine months ended September 30, 2004 amounted to 14,815 compared to $0 during the nine months ended September 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 expanded the manner in which it can accept payment from customers, previously we only accepted cash, like cash instruments and company checks. During 2004 we were able to 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.

Throughout 2003 and for the nine months ended September 30, 2004 the Company made significant upgrades to its database and emailing technology. Despite our effort to upgrade our systems, we have been unable to keep up with new technologies and e-mail filtering devices installed at Internet service providers and on consumers personal computers. These new technologies have severely affected our ability to effectively market our services. As a result, we have ceased operations and sought out new business opportunities. To that end, we entered into an Asset Purchase Agreement with Palomar Enterprises.

In view of our accumulated deficit and recurring losses, our independent registered public accouting firm have added an explanatory paragraph to their report on our December 31, 2003 financial statements stating that there is substantial doubt about our ability to continue as a going concern. In this regard, management adopted the plan to cease operations and seek out new business opportunities 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 the acquisition or that its business will achieve profitable operations. The financial statements do not include any adjustments that might result from the outcome of this uncertainty.

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We expect to fund operations on a minimal basis until we complete the transaction described above. There is no assuarance that this transaction will be consummated. 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 September 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.

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 fourth 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, 2004 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

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.

On November 2, 2004, by mutual agreement, the Company and Palomar terminated the Agreement. The Company's officers and directors along with Palomar agreed to terminate their agreement as well.

As a result of the foregoing, there will be no change of control of the Company as reported in the Company's Form 8-K filed with the SEC on October 13, 2004.

ITEM 6. EXHIBITS

(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.

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: November 22, 2004

By: /s/ Raymond Barton

Raymond Barton, Chief Executive Officer

Date: November 22, 2004

By: /s/ Timothy Schmidt

Timothy Schmidt, Chief Financial Officer