

Edgar Filing: MARKETSHARE RECOVERY INC - Form 10QSB

MARKETSHARE RECOVERY INC
Form 10QSB
May 24, 2004

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 quarterly period ended March 31, 2004

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE
EXCHANGE ACT OF 1934

For the transition period from _____ to _____

Commission file number: 0-15807

MarketShare Recovery, Inc.

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

Delaware

31-1190725

(State or other jurisdiction of (IRS Employer Identification No.)
incorporation or organization)

95 Broadhollow Road, Suite 101
Melville, NY 11747

(Address of principal executive offices)

(631) 385-0007

(Issuer's Telephone Number)

Health & Leisure, Inc.

(Former name)

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

Yes No

State the number of shares outstanding of each of the issuer's classes of common equity, as of the latest practicable date:

Common stock, par value \$0.1

45,702,256

Edgar Filing: MARKETSHARE RECOVERY INC - Form 10QSB

(Class)

(Outstanding at May 17, 2004)

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

TABLE OF CONTENTS

PART I - FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS (UNAUDITED)

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

ITEM 3. CONTROLS AND PROCEDURES

PART II - OTHER INFORMATION

ITEM 2. CHANGES IN SECURITIES AND USE OF PROCEEDS

ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

ITEM 5. OTHER INFORMATION

ITEM 6. EXHIBITS AND REPORTS ON FORM 8-K

SIGNATURES

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)	
Condensed Consolidated Balance Sheet	1
Condensed Consolidated Statements of Operations	2
Condensed Consolidated Statements of Stockholders' Deficiency	3
Condensed Consolidated Statements of Cash Flows	4
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS	5-11

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

Edgar Filing: MARKETSHARE RECOVERY INC - Form 10QSB

CONDENSED CONSOLIDATED BALANCE SHEET (Unaudited)

MARCH 31, 2004

ASSETS

CURRENT ASSETS

Cash and cash equivalents	\$	23,509
Marketable securities		39,233
Prepaid expense and other current assets		1,652

TOTAL CURRENT ASSETS		64,394
----------------------	--	--------

PROPERTY AND EQUIPMENT, Net		967
-----------------------------	--	-----

SECURITY DEPOSITS		4,667
-------------------	--	-------

TOTAL ASSETS	\$	70,028
--------------	----	--------

LIABILITIES AND STOCKHOLDERS' DEFICIENCY

CURRENT LIABILITIES

Note payable - stockholders	\$	125,000
Accrued expenses and other current liabilities		73,653
Deferred revenue		34,375
Due to stockholders		12,300
Accrued interest - stockholders		15,000

TOTAL CURRENT LIABILITIES		260,328
---------------------------	--	---------

DEFERRED REVENUE		26,581
------------------	--	--------

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; 45,702,256 shares issues and outstanding		4,570,226
Additional paid-in capital		(2,690,116)
Accumulated deficit		(2,096,991)

TOTAL STOCKHOLDERS' DEFICIENCY		(216,881)
--------------------------------	--	-----------

TOTAL LIABILITIES AND STOCKHOLDERS' DEFICIENCY	\$	70,028
--	----	--------

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

Edgar Filing: MARKETSHARE RECOVERY INC - Form 10QSB

(Unaudited)

	For the Three Months Ended March 31,	
	2004	2003
NET REVENUES (including revenue from related party of \$3,797 and -0-, respectively)	\$ 104,963	\$ 160,910
COST OF REVENUES (including compensatory element of stock issuances of \$40,271 and -0-, respectively)	91,431	117,110
GROSS PROFIT	13,532	43,800
SELLING, GENERAL AND ADMINISTRATIVE EXPENSES	67,417	26,611
OPERATING (LOSS) INCOME	(53,885)	17,189
OTHER INCOME (EXPENSES)		
Interest expense - stockholders	(5,000)	--
Gain (loss) on sale of marketable securities	764	(2,357)
Unrealized loss on marketable securities	(25,577)	(3,808)
TOTAL OTHER EXPENSES	(29,813)	(6,165)
(LOSS) INCOME BEFORE INCOME TAXES	(83,698)	11,024
PROVISION FOR INCOME TAXES	455	2,000
NET (LOSS) INCOME	\$ (84,153)	\$ 9,024
Basic Net (Loss) Income Per Common Share	\$ (0.00)	\$ 0.01
Diluted Net (Loss) Income Per Common Share	\$ (0.00)	\$ 0.00
Weighted Average Number of Common Shares Outstanding - Basic (1)	45,543,335	1,019,767
Weighted Average Number of Common Shares Outstanding - Diluted (1)	45,543,335	35,269,767

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

See notes to unaudited condensed consolidated financial statements.

2

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

CONDENSED CONSOLIDATED STATEMENT OF STOCKHOLDERS' DEFICIENCY
(Unaudited)

Edgar Filing: MARKETSHARE RECOVERY INC - Form 10QSB

For the Three Months Ended March 31, 2004

	PREFERRED STOCK		COMMON STOCK		ADDIT PAID CAPI
	SHARES	AMOUNT	SHARES	AMOUNT	
BALANCE - December 31, 2003	--	\$ --	45,378,606	\$ 4,537,861	\$ (2,69
Shares issued for services	--	--	287,650	28,765	1
Shares issued to Health & Leisure, Inc. stockholder	--	--	36,000	3,600	(
Net loss	--	--	--	--	--
	-----	-----	-----	-----	-----
BALANCE - March 31, 2004	--	\$ --	45,702,256	\$ 4,570,226	\$ (2,69
	=====	=====	=====	=====	=====

See notes to unaudited condensed consolidated financial statements.

3

	For the Three Months Ended	
	2004	2003
	-----	-----
CASH FLOWS FROM OPERATING ACTIVITIES		
Net (loss) income	\$ (84,153)	\$ 9,024
	-----	-----
Adjustments to reconcile net (loss) income to net cash provided by operating activities:		
Compensatory element of stock issuances	40,271	--
Depreciation	88	--
Changes in operating assets and liabilities:		
Accounts receivable	--	8,932
Due to affiliate	(45,567)	--
Prepaid and other current assets	(51)	(4,433)
Security deposits	--	(4,667)
Accrued expenses and other current liabilities	44,451	(11,382)
Marketable securities	(1,308)	36,416
Deferred revenue	60,956	(33,790)
	-----	-----
TOTAL ADJUSTMENTS	98,840	(8,924)
	-----	-----
NET CASH PROVIDED BY OPERATING ACTIVITIES	14,687	100
	-----	-----
CASH USED IN INVESTING ACTIVITIES		

Edgar Filing: MARKETSHARE RECOVERY INC - Form 10QSB

Purchase of property and equipment	(1,055)	--
	-----	-----
NET INCREASE IN CASH AND CASH EQUIVALENTS	13,632	100
CASH AND CASH EQUIVALENTS - Beginning	9,877	4,697
	-----	-----
CASH AND CASH EQUIVALENTS - Ending	\$ 23,509	\$ 4,797
	-----	-----

SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION

Cash paid during the years for:

Income taxes	\$ 455	\$ 978
Interest	\$ --	\$ --

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 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 March 31, 2004 and the results of operations and cash flows for the three-month periods ended March 31, 2004 and March 31, 2003.

The results of operations for the three-month period ended March 31, 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

Edgar Filing: MARKETSHARE RECOVERY INC - Form 10QSB

Merger and Acquisition agreement with MKSR, a privatelyheld 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.

5

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

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)

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 three months ended March 31, 2004, the Company has incurred a loss of approximately \$84,000 and has a working capital and stockholders' deficiency of approximately \$194,000 and 217,000 respectively. These factors raise substantial doubt about the Company's ability to continue as a going concern. The Company's ability to

Edgar Filing: MARKETSHARE RECOVERY INC - Form 10QSB

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.

6

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

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)

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".

Edgar Filing: MARKETSHARE RECOVERY INC - Form 10QSB

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 March 31, 2004, there are no capitalized website development costs.

Advertising Costs

Advertisement costs are expensed as incurred. For the three months ended March 31, 2004 and 2003, advertising expenses were \$1,500 and \$0, respectively.

7

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

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

NOTE 4 - Summary of Significant Accounting Policies, continued

Income Taxes

The Company was not required to provide for a provision for income taxes for the year ended December 31, 2003, as a result of a net operating loss incurred during the year then ended.

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 includes 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 three months ended March 31, 2003, the diluted number of weighted average shares outstanding was 35,269,767, which includes the dilutive effect of the convertible preferred stock.

Stock-Based Compensation

The Company follows SFAS No. 123, "Accounting for Stock-Based Compensation." SFAS No. 123 establishes accounting and reporting standards

Edgar Filing: MARKETSHARE RECOVERY INC - Form 10QSB

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.

8

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

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)

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 stockbased 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. The Company is currently in default under the terms of the note. Accrued interest at March 31, 2004 amounted to \$15,000.

NOTE 6 - 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

Edgar Filing: MARKETSHARE RECOVERY INC - Form 10QSB

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.

9

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

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)

NOTE 6 - 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 March 31, 2004, no options have been granted.

Common Stock Issuances

During the three months ended March 31, 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 three months ended March 31, 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

Edgar Filing: MARKETSHARE RECOVERY INC - Form 10QSB

statement of stockholders' deficiency.

NOTE 7 - Concentrations of Credit Risk

Revenue from one customer accounted for approximately 59% and 17%, respectively for the three months ended March 31, 2004 and 2003.

10

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

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)

NOTE 8 - Commitments and Contingencies

Lease Obligations

Beginning January 1, 2004, the Company entered into a sub lease agreement with Dominix Inc. and Subsidiaries ("Dominix") 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 three months ended March 31, 2004 and 2003 amounted to \$4,596 and \$6,998, net of sub rental income from Dominix amounting to \$5,149 and -0-, respectively.

NOTE 9 - Related Party Transactions

Deferred Revenue

The Company entered into a database license agreement with Dominix 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 March 31, 2004, deferred revenue was \$41,770.

NOTE 10 - Terminated Proposed Merger

Dominix, Inc.

On November 25, 2003 Dominix, Inc. a Delaware corporation traded on NASDAQ electronic bulletin board (DMNX) and the Company entered into a Stock Purchase Agreement (the "Stock Purchase Agreement") under which Dominix, 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 Dominix (see Note 9).

11

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

FORWARD-LOOKING STATEMENTS; MARKET DATA

Edgar Filing: MARKETSHARE RECOVERY INC - Form 10QSB

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

Edgar Filing: MARKETSHARE RECOVERY INC - Form 10QSB

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 grow is constrained by our inability to service our existing customer base and their present demands, this is due to limitations of our existing technology infrastructure. We have recently upgraded our systems and plan to continue expanding our technology infrastructure to meet our current and projected future needs. Upon said expansion We anticipate being able to execute campaigns more efficiently and expeditiously. This will enable our sales associates to sell more campaigns and generate additional revenues. We also plan to launch additional product offerings which will allow our sales associates to up-sell and cross promote/sell the services we offer to our existing customers as well as to prospective customers.

Our principal customers and target market are e-commerce, consumer oriented product and service companies. We work with these customers, who are typically engaged in 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.

The financial information included in this 10QSB consists of MarketShare Recovery, Inc.'s (New York) results of operations for the three months ended March 31, 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

Edgar Filing: MARKETSHARE RECOVERY INC - Form 10QSB

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 three months ended March 31, 2004 and 2003 expressed as dollar amounts and as a percentage of revenues.

	Three Months Ended March 31		Three Months Ended March 31	
	2004	2003	2004	2003
	----	----	----	----
			%	%
Revenues				
Net Revenue	\$104,963	\$160,910	100.00	100.00
	-----	-----	-----	-----
Total Net Revenue	104,963	160,910	100.00	100.00
Cost of Revenue				
Officer Compensation	40,271	67,778	38.00	42.00
Salesmen Commissions	45,000	43,332	43.00	27.00
Analyst Costs	6,160	6,000	6.00	4.00
	-----	-----	-----	-----
Total cost of revenues	91,431	117,110	87.00	73.00
	-----	-----	-----	-----
Operating Expenses				
Selling, general and administrative	67,329	26,611	64.00	17.00
Depreciation	88	0	0.00	0.00
	-----	-----	-----	-----
Total operating expenses	67,417	26,611	64.00	17.00
	-----	-----	-----	-----
Operating Loss	(53,885)	17,189		
	-----	-----		

Edgar Filing: MARKETSHARE RECOVERY INC - Form 10QSB

Other Income (Expense)				
Interest	(5,000)	0	(5.00)	00.00
Gain on sale of marketable securities	764	(2,357)	1.00	(2.00)
Unrealized Loss on marketable sec	(25,577)	(3,808)	(24.00)	(2.00)
	-----	-----	-----	-----
Total Other Expenses	(29,813)	(6,165)	(28.00)	(4.00)
	-----	-----	-----	-----
(Loss Income Before Taxes)	(83,698)	11,024	(80.00)	7.00
	-----	-----	-----	-----
Provision For Income Taxes	455	2,000	0.00	1.00
	-----	-----	-----	-----
Net (Loss) Income	\$ (84,153)	\$ 9,024		
	=====	=====		

Comparison of Quarters Ended March 31, 2004 and 2003

Our net revenues decreased by 35% from \$160,910 for the three months ended March 31, 2003 to \$104,963 for the three months ended March 31, 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 73% of net revenues for the three months ended March 31, 2003 to 87% of net revenues for the three months ended March 31, 2004. The increase in cost of revenues is due to higher commission rates paid to the outside sales force.

Selling, general and administrative expenses increased by 153% from \$26,611 for the three months ended March 31, 2003 to \$67,417 for the three months ended March 31, 2004 this increase is due to professional fees incurred in connection with Marketshare Recovery being a publicly held company as well as an increase in health insurance costs due to the increase in our office staff.

Other expenses increased by 384% from \$6,165 for the three months ended March 31, 2003 to \$29,813 for the three months ended March 31, 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.

Liquidity and Capital Resources

Cash provided by operating activities during the three months ended March 31, 2004 amounted to \$14,687 compared to \$100 during the three months ended March 31, 2003. The increase in cash is due to more services being performed. The company had cash and cash equivalents of \$23,509 at March 31, 2004, compared to \$4,797 at March 31, 2003.

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 three months ended March 31, 2004 amounted to \$1,055 compared to \$0 during the three months ended March 31, 2003.

Edgar Filing: MARKETSHARE RECOVERY INC - Form 10QSB

The company purchased computer equipment necessary for expanding our direct marketing capabilities in order to meet customer demands.

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 three months ended March 31, 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.

Edgar Filing: MARKETSHARE RECOVERY INC - Form 10QSB

RISK FACTORS

BECAUSE OF OUR LIMITED OPERATING HISTORY AND THE EMERGING NATURE OF THE EMARKETING INDUSTRY, ANY PREDICTIONS ABOUT OUR FUTURE REVENUES AND EXPENSES MAY NOT BE AS ACCURATE AS THEY WOULD BE IF WE HAD A LONGER BUSINESS HISTORY, AND WE CANNOT DETERMINE TRENDS THAT MAY AFFECT OUR BUSINESS.

Our operating subsidiary MarketShare Recovery was incorporated in November 2000 and first recorded revenue in 2001. Our limited operating history makes financial forecasting and evaluation of our business difficult. Since we have limited financial data, any predictions about our future revenues and expenses may not be as accurate as they would be if we had a longer business history.

Because of the emerging nature of the e-marketing industry, we cannot determine trends that may emerge in our market or affect our business. The revenue and income potential of the e-marketing industry, and our business, are unproven.

OUR OPERATING RESULTS HAVE VARIED SIGNIFICANTLY IN THE PAST AND ARE LIKELY TO VARY SIGNIFICANTLY FROM PERIOD TO PERIOD, AND OUR STOCK PRICE MAY DECLINE IF WE FAIL TO MEET THE EXPECTATIONS OF INVESTORS.

Our operating results have varied significantly in the past and are likely to vary significantly from period to period. As a result, our operating results are difficult to predict and may not meet the expectations of securities analysts or investors. If this occurs, the price of our common stock would likely decline.

SEASONAL TRENDS MAY CAUSE OUR QUARTERLY OPERATING RESULTS TO FLUCTUATE, WHICH MAY ADVERSELY AFFECT THE MARKET PRICE OF OUR COMMON STOCK.

The traditional direct marketing industry has typically generated lower revenues during the summer months and higher revenues during the calendar year-end months. We believe our business may be affected by similar revenue fluctuations, but our limited operating history is insufficient to predict the existence or magnitude of these effects. If we do experience these effects, analysts and investors may not be able to predict our quarterly or annual operating results, and if we fail to meet expectations of analysts and investors, our stock price could decline.

IF BUSINESSES AND CONSUMERS FAIL TO ACCEPT E-MARKETING AS A MEANS TO ATTRACT NEW CUSTOMERS, DEMAND FOR OUR SERVICES MAY NOT DEVELOP AND THE PRICE OF OUR COMMON STOCK WOULD DECLINE.

The market for e-marketing is new and rapidly evolving, and our business will be harmed if sufficient demand for our services does not develop. Our current and planned services are very different from the traditional methods that many of our clients have historically used to attract new customers and maintain customer relationships. Demand for e-marketing, including our services, may not materialize for several reasons, including:

- Businesses that have already invested substantial resources in other methods of marketing and communications may be reluctant to adopt new marketing strategies and methods.
- Consumers and businesses may choose not to accept e-marketing messages.

Edgar Filing: MARKETSHARE RECOVERY INC - Form 10QSB

- Businesses may elect not to engage in e-marketing because consumers may confuse permission-based email services with unsolicited commercial email.
- The effectiveness of direct marketing through the use of emails may diminish significantly if the volume of direct marketing email saturates consumers.

COMPETITION IN THE E-MARKETING INDUSTRY IS INTENSE AND, IF WE ARE UNABLE TO COMPETE EFFECTIVELY, THE DEMAND FOR, OR THE PRICES OF, OUR SERVICES MAY DECLINE.

The market for e-marketing is intensely competitive, rapidly evolving and experiences rapid technological change. We expect the intensity of competition to increase significantly in the future because of the attention the internet has received as a medium for advertising and direct marketing and because there are no significant barriers to entry into our market. Intense competition may result in price reductions, reduced sales, gross margins and operating margins, and loss of market share.

Our principal competitors include:

- Providers of e-marketing solutions such as @Once, Acxiom and its affiliate Bigfoot, Exactis.com, Kana Communications, L-Soft, Media Synergy, MessageMedia, Digital Impact, CoolSavings, NetCreations, Responsys.com and YesMail.com.
- The in-house information technology departments of our existing and prospective clients.

In addition, we expect competition to persist and intensify in the future, which could harm our ability to increase sales and maintain our prices. In the future, we may experience competition from Internet service providers, advertising and direct marketing agencies and other large established businesses such as America Online, DoubleClick, Microsoft, IBM, AT&T, Yahoo!, ADVO and the Interpublic Group of Companies. Each of these companies possess large, existing customer bases, substantial financial resources and established distribution channels and could develop, market or resell a number of e-marketing solutions. These potential competitors may also choose to enter the market for e-marketing by acquiring one of our existing competitors or by forming strategic alliances with these competitors. Any of these occurrences could harm our ability to compete effectively.

RAPID TECHNOLOGICAL CHANGES COULD CAUSE OUR SERVICES TO BECOME OBSOLETE AND UNMARKETABLE OR REQUIRE US TO REDESIGN OUR SERVICES, WHICH COULD BE COSTLY AND TIME-CONSUMING.

The market for e-marketing services is characterized by rapid technological change. Our services could become obsolete and unmarketable if we are unable to adapt our services to these new technologies. For example, the emergence of new media formats such as streaming video and audio may require us to adapt our services to remain competitive which could be costly and time-consuming.

IF WE DO NOT ATTRACT AND RETAIN ADDITIONAL HIGHLY-SKILLED PERSONNEL WE MAY BE UNABLE TO EXECUTE OUR BUSINESS STRATEGY.

Our business depends on the continued technological innovation of our core services and our ability to provide comprehensive e-marketing expertise. If we fail to identify, attract, retain and motivate these highly skilled personnel, we may be unable to successfully introduce new services or otherwise implement our business strategy. We plan to significantly expand our operations, and we

Edgar Filing: MARKETSHARE RECOVERY INC - Form 10QSB

will need to hire additional personnel as our business grows. In particular, we have experienced difficulties in hiring highly skilled technical and client services personnel due to significant competition for experienced personnel in our market.

WE RELY ON THE SERVICES OF OUR FOUNDERS AND OTHER KEY PERSONNEL, WHOSE KNOWLEDGE OF OUR BUSINESS AND TECHNICAL EXPERTISE WOULD BE EXTREMELY DIFFICULT TO REPLACE.

Our future success depends to a significant degree on the skills, experience and efforts of our senior management. In particular, we depend upon the continued services of Raymond Barton, our Chief Executive Officer, Chief Technology Officer and co-founder and Timothy Schmidt, our Chief Financial Officer and co-founder, whose vision for our company, knowledge of our business and technical expertise would be extremely difficult to replace. In addition, we have not obtained life insurance benefiting MarketShare Recovery on any of our key employees. If any of our key employees left or was seriously injured and unable to work and we were unable to find a qualified replacement, the level of services we are able to provide could decline or we may be otherwise unable to execute our business strategy.

IF WE FAIL TO EXECUTE OUR STRATEGY TO EXPAND INTO NEW MARKETS, THE MARKET FOR OUR SERVICES AND OUR POTENTIAL REVENUE WILL BE LIMITED.

The majority of our e-marketing clients to date have been online business-to-consumer retailers. We intend to expand our presence among clients in other consumer markets, in markets where the customers are businesses rather than consumers, and in international markets. If this strategy fails, the market for our services and our potential revenue will be limited. We have limited experience in these markets and may encounter obstacles which we have not anticipated.

IF WE FAIL TO INTRODUCE NEW SERVICES OUR REVENUES MAY NOT INCREASE.

Part of our strategy is to increase our revenues by introducing new services. If we fail to introduce new services our revenues may not increase. If any of our new service offerings are not accepted by our clients, our revenues may be lower.

IF WE ARE UNABLE TO ENHANCE OUR SERVICES AND ADD CLIENT SERVICES PERSONNEL TO HANDLE INCREASED EMAIL VOLUME AND CONSUMER RESPONSES, WE MAY BE UNABLE TO ADEQUATELY RESPOND TO OUR CLIENTS' DEMANDS FOR EMARKETING SERVICES AND MAY LOSE MARKET SHARE.

If we are unable to expand capacity to keep pace with our clients' demands, we may lose market share. The volume of emails we are sending has grown significantly and we expect this volume to continue to grow. We will need to enhance our services to handle both any increased email volume and the increased level of response from consumers that are generated by this volume. In addition, as we seek to grow our base of clients, we must add client services personnel to handle the increased volume of emails and campaigns. If we are unable to add client services personnel, the level of services we are able to provide our clients could decline.

IF THE DELIVERY OF OUR EMAILS IS LIMITED OR BLOCKED, THEN OUR CLIENTS MAY DISCONTINUE THEIR USE OF OUR SERVICES.

Edgar Filing: MARKETSHARE RECOVERY INC - Form 10QSB

Our business model relies on our ability to deliver emails over the internet through internet service providers and to recipients in major corporations. In particular, a significant percentage of our emails are sent to recipients who use America Online. We do not have, and we are not required to have, an agreement with America Online to deliver emails to their customers. America Online uses a proprietary set of technologies to handle and deliver email and the value of our services will be reduced if we are unable to provide emails compatible with these technologies. In addition, America Online and other internet service providers are able to block unwanted messages to their users. If these companies limit or halt the delivery of our emails, or if we fail to deliver emails in such a way as to be compatible with these companies' email handling technologies, then our clients may discontinue their use of our services.

OUR FACILITIES AND SYSTEMS ARE VULNERABLE TO NATURAL DISASTERS AND OTHER UNEXPECTED EVENTS, AND ANY OF THESE EVENTS COULD RESULT IN AN INTERRUPTION OF OUR ABILITY TO EXECUTE OUR CLIENT'S EMARKETING CAMPAIGNS.

We depend on the efficient and uninterrupted operations of our data center and hardware systems. Our data center and hardware systems is located in Long Island, New York. Our data center and hardware systems are also vulnerable to damage from fire, floods, power loss, telecommunications failures, and similar events. If any of these events result in damage to our data center or systems, we may be unable to execute our clients' e-marketing campaigns until the damage is repaired, and may accordingly lose clients and revenues. In addition, we may incur substantial costs in repairing any damage.

OUR DATA CENTER IS LOCATED AT FACILITIES PROVIDED BY A THIRD PARTY, AND IF THIS PARTY IS UNABLE TO ADEQUATELY PROTECT OUR DATA CENTER, OUR REPUTATION MAY BE HARMED AND WE MAY LOSE CLIENTS.

Our data center, which is critical to our ongoing operations, is located at facilities provided by a third party. Our operations depend on this party's ability to protect our data center from damage or interruption from human error, break-ins, sabotage, computer viruses, intentional acts of vandalism and similar events. If this party is unable to adequately protect our data center and information is lost or our ability to deliver our services is interrupted, our reputation may be harmed and we may lose clients.

OUR OPERATING RESULTS WOULD SUFFER IF WE WERE FORCED TO DEFEND AGAINST A PROTRACTED INFRINGEMENT CLAIM OR IF A THIRD PARTY WERE AWARDED SIGNIFICANT DAMAGES.

There is a substantial risk of litigation regarding intellectual property rights in our industry. A successful claim of technology infringement against us and our failure or inability to license the infringed or similar technology could harm our business.

We expect that our technologies may experience an increase in third-party infringement claims as the number of our competitors grows. In addition, we believe that many of our competitors have filed or intend to file patent applications covering aspects of their technology that they may claim our intellectual property infringes. We cannot be certain that third parties will not make a claim of infringement against us relating to our technology. Any claims, with or without merit, could:

- Be time-consuming and costly to defend.

Edgar Filing: MARKETSHARE RECOVERY INC - Form 10QSB

- Divert management's attention and resources.
- Cause delays in delivering services.
- Require the payment of monetary damages which may be tripled if The infringement is found to be willful.
- Result in an injunction which would prohibit us from offering a particular service.
- Require us to enter into royalty or licensing agreements which, if required, may not be available on acceptable terms.

IF ANY OF THE THIRD PARTY TECHNOLOGIES WE USE BECOME UNAVAILABLE TO US, WE WILL NOT BE ABLE TO OPERATE OUR BUSINESS UNTIL EQUIVALENT TECHNOLOGY CAN BE OBTAINED.

We are highly dependent on technologies we license which enable us to send email through the internet and allow us to offer a variety of targeted marketing

capabilities. Our market is evolving, and we may need to license additional technologies to remain competitive. However, we may not be able to license these technologies on commercially reasonable terms or at all. Our inability to obtain any of these licenses could delay the development of our services until equivalent technology can be identified, licensed or developed and integrated.

IF WE ARE UNABLE TO SAFEGUARD OUR DATA, OUR REPUTATION MAY BE HARMED AND WE MAY BE EXPOSED TO LIABILITY.

We may from time to time retain confidential customer information in our servers. We cannot assure you, however, that we will be able to prevent unauthorized individuals from gaining access to this data. If any compromise or breach of security were to occur, it could harm our reputation and expose us to possible liability. Any unauthorized access to our servers could result in the misappropriation of confidential customer information or cause interruptions in our services. It is also possible that one of our employees could attempt to misuse confidential customer information, exposing us to liability. In addition, our reputation may be harmed if we lose customer information maintained in our data warehouse due to systems interruptions or other reasons.

ACTIVITIES OF OUR CLIENTS COULD DAMAGE OUR REPUTATION OR GIVE RISE TO LEGAL CLAIMS AGAINST US.

Our clients' promotion of their products and services may not comply with federal, state and local laws. We cannot predict whether our role in facilitating these marketing activities would expose us to liability under these laws. Any claims made against us could be costly and time-consuming to defend. If we are exposed to this kind of liability, we could be required to pay substantial fines or penalties, redesign our business methods, discontinue some of our services or otherwise expend resources to avoid liability.

Our services involve the transmission of information through the internet. Our services could be used to transmit harmful applications, negative messages, unauthorized reproduction of copyrighted material, inaccurate data or computer viruses to end-users in the course of delivery. Any transmission of this kind could damage our reputation or could give rise to legal claims against us. We could spend a significant amount of time and money defending against these legal

Edgar Filing: MARKETSHARE RECOVERY INC - Form 10QSB

claims.

NEW REGULATION OF AND UNCERTAINTIES REGARDING THE APPLICATION OF EXISTING LAWS AND REGULATIONS TO, E-MARKETING AND THE INTERNET, COULD PROHIBIT, LIMIT OR INCREASE THE COST OF OUR BUSINESS.

The Federal government of the United States has enacted "CAN-SPAM Act of 2003," which became effective on January 1, 2004 restricting the sending of unsolicited commercial email. The "Act" generally limits or prohibits both the transmission of unsolicited commercial emails and requires unsolicited commercial e-mail messages to be labeled as such and to include opt-out instructions and the sender's physical address. It prohibits the use of deceptive subject lines and false headers in such messages. The Act further authorizes the FTC (but does not require) the establishment of a "do-not-email" registry. State laws that require labels on unsolicited commercial e-mail or prohibit such messages entirely are pre-empted, although provisions merely addressing falsity and deception would remain in place. We believe that our current suite of services are not affected by such legislation because the list management practices that we espouse to our clients are intended to prevent the sending of unsolicited commercial email.

Our business could be negatively impacted by new laws or regulations applicable to e-marketing or the internet, the application of existing laws and regulations to e-marketing or the internet or the application of new laws and regulations to our business as we expand into new jurisdictions. There is a growing body of laws and regulations applicable to access to or commerce on the internet. Moreover, the applicability to the internet of existing laws is uncertain and may take years to resolve. Due to the increasing popularity and use of the internet, it is likely that additional laws and regulations will be adopted covering issues such as privacy, pricing, content, copyrights, distribution, taxation antitrust, characteristics and quality of services and consumer protection. The adoption of any additional laws or regulations may impair the growth of the internet or e-marketing, which could, in turn, decrease the demand for our services and prohibit, limit or increase our cost of doing business.

INTERNET-RELATED STOCK PRICES ARE ESPECIALLY VOLATILE AND THIS VOLATILITY MAY DEPRESS OUR STOCK PRICE.

The stock market and specifically the stock prices of internet-related companies have been very volatile. Because we are an internet-related company, we expect our stock price to be similarly volatile. As a result of this volatility, the market price of our common stock could significantly decrease. This volatility is often not related to the operating performance of the companies and may accordingly reduce the price of our common stock without regard to our operating performance.

ITEM 3. CONTROLS AND PROCEDURES

Marketshare Recovery, Inc is developing a business and implementing systems of internal and disclosure controls. Within the ninety-day period preceding the filing of this report, our management evaluated the effectiveness of the design and operation of its disclosure controls and procedures (the "Disclosure Controls") as of the end of the period covered by this Form 10-QSB and (ii) any changes in internal controls over financial reporting that occurred during the last quarter of our fiscal year. This evaluation ("Controls Evaluation") was done under the supervision and with the participation of management, including the Chief Executive Officer ("CEO") and Chief Financial Officer ("CFO").

Edgar Filing: MARKETSHARE RECOVERY INC - Form 10QSB

[insert]

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 March 31, 2004.

On March 5, 2004, MarketShare filed a current report on Form 8-K/A to amend the current report on Form 8-K originally filed on August 20, 2003 to provide notice of the registrant's change in certifying accountant.

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.

Edgar Filing: MARKETSHARE RECOVERY INC - Form 10QSB

MARKETSHARE RECOVERY, INC.

Date: May 18, 2004

Raymond Barton,
Chief Executive Officer

Date: May 18, 2004

Timothy Schmidt,
Chief Financial Officer