

SPARTA COMMERCIAL SERVICES, INC.  
Form 10KSB  
August 14, 2008

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

**FORM 10-KSB**

(Mark One)

**ANNUAL REPORT UNDER SECTION 13 OR 15(d) OF THE SECURITIES  
EXCHANGE ACT OF 1934**

**For the fiscal year ended April 30, 2008**

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

For the transition period from \_\_\_\_\_ to \_\_\_\_\_.

Commission file number: **0-9483**

**SPARTA COMMERCIAL SERVICES, INC.**

(Name of small business issuer in its charter)

**NEVADA**

(State or other jurisdiction of incorporation or  
organization)

**30-0298178**

(I.R.S. Employer Identification No.)

**462 Seventh Ave, 20th Floor, New York, NY**

(Address of principal executive offices)

**10018**

(Zip Code)

Issuer's telephone number: **(212) 239-2666**

Securities registered under Section 12(b) of the Exchange Act: None

Securities registered under Section 12(g) of the Exchange Act:

**Common Stock, par value \$0.001**

(Title of class)

Check whether the issuer is not required to file reports pursuant to Section 13 or 15(d) of the Exchange Act.

Check whether the issuer (1) filed all reports required to be filed by Section 13 or 15(d) of the Exchange Act during the past 12 months (or for such 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  No

Check if there is no disclosure of delinquent filers in response to Item 405 of Regulation S-B contained in this form, and no disclosure will be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-KSB or any amendment to this Form 10-KSB.

Indicate by check whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).  
Yes  No

The issuer's revenues for its most recent fiscal year: \$1,129,691.

The aggregate market value of voting and non-voting stock of the issuer held by non-affiliates on April 30, 2008 was \$7,418,303.

As of July 28, 2008, we had 157,908,075 shares of common stock issued and outstanding.

**DOCUMENTS INCORPORATED BY REFERENCE**

None.

Transitional Small Business Disclosure Format (check one): YES  NO

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**SPARTA COMMERCIAL SERVICES, INC.**

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## PART I

### ITEM 1. DESCRIPTION OF BUSINESS

#### General Overview

Sparta Commercial Services, Inc. (“Sparta” “we,” “us,” or the “Company”) is a Nevada corporation. We are an independent financial services provider, offering both retail installment sales contract and lease financing to the powersports industry.

Our principal business is to provide financing programs, primarily to purchasers and lessees of new and used motorcycles, scooters, and utility all-terrain vehicles (ATVs) who meet our credit criteria and program parameters. Additionally, we offer fleet leasing to dealers and owners of motorcycle rental fleets and provide, on both a direct and a pass through basis, equipment leasing to municipalities, including, but not limited to, police motorcycles.

We have, and continue to develop, relationships with powersports dealers and manufacturers to provide our financing programs to their customers. We also seek to provide motorcycle, scooter, and all-terrain vehicle manufacturers private label versions of our financing programs for their customers.

Our offices are located at 462 Seventh Avenue, 20th Floor, New York, NY 10018, telephone number: (212) 239-2666. We maintain a website at [www.spartacommercial.com](http://www.spartacommercial.com).

#### Our Business

We are a specialized consumer finance company engaged primarily in the origination of leases and the purchase of retail installment sales contracts of new and used motorcycles (550cc and higher), scooters, and 4-stroke ATVs. We believe that the market for consumer finance programs for motorcycles and ATVs is underserved by traditional lenders.

We have and continue to develop relationships with vehicle dealers and manufacturers to provide our financing programs to their customers. We also seek to provide motorcycle, scooter, and all-terrain vehicle manufacturers a private label version of our financing programs for their customers. Additionally, we offer an equipment leasing program to municipalities, including, but not limited to, police motorcycles.

#### Business Overview

Sparta’s business model has been designed to generate revenue from several sources:

- Retail installment sales contracts and leases;
- Municipal leasing of equipment;
- Private label programs for manufacturers and distributors;
- Ancillary products and services, such as private label gap coverage; and
- Remarketing of off-lease and repossessed vehicles.

Sparta’s management believes that by offering dealers (and their customers) the option of either financing or leasing, Sparta will be able to capture a greater share of the dealer’s business. Additionally, by offering both alternatives, once profitability is achieved, Sparta believes that it will be in a position to achieve greater cash-flow than it could by offering only one of these alternatives because depreciation generated by Sparta’s leasing activities will reduce income tax due on income resulting from Sparta’s retail installment sales contracts.



## **Retail Installment Sales Contracts and Leases**

**Retail Installment Sales Contracts (RISC)** - Sparta purchases retail installment sales contracts from both franchised and independent powersports dealers who qualify as Authorized Sparta Dealers and/or as Authorized Private Label Dealers under Sparta's Private Label Programs. Sparta has developed policies and procedures for credit evaluation, collections, insurance follow up, and asset recovery. Sparta imposes strict credit criteria to determine which retail installment sales contract applications to approve. This credit criterion has been developed to be in compliance with the credit criterion required by our lenders. The dealers understand that if they consummate a credit transaction with a customer on whose application we have given them a conditional approval that Sparta will purchase that contract if it is in full compliance with all terms and conditions of that approval and contained in our dealer agreement.

To insure that Sparta's Credit Evaluation Process and Collateral Guidelines are consistently applied and that the credit/underwriting decision process provides rapid decisioning to Authorized Sparta Dealers and the Authorized Private Label Dealers, Sparta has developed a point of sale credit application and contract decisioning system. This system is named "**iPLUS**" and is structured as an Application Service Provider ("ASP") and has the capability of providing the dealer with conditional approvals in less than sixty seconds, seven days a week, twenty-four hours a day. This technology provides quick, consistent credit decisions for our dealer network and reduces the number of credit analysts required, thereby, reducing Sparta's personnel expense. Depending on Sparta's arrangement with its lending sources, in the case of consumer finance contracts, Sparta may finance its purchase of the contracts by borrowing from a lending source and pledging the retail installment sales contracts as collateral for the loan.

All of the retail installment sale contracts will be secured by qualified, titled motorcycles with 550+cc and higher engines, 4-stroke all-terrain vehicles (ATVs), or select scooters. Customer financing needs are projected to range from approximately \$5,000 to \$40,000. Contract terms of 24 to 60 months are offered.

**Leases** - Sparta purchases qualified vehicles for lease to customers of its Authorized Sparta Dealers and/or Authorized Private Label Dealers. While the steps in the leasing process are almost identical to those in the installment sales contract process, the major difference is that when a lease "approval" is transmitted to a dealer, the "approval" describes the terms and conditions under which Sparta will purchase a specific vehicle from the dealer and lease it to the applicant. Unlike a retail installment sales contract which finances a customer's purchase of a vehicle owned by the customer, the lease contract contains the payment terms and conditions under which Sparta will allow the customer to use (lease) the vehicle, which is owned by Sparta, and also contains a vehicle purchase price option which provides the customer with the right to purchase the vehicle at the lease-end. Depending on Sparta's arrangement with its lending sources, in the case of leases, Sparta may finance its purchase of leased vehicles by borrowing from a lending source and assigning or pledging the lease and leased vehicle as collateral for the loan. Lease terms range from 24 to 60 months, although most lease terms are either 36 or 60 months. Leases generally have lower monthly payments than retail installment sales contracts because they finance only part of the vehicle with the balance being financed by the lessor. Unlike Retail Installment Sales Contracts, Sparta can and does charge acquisition fees for each of its leases. These fees range from \$290 to \$490 per lease depending on the amount of the lease.

In July 2006, we announced an agreement for accepting and processing motorcycle credit applications from a Fortune 500 global diversified financial provider. Under the agreement, the company electronically transmits to Sparta loan applications which meet Sparta's lending/leasing criteria. In May 2008, this agreement was terminated as said company decided to cease doing business in the motorcycle industry.

In May 2006, we entered into a limited Marketing Agreement with netLoan Funding, LLC ("netLoan"). eBay Motors is under an agreement with netLoan whereby eBay Motors customers wishing to finance powersports vehicles are referred to the netLoan web site. Under our agreement with netLoan, these customers are then redirected from the netLoan web site electronically to a co-branded Sparta **iPLUS** web site where their credit applications are processed. In April 2008, this agreement was amended and expanded to include referrals from eLoan's and NADA's (National

Automotive Dealers Association) motorcycle web pages and to include credit applications from these three sources for all motorcycles over 550cc. We pay netLoan a fee for each funded lease or contract processed through this co-branded web site. To date, the value of this program is still under review.

### **Municipal Leasing of Equipment, including, but not limited to Police Motorcycles**

In February 2007, Sparta launched a new Municipal Leasing Program designed expressly to meet the needs of law enforcement agencies throughout the U.S. Sparta estimates that the annual municipal market for new law enforcement motorcycles, alone, exceeds \$300 million annually, based upon extensive discussions that the company conducted among Harley-Davidson, Honda, and BMW dealers, with those brands being the most prominent in the municipal environment. Sparta believes that most of these agencies have historically been purchasing these vehicles with few, if any, financing alternatives, therefore, we developed a leasing alternative for governmental organizations to acquire the motorcycles they need, and remain within their budgets at the same time. We have partnered with a wholly owned subsidiary of a state chartered bank which specializes in municipal financing. Under this relationship, the Company originates for this subsidiary and negotiates the leases on behalf of it and the municipality. The Company receives an upfront origination fee and a structured commission for each closed lease.

### **Private Label Programs for Manufacturers and Distributors**

To date, we have entered into four "private label" 5-year financing agreements with the U.S. distributors of major manufacturers of scooters and ATVs. Under these agreements, we allow the manufacturer to put its name on our finance and lease products, and offer such financing facilities to its dealers for their customers. We own the retail installment sales contracts and leases generated under these "private label" programs, and derive revenues from sales of the distributor's product line to the dealer's customers. The private label program also expands our dealer base by the number of dealerships in the distributor's chain, thereby generating additional opportunities to sell our own financial services to these dealers for their customers interested in non-"private label" brand of vehicles.

These four distributors have over 1,200 dealers who, in addition to becoming our Private Label dealers, can sign up to become our Authorized Sparta Dealers, which will enable them to use us as a source for financing their non-private label brand of vehicles.

In May 2007, Sparta announced the launch of a consumer leasing program for Moto Guzzi and Aprilia, the two motorcycle brands distributed by Piaggio Group Americas, Inc. The program will enable all Moto Guzzi and Aprilia dealers to offer Sparta's Flex Lease product to their customers as alternatives to traditional retail installment sales financing. Piaggio Group's US dealer network currently numbers approximately 400, including retailers of Vespa and Piaggio, the two well known brands of scooters also distributed by the Piaggio Group. Among those dealers, more than 180 carry the Moto Guzzi and/or Aprilia brands. Piaggio Group Americas, Inc. is a subsidiary of Piaggio & C. S.p.A., based in Pontedera, Italy.

### **Revenue From Ancillary Products And Services**

We expect to receive additional revenue related to servicing our portfolio, such as lease acquisition fees, late payment fees, vehicle disposition fees at lease-end, early termination fees, charges for excess wear-and-tear on leased vehicles, and from ancillary products and services.

We are being positioned as a full service organization providing products and services to its dealers that are costly to obtain on an individual dealer basis. Also, we offer a private label GAP (Guaranteed Auto Protection) plan for our dealers:

**Gap Coverage** - Sparta markets its private label gap coverage on a fee basis to customers through dealers. This coverage protects the customer should the vehicle be stolen or wrecked and the holder's primary insurance is not adequate to cover their payoff to the creditor that holds the lien on or the lease of the vehicle.



Sparta intends to continue to evaluate additional ancillary products and services and believes that it can create additional products and services to meet dealers' needs, creating company brand loyalty in the dealer community and generating other revenue streams.

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## **Revenue From Remarketing Off-Lease And Repossessed Vehicles**

**Re-leasing to Original Lessees** - Management commences its re-leasing efforts as early as eleven months prior to the end of the scheduled lease term. Lessees' options are expected to include: extending the lease, returning the vehicle to Sparta or buying the vehicle at the buy-out option price established at the beginning of the lease. Sparta's policy requires lessees who wish to return their vehicles, return the vehicle to the originating dealer. If the lessee has moved, then the vehicle should be returned to the Authorized Sparta Dealer closest to the lessee. If this is impracticable, then Sparta will arrange to have the vehicle transported at the lessee's expense.

**Returned Leased Vehicles** - When a vehicle is returned to an Authorized Sparta Dealer at the end of the scheduled lease term, the dealer will inspect it for excessive wear and mileage over maximum levels specified under the lease agreement and prepares it for resale/lease. All Sparta Authorized Dealers and all Authorized Private Label Dealers are contractually bound to charge no more than cost plus ten-percent for repairs and to provide free storage for all consignment vehicles. Thereafter, Sparta plans to consign the vehicle to the originating dealer for sale or re-lease to a new party. Should the dealer decline to take the vehicle on consignment, it will be electronically marketed on the Classified Pages of the Sparta web site. Sparta believes the market for used vehicles is significant, and the opportunity to remarket the same vehicle numerous times is a key selling point with prospective dealerships. Sparta believes that using its dealer network in such a manner will result in a better overall economic return on its portfolio as well as strengthen dealer relationships.

**Repossessed Vehicles** - All repossessed vehicles are similarly returned to the originating Authorized Sparta Dealer to be reconditioned (if needed) for consignment sale or re-lease in the same manner as returned vehicles.

**Second Chance Express** - Sparta allows its Authorized Sparta Dealers to offer its inventory of returned or repossessed vehicles not only to customers with approved credit applications but, also to customers with less than prime credit. Applicants with low credit scores are evaluated under Sparta's Second Chance Express Program. This unique finance/lease product is designed to offer a financing program tailored to this non-prime customer. The program allows Sparta to serve those customers who can offset their credit risk with higher down payments. A key benefit of this program to Sparta is that the minimum down-payment requirement is 20% in order to bring the amount financed in line with the current wholesale value of the vehicle. Under the Second Chance Express Program, Sparta pays its dealers a commission on any Sparta inventory vehicle, held on consignment on their "floor" or offered on the Sparta Classified Web Page, for which they arrange a sale or finance.

## **Credit and Collections**

### **Policies and Procedures**

Based on management's experience in vehicle financing and leasing, we have developed policies and procedures for credit evaluation, collections, insurance follow up, and asset recovery. We impose strict credit and demographic criteria to determine which retail installment sales contracts and lease applications are approved.

### **Credit Evaluation Process and Collateral Guidelines**

To insure that Sparta's Credit Evaluation Process and Collateral Guidelines are consistently applied and that the credit/underwriting decision process provides rapid decisioning to our Authorized Sparta Dealers and our Authorized Private Label Dealers, Sparta has worked closely with a leading provider of interactive credit accessing and decisioning solutions, to develop the *iPLUS*<sup>®</sup> point of sale credit application decisioning and contract system.

*iPLUS*<sup>®</sup> internet Purchasing Leasing Underwriting Servicing)

Sparta's retail installment sales contract and leasing programs are delivered through a proprietary, web-based, credit application processing system. This system is named *iPLUS<sup>0</sup>* and is structured as an Application Service Provider ("ASP") and has the capability of providing the dealer with conditional approvals seven days a week, twenty-four hours a day. This system also provides the powersports dealer with system capabilities comparable to those of new car franchises. Sparta believes *iPLUS<sup>0</sup>* provides the Authorized Sparta Dealers and Authorized Private Label Dealers with a competitive advantage and increases Sparta's ability to garner a larger share of the dealer's business.

Major features of *iPLUS<sup>o</sup>* include:

- 100% WEB Browser Based ([www.spartacommercial.com](http://www.spartacommercial.com))
- User friendly system
- No costly software required by the users
- Operates on any dial-up connection as slow as 28.8
- Requires Internet Explorer 5.5 or above, Adobe Acrobat Reader 5.0 or above, both available at no charge on the Internet
- Integrated scorecard and decision engine
- Integrated credit bureau retrieval and review (can access any of the 3 major bureaus)
- Once application is submitted; decisions in seconds/7 Days a Week /24 Hours a Day
- Easy to complete customer application
- Dealer application management
- Contract and lease calculator (assists dealer in structuring any approved application.)
- Prints approved customer contract and contract package
- Captures information in electronic format
- Complete underwriting documentation and control system
- Dealer communication
- Allows the dealer to track the entire decisioning, underwriting, and funding process in real time.

Additionally, this technology provides quick, consistent credit decisions for our dealer network and reduces the number of credit analysts required, thereby, reducing Sparta's personnel expense.

Sparta has established program guidelines that are an integral function of the *iPLUS<sup>o</sup>* decision process. These program guidelines establish and clarify credit criteria such as credit tiers, maximum amount financed, term and rate, dealer rate participation, deal structure, buyer profile, credit bureau parameters, budget parameters, and eligible collateral, including maximum loan-to-value ratios for each of its retail installment sales contracts and lease contracts, depending on the applicant's credit rating and stability. Sparta has developed its own credit criteria system by using an empirical score card and then assigning its own rating based on Sparta's experience. This rating is used as the basis to determine the terms and conditions under which an applicant is approved or declined.

Sparta conducts both applicant credit risk and asset evaluation before approving financing. Should the customer seek financing above this threshold, Sparta asks for a down payment from the borrower or lessee to close the gap between selling price and value. The size of the down payment will be a function of the applicant's credit rating, stability, budget, and the value of the underlying asset.

### **Collection Procedures**

Approving retail installment sales contracts and leases that comply with the policies and procedures established by Sparta is just the first step. A principal factor in the success of Sparta's business model is its ability to track contract and lease performance.

A third party provides the software Sparta uses to manage its assets, customer base, collections, insurance, and accounting systems. Using a variety of basic and customized reports generated by this software, Sparta monitors its customers' compliance with their obligations under retail installment sales contracts or lease agreements. These reports are accessed on a real-time basis by employees of Sparta and are distributed to management personnel for review. The reports include delinquency reports, collection tickler (promises) reports, insurance status reports, termination reports, inventory reports, maturing contract reports, etc.

Sparta requires continuous physical damage insurance on all financed vehicles and continuous liability and physical damage insurance coverage on all leased vehicles. In addition, Sparta is required to be listed as Additional Named Insured and Loss Payee. Continuous insurance is critical, and Sparta is permitted to repossess a vehicle if coverage lapses. Any lapse in insurance coverage for any reason will lead to reinstatement of insurance coverage or repossession of leased vehicle.

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### **Using Diversification to Reduce Portfolio Risk**

Management will reduce portfolio risk not only by carefully screening applicants and monitoring covenant compliance, but also by diversifying its financing activities across credit tiers and Sparta's list of motorcycle, ATV and scooter models that it will finance or lease.

**Credit Tiers** - Sparta expects that it will maintain a portfolio dominated by A/B credit applicants over C applicants in the ratio of at least 70/30. Management anticipates that it will be able to rebalance its portfolio by training its sales force to work closely with dealerships in their territories to help Sparta maintain its conservative 70/30 target.

Sparta will also be able to manage this ratio by revising the variables in its various programs (terms and conditions under which Sparta will lease vehicles or purchase retail installment contracts), such as minimum income, debt ratios, payment to income ratios, minimum down payment required, acquisition fees (paid by dealer), discounts (paid by dealer), etc.

**Portfolio Performance** - Contracts and leases over 30 days delinquent were 3.12% of total portfolio balances at April 30, 2006, 1.88% at April 30, 2007 and 2.85% at April 30, 2008. Cumulative net losses and charge-offs as a percent of cumulative portfolio originations were zero at April 30, 2006, 1.53% at April 30, 2007 and 1.17% at April 30, 2008. Additionally, as of April 30, 2008 the Company maintained a cash reserve with its Senior Lender equal to 8.84% of the outstanding loan balance with that lender.

**Sparta Approved Vehicle Models** - Advance rates and other credit restrictions will be in effect for certain models and years based on the relevant facts and circumstances.

### **Market Information**

As reported in the 2006 Annual Statistical Report of the Motorcycle Industry Council, retail sales of new motorcycles have grown steadily from 1991 through 2006. North American registrations of new 651cc and higher motorcycles reached 516,100 in 2007, a 5% decline from 2006 Sparta estimates that the 2007 US retail market for new and used 600cc+ motorcycles was \$8.8 billion.

U.S. sales of new ATVs were estimated to be 637,600 units in 2007, a 15% decline from 2006 as reported in Powersports Business Magazine in the February 11, 2008 issue.

Estimated U.S scooter unit sales for calendar 2007 are estimated to be 54,000 down approximately 4.6% from calendar year 2007, according to Powersports Business Magazine in the February 11, 2008 issue.

### **Sales and Marketing**

Normally, vehicle finance programs are sold primarily at the dealer level, rather than the consumer level. Our strategy is to utilize a direct sales force that promotes our products and services to qualified dealers, train them, and provide them with point-of-sale marketing materials. Our vehicle financing programs are already gaining market acceptance as evidenced by the four Private Label Contracts. This direct sales force will be comprised of Marketing Group and a Dealer Services Group.

The Marketing Group will continue to work directly with the manufacturers and distributors to obtain additional Private Label affiliations and to monitor our competition. The Private Label partners will assist us directly in training the Private Label Dealers. This will be done at the manufacturers/distributors place of business, at industry shows, or with a group of dealers in a common geographic area.

The Dealer Support Group accepts dealer application packages from dealers that want to be either or both our Authorized Sparta Dealers or Authorized Private Label Dealers. They then notify the approved dealers that they have been approved and provide them with the required information to process applications and print contracts through *iPLUS<sup>®</sup>*, including a Dealer Sign Up packet. The Dealer Services Group is available to directly assist dealers by telephone and follow up with dealers on conditional approvals to assist dealers in forwarding the funding

packages to us for purchase. This group also accepts all incoming calls from dealers, answering their inquiry or directing them, if necessary, to the appropriate department.

Authorized Sparta Dealers are able to advertise both new and used vehicles in the Classified Section of our website, at no cost to the dealer. Sparta plans to use this feature of the website to remarket its own inventory (both repossessed and returned end-of-term vehicles) throughout the country. Our exclusive "Second-Chance Express" program for customers with a poor or limited credit history was created to help re-market our inventory. Incentives are in place for Authorized Sparta Dealers who sell or lease either our inventory vehicle at their dealership or one that is at another dealership in our network.

With the exception of the netLoan program and the program with the Fortune 500 company both described under the "Retail Installment Sales Contracts and Leases" section above, we do not market or sell directly to consumers, but we expect consumers to visit our website. We have provided a consumer oriented PowerPoint presentation for their review. Additionally, visiting consumers will be able to view our advertising, news and find general information about vehicle makes and models, road rallies, and other areas of powersports interest. They will also be able to utilize our Dealer Locator to find the nearest Authorized Sparta Dealers or Authorized Private Label Dealer in their area. Consumers will be able to view the Classified Section of the website and any consumer inquiring about the program will be directed to our nearest authorized dealer.

## **Competition**

The consumer finance industry is highly fragmented and highly competitive. Broadly speaking, Sparta competes with commercial banks, savings & loans, industrial thrift and credit unions, and a variety of local, regional and national consumer finance companies. While there are numerous financial service companies that provide consumer credit in the automobile markets, including banks, other consumer finance companies, and finance companies owned by automobile manufacturers and retailers, most financial service companies are reluctant to lend to motorcyclists. Customers who approach these lending sources to take out retail installment sales contracts are often encouraged to pursue personal loans instead.

There are few companies that provide nationwide dealer-based leasing options in the motorcycle industry segment, and these tend to be private label factory programs supporting their own brands. Because of their narrow focus (such as requiring that the equipment be covered by the brand's warranty); these companies have met with limited success.

Independent consumer financial services companies and large commercial banks that participated in this market have withdrawn substantially from the motorcycle loan niche over the past two years or have tightened their underwriting criteria. Sparta believes that those companies may have suffered as a result of compromising their underwriting criteria for the sake of volume. In addition, management believes that our competitors' practice of financing all makes and models of a particular manufacturer results in lower overall portfolio performance because of the poor demographics associated with some of those product lines. The marketplace also includes small competitors such as local credit unions, local banks and a few regional players.

Sparta competes for customers with commercial banks, savings and loans, credit unions, consumer financing companies, and manufacturers finance subsidiaries. Additionally, some powersports manufacturers such as Harley-Davidson and BMW have subsidiaries that provide financing.

A significant competitor of Sparta is GE Retail Services. To management's knowledge, this firm does not offer leases for powersports vehicles.

GE Retail Services, markets both directly to dealers in Powersports market and through Co Branded private label programs. GE recently has co-branded with Yamaha, Suzuki, Kawasaki, Moto Guzzi, Aprillia Brands and other



national manufacturers and distributors of Powersports and recreational products such as Coachmen Industries. GE also offers dealer and distributor floor plan financing and private label credit cards.

While some of Sparta's larger competitors have vast sources of capital and may be able to offer lower interest rates due to lower borrowing costs, and longer terms (up to 108 months) Sparta believes that the combination of management's experience, expedient service, availability of the lease option and *iPLUS*<sup>®</sup> give Sparta an advantage over its competitors.

## Regulation

Our planned financing operations are subject to regulation, supervision and licensing under various federal, state and local statutes and ordinances. Additionally, the procedures that we must follow in connection with the repossession of vehicles securing contracts are regulated by each of the states in which we do business. Accordingly, the laws of such states, as well as applicable federal law, govern our operations. Compliance with existing laws and regulations has not had a material adverse affect on our operations to date. Our management believes that we maintain all requisite licenses and permits and are in material compliance with all applicable local, state and federal laws and regulations. We periodically review our office practices in an effort to ensure such compliance.

The following constitute certain of the federal, state and local statutes and ordinances with which we must comply:

- Fair Debt Collection Act. The Fair Debt Collection Act and applicable state law counterparts prohibit us from contacting customers during certain times and at certain places, from using certain threatening practices and from making false implications when attempting to collect a debt.
- Truth in Lending Act. The Truth in Lending Act requires us and the dealers we do business with to make certain disclosures to customers, including the terms of repayment, the total finance charge and the annual percentage rate charged on each contract.
- Consumer Leasing Act. The Consumer Leasing Act applies to any lease of consumer goods for more than four months. The law requires the seller to disclose information such as the amount of initial payment, number of monthly payments, total amount for fees, penalties for default, and other information before a lease is signed.
- The Consumer Credit Protection Act of 1968. The Act required creditors to state the cost of borrowing in a common language so that the consumer can figure out what the charges are, compare costs, and shop for the best credit deal.
- Equal Credit Opportunity Act. The Equal Credit Opportunity Act prohibits creditors from discriminating against loan applicants on the basis of race, color, sex, age or marital status. Pursuant to Regulation B promulgated under the Equal Credit Opportunity Act, creditors are required to make certain disclosures regarding consumer rights and advise consumers whose credit applications are not approved of the reasons for the rejection.
- Fair Credit Reporting Act. The Fair Credit Reporting Act requires us to provide certain information to consumers whose credit applications are not approved on the basis of a report obtained from a consumer reporting agency.
- Gramm-Leach-Bliley Act. The Gramm-Leach-Bliley Act requires us to maintain privacy with respect to certain consumer data in our possession and to periodically communicate with consumers on privacy matters.
- Soldiers' and Sailors' Civil Relief Act. The Soldiers' and Sailor's Civil Relief Act requires us to reduce the interest rate charged on each loan to customers who have subsequently joined, enlisted, been inducted or called to active military duty, if requested to do so.
- Electronic Funds Transfer Act. The Electronic Funds Transfer Act prohibits us from requiring our customers to repay a loan or other credit by electronic funds transfer ("EFT"), except in limited situations that do not apply to us. We are also required to provide certain documentation to our customers when an EFT is initiated and to provide certain notifications to our customers with regard to preauthorized payments.

· Telephone Consumer Protection Act. The Telephone Consumer Protection Act prohibits telephone solicitation calls to a customer's home before 8 a.m. or after 9 p.m. In addition, if we make a telephone solicitation call to a customer's home, the representative making the call must provide his or her name, our name, and a telephone number or address at which our representative may be contacted. The Telephone Consumer Protection Act also requires that we maintain a record of any requests by customers not to receive future telephone solicitations, which must be maintained for five years.

· Bankruptcy. Federal bankruptcy and related state laws may interfere with or affect our ability to recover collateral or enforce a deficiency judgment.

## **Employees**

As of April 30, 2008, we had 18 full-time employees.

None of our employees are covered by a collective bargaining agreement. We have never experienced a work stoppage and we believe that we have satisfactory working relations with our employees.

## **ITEM 2. DESCRIPTION OF PROPERTY**

Our executive offices are located at 462 Seventh Avenue, 20th Floor, New York, NY 10018. We have an agreement for use of office space at this location under a lease expiring on November 30, 2012. The office space contains approximately 7,000 square feet. The annual rate is \$285,600 (annualized) for the first eleven months of calendar year 2008, and \$292,740 for the last calendar month of 2008 and the first eleven months for the calendar year 2009.

We believe that our existing facilities will be adequate to meet our needs for the foreseeable future. Should we need additional space, management believes it will be able to secure additional space at commercially reasonable rates. Our offices are adequately covered by insurance for claims arising out of such occupancies.

## **ITEM 3. LEGAL PROCEEDINGS**

As at April 30, 2008, we were not a party to any material pending legal proceeding. From time to time, we may become involved in various lawsuits and legal proceedings, which arise in the ordinary course of business.

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

Not applicable.

**PART II****ITEM MARKET FOR THE COMMON EQUITY AND RELATED STOCKHOLDER MATTERS AND  
5. SMALL BUSINESS ISSUER PURCHASES OF EQUITY SECURITIES.****Market Information**

Our common stock is currently quoted on the OTC Bulletin Board under the symbol "SRCO". The following table sets forth, for the calendar periods indicated, the range of the high and low last reported bid prices of our common stock, as reported by the OTCBB. The quotations represent inter-dealer prices without retail mark-ups, mark-downs or commissions, and may not necessarily represent actual transactions.

	<u>High</u>	<u>Low</u>
Fiscal Year 2007 (May 1, 2006 - April 30, 2007)		
First quarter (May 1, 2006 - July 31, 2006)	\$ 0.54	\$ 0.18
Second quarter (August 1, 2006 - October 31, 2006)	\$ 0.27	\$ 0.09
Third quarter (November 1, 2006 - January 31, 2007)	\$ 0.15	\$ 0.06
Fourth quarter (February 1, 2007 - April 30, 2007)	\$ 0.11	\$ 0.05
Fiscal Year 2008 (May 1, 2007 - April 30, 2008)		
First quarter (May 1, 2007 - July 31, 2007)	\$ 0.10	\$ 0.045
Second quarter (August 1, 2007 - October 31, 2007)	\$ 0.095	\$ 0.04
Third quarter (November 1, 2007 - January 31, 2008)	\$ 0.065	\$ 0.03
Fourth quarter (February 1, 2008 - April 30, 2008)	\$ 0.159	\$ 0.045

 **Holders**

The approximate number of holders of record of our common stock as of April 30, 2008 was 3,010 excluding stockholders holding common stock under nominee security position listings.

 **Dividends**

We have never declared any cash dividends on our common stock. Future cash dividends on the common stock, if any, will be at the discretion of our Board of Directors and will depend on our future operations and earnings, capital requirements and surplus, general financial condition, contractual restrictions, and other factors that the Board of Directors may consider important. The Board of Directors does not intend to declare or pay cash dividends in the foreseeable future. It is the current policy to retain all earnings, if any, to support future growth and expansion.

As of April 30, 2008, we had outstanding 825 shares of Series A Convertible Preferred Stock, \$.001 par value. The shares pay a 6% annual dividend which may be paid in cash or shares of common stock at the Company's option. We have not, as of April 30, 2008, distributed any dividends, in cash or in shares of common stock.

 **Recent Sales of Unregistered Securities**

During the quarter ended April 30, 2008, in transactions deemed to be exempt from registration under the Securities Act in reliance on Section 4(2) of the Securities Act, the Company sold to sixteen accredited investors six months unsecured notes in the aggregate amount of \$689,600. All notes bears 6% simple interest, payable in cash or shares, at the Company's option, with principal and accrued interest payable at maturity. Should the Company opt to convert these notes at maturity, these notes will be convertible into shares of common stock at a price equal to a 40% discount from the lowest closing price of the Company's common stock for the five trading days immediately preceding the receipt of funds by the Company from the purchaser of note. At the Company's option, the notes are convertible into shares of common stock ranging from, \$0.03 to \$0.08 per share. All notes will mature in six months on various dates through October 30, 2008.

On February 4, 2008, in a transaction deemed to be exempt from registration under the Securities Act in reliance on Section 4(2) of the Securities Act, the Company issued 75,000 shares of its restricted common stock to an accredited investor in consideration of a \$25,000 loan to the Company. In February 2008, this loan was converted into a six month, 6% convertible note due August 4, 2008. At the Company's option, the notes are convertible into shares of common stock at \$0.0336 per share.

On February 5, 2008, in a transaction deemed to be exempt from registration under the Securities Act in reliance on Section 4(2) of the Securities Act, the Company issued 75,000 shares of its restricted common stock to an accredited investor in consideration of a \$25,000 loan to the Company. In February 2008, this loan was converted into a six month, 6% convertible note due August 5, 2008. At the Company's option, the notes are convertible into shares of common stock at \$0.0336 per share.

On February 14, 2008, in a transaction deemed to be exempt from registration under the Securities Act in reliance on Section 4(2) of the Securities Act, the Company, pursuant to a consulting agreement, issued to the consultant 1,000,000 shares of restricted common stock valued at \$80,000. The consulting agreement, unless cancelled, required the Company to issue up to 4,000,000 additional shares of restricted common stock to the consultant, in tranches of 1,000,000 shares each, on the three, six, nine and twelve month anniversary dates of the agreement. The agreement was cancelled as of March 31, 2008 with no further issuance of shares required.

In February 2008, pursuant to the terms and provisions of their 10% short-term loans issued in August and September 2006, the Company issued to four accredited investors 440,000 shares of its restricted common stock valued at \$40,800.

In February 2008, pursuant to the terms and provisions of a 10% short-term loan issued in December 2007, the Company issued to an accredited investor 100,000 shares of its restricted common stock valued at \$5,000.

In February 2008, in transactions deemed to be exempt from registration under the Securities Act in reliance on Section 4(2) of the Securities Act, the company issued to an accredited investor 12,500 shares of its restricted common stock valued at \$750 as an inducement for a December 2007, 10% short-term loan.

In February 2008, pursuant to the terms and provisions of a 12% Note issued in September 2007, the Company issued to an accredited investor, 100,000 shares of its restricted common stock valued at \$6,000.

In March 2008, pursuant to the terms and provisions of their 10% Bridge Loans issued in August and September 2006, the Company issued to four accredited investors 220,000 shares of its restricted common stock valued at \$28,600.

In March 2008, pursuant to the terms and provisions of a 10% Bridge Loans issued in December 2007, the Company issued to an accredited investor 200,000 shares of its restricted common stock valued at \$20,000.

In March 2008, pursuant to the terms and provisions of a 12% Note issued in September 2007, the Company issued to an accredited investor, 100,000 shares of its restricted common stock valued at \$11,000.

In April 2008, pursuant to the terms and provisions of their 10% short-term loans issued in August and September 2006, the Company issued to four accredited investors 220,000 shares of its restricted common stock valued at \$15,400.

In April 2008, pursuant to the terms and provisions of a 10% short-term loan issued in December 2007, the Company issued to an accredited investor 100,000 shares of its restricted common stock valued at \$10,000.

In April 2008, pursuant to the terms and provisions of a 12% note issued in September 2007, the Company issued to an accredited investor, 100,000 shares of its restricted common stock valued at \$13,000.

## **ITEM 6. MANAGEMENT'S DISCUSSION AND ANALYSIS**

### **"FORWARD-LOOKING" INFORMATION**

This report on Form 10-KSB contains certain "forward-looking statements" within the meaning of Section 21E of the Securities Exchange Act of 1934, as amended, which represent our expectations and beliefs, including, but not limited to statements concerning the Company's expected growth. The words "believe," "expect," "anticipate," "estimate," "project," and similar expressions identify forward-looking statements, which speak only as of the date such statement was made. These statements by their nature involve substantial risks and uncertainties, certain of which are beyond our control, and actual results may differ materially depending on a variety of important factors.

The following discussion and analysis should be read in conjunction with the information set forth in the audited financial statements for the years ended April 30, 2008 and April 30, 2007 and footnotes found in the Company's Annual Report on Form 10-KSB.

### **RESULTS OF OPERATIONS**

#### **COMPARISON OF THE YEAR ENDED APRIL 30, 2008 TO THE YEAR ENDED APRIL 30, 2007**

For the year ended April 30, 2008, we have generated increased revenues, have incurred significant expenses, and have sustained significant losses. We believe we will continue to earn increasing revenues from operations in fiscal 2009.

#### **Revenues**

Revenues totaled \$1,129,691 in fiscal 2008 compared to revenues of \$787,997 in fiscal 2007. Fiscal 2008 revenues were primarily comprised of \$615,531 in interest income from Retail Installment Sales Contracts, \$391,029 in income from Operating and Finance Leases, \$27,400 in Preferred Provider Program Fees, \$34,112 in Commissions on municipal lease transactions, and \$61,619 in other fee income.

#### **Costs and Expenses**

The Company incurred employee compensation and benefit costs of \$1,720,945 for the year ended April 30, 2008 compared with \$1,805,345 in fiscal 2007. The decrease is related to the reduced costs the Company recognized in decreasing its employee base during the year from 25 employees at fiscal yearend 2007 to 18 at fiscal yearend 2008. If the Company continues to expand, the Company will incur additional costs for personnel. In order for the Company to attract and retain quality personnel, management anticipates it will continue to offer competitive salaries and issue common stock to consultants and employees.

The Company paid \$322,020 and \$280,000 to its Chairman and Chief Executive Officer, in fiscal 2008 and 2007, respectively. These payments were charged to operations, and are included in the compensation costs shown above.

In connection with placement transactions, the Company expensed non-cash costs in the form of shares of restricted common stock or warrants of \$449,926 for the year ended April 30, 2008 and \$154,913 for the year ended April 30, 2007. These amounts were charged to financing costs. During the fiscal year ended April 30, 2008, the Company expensed \$177,000 as the value of stock based compensation issued to consultants versus \$494,230 in the prior fiscal year. Additionally, during the fiscal year ended April 30, 2008, the Company expensed \$261,850 as the value of employee stock and option based compensation as compared to \$313,107 in the prior fiscal year. At April 30, 2008 and April 30, 2007, accrued preferred dividends of \$28,422 and \$118,770, respectively, which were charged to retained earnings.



The Company incurred consulting costs of \$215,399 for the year ended April 30, 2008, as compared to \$315,095 for the year ended April 30, 2007. This decrease was the result of reduced reliance on outside consultants. The Company incurred legal and accounting fees of \$226,933 for the year ended April 30, 2008, as compared to \$236,939 for the year ended April 30, 2007.

The Company incurred other operating expenses of \$1,043,238 for the year ended April 30, 2008. Notable expenses in this category are: general office expenses of \$254,495, rent of \$225,953, loss reserve expense of \$125,252, travel and entertainment of \$92,411, utilities of \$82,719, web development of \$89,387, credit bureaus of \$43,728, lease booking fees of \$47,125, marketing of \$40,902, maintenance contracts of \$18,039 and taxes of \$23,208. The Company incurred other operating expenses of \$1,151,518 for the year ended April 30, 2007. Notable expenses in this category are: general office expenses of \$290,621, rent of \$213,570, loss reserve expense of \$146,917, travel and entertainment of \$133,967, utilities of \$96,706, web development of \$85,580, credit bureaus of \$67,385, marketing of \$62,730, maintenance contracts of \$30,637 and taxes of \$23,405. Interest costs for the fiscal year ended April 30, 2008 were \$702,233 as compared to \$227,829 for the fiscal year ended April 30, 2007. Depreciation and amortization for the fiscal year ended April 30, 2008 was \$274,773 as compared to \$323,146 for the fiscal year ended April 30, 2007.

### **Net Loss**

Our net loss attributable to common shareholders for the year ended April 30, 2008 decreased \$32,461 (0.8%) to \$4,020,776 from a loss of \$4,053,237, for the year ended April 30, 2007. The decrease in net loss attributable to common shareholders was primarily due to: the \$669,392 (14.4%) decrease in total operating expenses from \$4,639,380 to \$3,969,988, the \$341,694 (43.7%) increase in revenues from \$787,997 to \$1,129,691, the \$769,517 (201%) increase in interest expense and financing costs from \$382,7420 to \$1,152,259, and the \$299,456 (99%) reduction in change in value (decrease) of warrant liabilities from \$299,658 to \$202.

Our net loss per common share (basic and diluted) attributable to common shareholders was \$0.03 for the year ended April 30, 2008 and \$0.03 for the year ended April 30, 2007.

### **LIQUIDITY AND CAPITAL RESOURCES**

As of April 30, 2008, the Company had a deficit net worth of \$4,271,095. The Company generated a deficit in cash flow from operations of \$2456,7531 for the year ended April 30, 2008. This deficit is primarily attributable to the Company's net loss from operations of \$3,992,354, adjusted for equity based compensation of \$488,700, stock based financing costs of \$449,926, depreciation and amortization of \$274,773, allowance for loss reserve of \$26,147 and forgiveness of preferred dividends payable of \$215,253 and to changes in the balances of current assets, primarily an increase in pre-paid expenses of \$9,887, a increase in interest receivable of \$32,550 and current liabilities, primarily an increase in accounts payable of \$281,621 and an increase in restricted cash of \$159,959. Cash flows used in investing activities for the year ended April 30, 200 were \$2,256,393 comprising of \$403,951 for the purchase of leased vehicles, and purchase of Retail Installment Sales Contracts in the amount of \$1,852,442. The Company met its cash requirements during the period through net proceeds from the issuance of notes of \$2,715,100 and obtaining net senior loans of \$2,044,657.

While we have raised capital to meet our working capital and financing needs in the past, additional financing is required in order to meet our current and projected cash flow deficits from operations and development. We are seeking financing in the form of equity in order to provide the necessary working capital. We currently have no commitments for financing. There is no guarantee that we will be successful in raising the funds required.

We estimate that we will need approximately \$2,000,000 in addition to our normal operating cash flow to conduct operations during the next twelve months. Based on capital received from equity financing to date, and certain indications of interest to purchase our equity, we believe that we have a reasonable chance to raise sufficient capital resources to meet projected cash flow deficits through the next twelve months. There can be no assurance that additional private or public financing, including debt or equity financing, will be available as needed, or, if available, on terms favorable to the Company. Any additional equity financing may be dilutive to shareholders and such additional equity securities may have rights, preferences or privileges that are senior to those of the Company's existing common or preferred stock. Furthermore, debt financing, if available, will require payment of interest and

may involve restrictive covenants that could impose limitations on the operating flexibility of the Company. However, if we are not successful in generating sufficient liquidity from operations or in raising sufficient capital resources, on terms acceptable to us, this could have a material adverse effect on our business, results of operations, liquidity and financial condition, and we will have to adjust our planned operations and development on a more limited scale.

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The effect of inflation on the Company's revenue and operating results was not significant. The Company's operations are located in North America and there are no seasonal aspects that would have a material effect on the Company's financial condition or results of operations.

### **AUDITOR'S OPINION EXPRESSES DOUBT ABOUT THE COMPANY'S ABILITY TO CONTINUE AS A "GOING CONCERN"**

The independent auditors report on our April 30, 2008 and 2007 financial statements included in the Company's Annual Report states that the Company's historical losses and the lack of revenues raise substantial doubts about the Company's ability to continue as a going concern, due to the losses incurred and its lack of significant operations. If we are unable to develop our business, we have to discontinue operations or cease to exist, which would be detrimental to the value of the Company's common stock. We can make no assurances that our business operations will develop and provide us with significant cash to continue operations.

### **PLAN OF OPERATIONS**

#### **Addressing the Going Concern Issues**

In order to improve the Company's liquidity, the Company's management is actively pursuing additional equity financing through discussions with investment bankers and private investors. There can be no assurance the Company will be successful in its effort to secure additional equity financing.

We continue to experience net operating losses. Our ability to continue as a going concern is subject to our ability to develop profitable operations. We are devoting substantially all of our efforts to developing our business and raising capital. Our net operating losses increase the difficulty in meeting such goals and there can be no assurances that such methods will prove successful.

The primary issues management will focus on in the immediate future to address this matter include:

- seeking additional credit facilities from institutional lenders;
- seeking institutional investors for equity investments in our company; and
- initiating negotiations to secure short term financing through promissory notes or other debt instruments on an as needed basis.

To address these issues, we are negotiating the potential sale of securities with investment banking companies to assist us in raising capital. We are also presently in discussions with several institutions about obtaining additional credit facilities.

#### **Product Research and Development**

We do not anticipate incurring significant research and development expenditures during the next twelve months.

#### **Acquisition or Disposition of Plant and Equipment**

We do not anticipate the sale of any significant property, plant or equipment during the next twelve months. We do not anticipate the acquisition of any significant property, plant or equipment during the next twelve months.

#### **Number of Employees**

From our inception through the period ended April 30, 2008, we have relied on the services of outside consultants for services and currently have eighteen full-time employees. In order for us to attract and retain quality personnel, we anticipate we will have to offer competitive salaries to future employees. If we fully implement our business plan, we anticipate our employment base may increase by approximately 30% during the next twelve months. As we continue to expand, we will incur additional cost for personnel. This projected increase in personnel is dependent upon our generating revenues and obtaining sources of financing. There is no guarantee that we will be successful in raising the funds required or generating revenues sufficient to fund the projected increase in the number of employees.

## **Inflation**

The impact of inflation on the costs of the Company, and the ability to pass on cost increases to its customers over time is dependent upon market conditions. The Company is not aware of any inflationary pressures that have had any significant impact on the Company's operations over the past quarter, and the Company does not anticipate that inflationary factors will have a significant impact on future operations.

## **CRITICAL ACCOUNTING POLICIES**

The preparation of our financial statements in conformity with accounting principles generally accepted in the United States requires us to make estimates and judgments that affect our reported assets, liabilities, revenues, and expenses, and the disclosure of contingent assets and liabilities. We base our estimates and judgments on historical experience and on various other assumptions we believe to be reasonable under the circumstances. Future events, however, may differ markedly from our current expectations and assumptions. While there are a number of significant accounting policies affecting our financial statements; we believe the following critical accounting policy involves the most complex, difficult and subjective estimates and judgments:

### **Revenue Recognition**

We purchase Retail Installment Sales Contracts ("RISC") from motorcycle dealers and we originate leases on new and used motorcycles and other powersports vehicles from motorcycle dealers throughout the United States.

The RISCs are secured by liens on the titles to the vehicles. The RISCs are accounted for as loans. Upon purchase, the RISCs appear on the Company's balance sheet as RISC loans receivable current and long term. When the RISC is entered into our accounting system, based on the customer's APR (interest rate), an amortization schedule for the loan on a simple interest basis is created. Interest is computed by taking the principal balance times the APR rate then divided by 365 days to get your daily interest amount. The daily interest amount is multiplied by the number of days from the last payment to get the interest income portion of the payment being applied. The balance of the payment goes to reducing the loan principal balance.

Our leases are accounted for as either operating leases or direct financing leases. At the inception of operating leases, no lease revenue is recognized and the leased motorcycles, together with the initial direct costs of originating the lease, which are capitalized, appear on the balance sheet as "motorcycles under operating leases-net". The capitalized cost of each motorcycle is depreciated over the lease term, on a straight-line basis, down to the original estimate of the projected value of the motorcycle at the end of the scheduled lease term (the "Residual"). Monthly lease payments are recognized as rental income. An acquisition fee classified as fee income on the financial statements is received and recognized in income at the inception of the lease. Direct financing leases are recorded at the gross amount of the lease receivable, and unearned income at lease inception is amortized over the lease term.

We realize gains and losses as the result of the termination of leases, both at and prior to their scheduled termination, and the disposition of the related motorcycle. The disposal of motorcycles, which reach scheduled termination of a lease, results in a gain or loss equal to the difference between proceeds received from the disposition of the motorcycle and its net book value. Net book value represents the residual value at scheduled lease termination. Lease terminations that occur prior to scheduled maturity as a result of the lessee's voluntary request to purchase the vehicle have resulted in net gains, equal to the excess of the price received over the motorcycle's net book value.

Early lease terminations also occur because of (i) a default by the lessee, (ii) the physical loss of the motorcycle, or (iii) the exercise of the lessee's early termination. In those instances, the Company receives the proceeds from either the resale or release of the repossessed motorcycle, or the payment by the lessee's insurer. We record a gain or loss for the difference between the proceeds received and the net book value of the motorcycle.



We charge fees to manufacturers and other customers related to creating a private label version of our financing program including web access, processing credit applications, consumer contracts and other related documents and processes. Fees received are amortized and booked as income over the length of the contract.

### **Stock-Based Compensation**

On December 16, 2004, the Financial Accounting Standards Board ("FASB") issued FASB Statement No. 123R (revised 2004), "Share-Based Payment" which is a revision of FASB Statement No. 123, "Accounting for Stock-Based Compensation". Statement 123R supersedes APB opinion No. 25, "Accounting for Stock Issued to Employees", and amends FASB Statement No. 95, "Statement of Cash Flows". Generally, the approach in Statement 123R is similar to the approach described in Statement 123. However, Statement 123R requires all share-based payments to employees, including grants of employee stock options, to be recognized in the income statement based on their fair values. Pro-forma disclosure is no longer an alternative. On April 14, 2005, the SEC amended the effective date of the provisions of this statement. The effect of this amendment by the SEC is that the Company will have to comply with Statement 123R and use the Fair Value based method of accounting no later than the fourth quarter of 2006. Management has elected to apply Statement 123R in the third quarter of fiscal year 2006.

### **Website Development Costs**

We have incurred costs to develop a proprietary web-based private label financing program for processing including web access, processing credit applications, consumer contracts and other related documents and processes. We elected to recognize the costs of developing its website and related intellectual property the website development costs in accordance with Emerging Issue Task Force ("EITF") No. 00-02, "Accounting for Website Development Costs." As such, the Company expenses all costs incurred that relate to the planning and post implementation phases of development of its website. Direct costs incurred in the development phase are capitalized and recognized over the estimated useful life. Costs associated with repair or maintenance for the website are included in cost of net revenues in the current period expenses.

### **RECENT ACCOUNTING PRONOUNCEMENTS**

In February 2007, the FASB issued SFAS No. 159, "The Fair Value Option for Financial Assets and Financial Liabilities - Including an Amendment of FASB Statement No. 115" ("SFAS No. 159"). SFAS No. 159 permits entities to choose to measure many financial instruments and certain other items at fair value. Most of the provisions of SFAS No. 159 apply only to entities that elect the fair value option. However, the amendment to SFAS No. 115 "Accounting for Certain Investments in Debt and Equity Securities" applies to all entities with available-for-sale and trading securities. SFAS No. 159 is effective as of the beginning of an entity's first fiscal year that begins after November 15, 2007. Early adoption is permitted as of the beginning of a fiscal year that begins on or before November 15, 2007, provided the entity also elects to apply the provision of SFAS No. 157, "Fair Value Measurements". The adoption of SFAS No. 159 is not expected to have a material impact on its financial position, results of operations or cash flows.

In December 2007, the FASB issued SFAS No. 141(R), "*Business Combinations*" ("SFAS No. 141(R)"), which establishes principles and requirements for how an acquirer recognizes and measures in its financial statements the identifiable assets acquired, the liabilities assumed, and any noncontrolling interest in an acquiree, including the recognition and measurement of goodwill acquired in a business combination. SFAS No. 141R is effective as of the beginning of the first fiscal year beginning on or after December 15, 2008. Earlier adoption is prohibited and the Company is currently evaluating the effect, if any that the adoption will have on its financial position results of operations or cash flows.

In December 2007, the FASB issued SFAS No. 160, "*Noncontrolling Interest in Financial Statements, an amendment of ARB No. 51*" ("SFAS No. 160"), which will change the accounting and reporting for minority interests, which will be



recharacterized as noncontrolling interests and classified as a component of equity within the balance sheets. SFAS No. 160 is effective as of the beginning of the first fiscal year beginning on or after December 15, 2008. Earlier adoption is prohibited and the Company is currently evaluating the effect, if any that the adoption will have on its financial position results of operations or cash flows.

In June 2007, the Accounting Standards Executive Committee issued Statement of Position 07-1, "Clarification of the Scope of the Audit and Accounting Guide Investment Companies and Accounting by Parent Companies and Equity Method Investors for Investments in Investment Companies" ("SOP 07-1"). SOP 07-1 provides guidance for determining whether an entity is within the scope of the AICPA Audit and Accounting Guide Investment Companies (the "Audit Guide"). SOP 07-1 was originally determined to be effective for fiscal years beginning on or after December 15, 2007, however, on February 6, 2008, FASB issued a final Staff Position indefinitely deferring the effective date and prohibiting early adoption of SOP 07-1 while addressing implementation issues.

In June 2007, the FASB ratified the consensus in EITF Issue No. 07-3, "Accounting for Nonrefundable Advance Payments for Goods or Services to be Used in Future Research and Development Activities" (EITF 07-3), which requires that nonrefundable advance payments for goods or services that will be used or rendered for future research and development (R&D) activities be deferred and amortized over the period that the goods are delivered or the related services are performed, subject to an assessment of recoverability. EITF 07-3 will be effective for fiscal years beginning after December 15, 2007. The Company does not expect that the adoption of EITF 07-3 will have a material impact on its financial position, results of operations or cash flows.

In December 2007, the FASB ratified the consensus in EITF Issue No. 07-1, "Accounting for Collaborative Arrangements" (EITF 07-1). EITF 07-1 defines collaborative arrangements and requires collaborators to present the result of activities for which they act as the principal on a gross basis and report any payments received from (made to) the other collaborators based on other applicable authoritative accounting literature, and in the absence of other applicable authoritative literature, on a reasonable, rational and consistent accounting policy is to be elected. EITF 07-1 also provides for disclosures regarding the nature and purpose of the arrangement, the entity's rights and obligations, the accounting policy for the arrangement and the income statement classification and amounts arising from the agreement. EITF 07-1 will be effective for fiscal years beginning after December 15, 2008, which will be the Company's fiscal year 2009, and will be applied as a change in accounting principle retrospectively for all collaborative arrangements existing as of the effective date. The Company has not yet evaluated the potential impact of adopting EITF 07-1 on our financial position, results of operations or cash flows.

In March 2008, the FASB issued SFAS No. 161, "Disclosures about Derivative Instruments and Hedging Activities - an amendment to FASB Statement No. 133" ("SFAS No. 161"). SFAS No. 161 is intended to improve financial standards for derivative instruments and hedging activities by requiring enhanced disclosures to enable investors to better understand their effects on an entity's financial position, financial performance, and cash flows. Entities are required to provide enhanced disclosures about: (a) how and why an entity uses derivative instruments; (b) how derivative instruments and related hedged items are accounted for under SFAS No. 133 and its related interpretations; and (c) how derivative instruments and related hedged items affect an entity's financial position, financial performance, and cash flows. It is effective for financial statements issued for fiscal years beginning after November 15, 2008, with early adoption encouraged. We are currently evaluating the impact of SFAS No. 161, if any, will have on our financial position, results of operations or cash flows.

In April 2008, the FASB issued FSP No. FAS 142-3, "Determination of the Useful Life of Intangible Assets". This FSP amends the factors that should be considered in developing renewal or extension assumptions used to determine the useful life of a recognized intangible asset under SFAS No. 142, "Goodwill and Other Intangible Assets". We are required to adopt FSP 142-3 on September 1, 2009, earlier adoption is prohibited. The guidance in FSP 142-3 for determining the useful life of a recognized intangible asset shall be applied prospectively to intangible assets acquired after adoption, and the disclosure requirements shall be applied prospectively to all intangible assets recognized as of, and subsequent to, adoption. We are currently evaluating the impact of FSP 142-3 on our financial position, results of operations or cash flows.

In May 2008, the FASB issued SFAS No. 162, "The Hierarchy of Generally Accepted Accounting Principles" ("SFAS No. 162"). SFAS No. 162 identifies the sources of accounting principles and the framework for selecting the

principles used in the preparation of financial statements of nongovernmental entities that are presented in conformity with generally accepted accounting principles (the GAAP hierarchy). SFAS No. 162 will become effective 60 days following the SEC's approval of the Public Company Accounting Oversight Board amendments to AU Section 411, "The Meaning of Present Fairly in Conformity With Generally Accepted Accounting Principles." We do not expect the adoption of SFAS No. 162 will have a material effect on our financial position, results of operations or cash flows.

In May 2008, the FASB issued FSP Accounting Principles Board ("APB") 14-1 "Accounting for Convertible Debt Instruments That May Be Settled in Cash upon Conversion (Including Partial Cash Settlement) " ("FSP APB 14-1"). FSP APB 14-1 requires the issuer of certain convertible debt instruments that may be settled in cash (or other assets) on conversion to separately account for the liability (debt) and equity (conversion option) components of the instrument in a manner that reflects the issuer's non-convertible debt borrowing rate. FSP APB 14-1 is effective for fiscal years beginning after December 15, 2008 on a retroactive basis. We are currently evaluating the potential impact, if any, of the adoption of FSP APB 14-1 on our financial position, results of operations or cash flows.

Other recent accounting pronouncements issued by the FASB (including its Emerging Issues Task Force), the AICPA, and the SEC did not, or are not believed by management to, have a material impact on the Company's present or future financial statements.

### **Off-Balance Sheet Arrangements**

We do not maintain off-balance sheet arrangements nor do we participate in non-exchange traded contracts requiring fair value accounting treatment.

**TEM 7: FINANCIAL STATEMENTS**

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REPORT OF REGISTERED INDEPENDENT PUBLIC ACCOUNTING FIRM

Board of Directors  
Sparta Commercial Services, Inc.  
New York, New York

We have audited the accompanying balance sheet of Sparta Commercial Services, Inc., as of April 30, 2008 and 2007, and the related statements of losses, deficiency in stockholders' equity and cash flows for each of the two years in the period ended April 30, 2008. These financial statements are the responsibility of the company's management. Our responsibility is to express an opinion on the financial statements based upon our audits.

We have conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States of America). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Sparta Commercial Services, Inc. at April 30, 2008 and 2007, and the results of its operations and its cash flows for each of the two years in the period ended April 30, 2008, in conformity with accounting principles generally accepted in the United States of America.

The accompanying financial statements have been prepared assuming the company will continue as a going concern. As discussed in the Note Q to the accompanying financial statements, the company has suffered recurring losses from operations that raises substantial doubt about the company's ability to continue as a going concern. Management's plans in regard to these matters are also described in Note Q. The financial statements do not include any adjustments that might result from the outcome of this uncertainty.

/s/ R B S M LLP

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New York, New York  
August 11, 2008

**SPARTA COMMERCIAL SERVICES, INC.**  
**BALANCE SHEETS**

	April 30, 2008	April 30, 2007
<b>ASSETS</b>		
Cash and cash equivalents	\$ 68,642	\$ 22,032
RISC loan receivables, net of reserve of \$86,312 and \$59,338, respectively (NOTE D)	4,260,002	2,492,819
Motorcycles and other vehicles under operating leases net of accumulated depreciation of \$336,100 and \$ 221,800 respectively, and loss reserve of \$25,231 and \$ 26,059, respectively (NOTE B)	1,251,631	1,088,686
Interest receivable	58,382	25,832
Accounts receivable	37,024	27,137
Inventory (NOTE C)	79,069	20,784
Property and equipment, net of accumulated depreciation and amortization of \$129,986 and \$97,047, respectively (NOTE E)	61,261	94,200
Restricted cash	444,902	284,943
Deposits	48,967	50,692
<b>Total assets</b>	<b>\$ 6,309,879</b>	<b>\$ 4,107,125</b>
<b>LIABILITIES AND DEFICIENCY IN STOCKHOLDERS' EQUITY</b>		
<b>Liabilities:</b>		
Accounts payable and accrued expenses	\$ 1,461,955	\$ 1,219,067
Accrued equity based compensation	-	40,310
Accrued equity based penalties	2,178	2,380
Notes payable-Senior Lender (NOTE F)	5,029,864	2,985,207
Convertible Notes Payable (NOTE G)	2,665,359	775,259
Notes payable-Other (NOTE G)	1,147,500	365,000
Loans payable-related parties (NOTE H)	244,760	202,260
Other liabilities	6,741	-
Deferred revenue	22,617	46,765
<b>Total liabilities</b>	<b>10,580,974</b>	<b>5,636,248</b>
<b>Deficiency in Stockholders' Equity:</b>		
Preferred stock, \$.001 par value; 10,000,000 shares authorized of which 35,850 shares have been designated as Series A convertible preferred stock, with a stated value of \$100 per share, 825 and 19,795 shares issued and outstanding, respectively	82,500	1,979,500
Common stock, \$.001 par value; 340,000,000 shares authorized, 130,798,657 and 123,216,157 shares issued and outstanding, respectively	130,799	123,216
Common stock to be issued, 12,160,210, and 0, respectively	12,160	-
Additional paid-in-capital	17,727,889	14,595,827
Deferred compensation	-	(24,000)
Accumulated deficit	(22,224,442)	(18,203,666)
<b>Total deficiency in stockholders' equity</b>	<b>(4,271,094)</b>	<b>(1,529,123)</b>
<b>Total Liabilities and deficiency in stockholders' equity</b>	<b>\$ 6,309,879</b>	<b>\$ 4,107,125</b>

See accompanying notes to financial statements.





**SPARTA COMMERCIAL SERVICES, INC.**  
**STATEMENT OF LOSSES**

	For the Year Ended April 30,	
	2008	2007
<b>Revenue</b>		
Rental Income, Leases	\$ 391,029	\$ 425,806
Interest Income, Loans	615,531	282,808
Other	123,131	79,383
	\$ 1,129,691	\$ 787,997
<b>Operating expenses:</b>		
General and administrative	3,695,215	4,316,234
Depreciation and amortization	274,773	323,146
<b>Total operating expenses</b>	<b>3,969,988</b>	<b>4,639,380</b>
<b>Loss from operations</b>	<b>(2,840,297)</b>	<b>(3,851,383)</b>
<b>Other expense:</b>		
Interest expense and financing cost, net	(1,152,259)	(382,742)
Change in value of warrant liabilities	202	299,658
<b>Net loss</b>	<b>(3,992,354)</b>	<b>(3,934,467)</b>
<b>Preferred dividend</b>	<b>28,422</b>	<b>118,770</b>
<b>Net loss attributed to common stockholders</b>	<b>\$ (4,020,776)</b>	<b>\$ (4,053,237)</b>
<b>Basic and diluted loss per share</b>	<b>\$ (0.03)</b>	<b>\$\$ (0.03)</b>
<b>Basic and diluted loss per share attributed to common stockholders</b>	<b>\$ (0.03)</b>	<b>\$\$ (0.03)</b>
<b>Weighted average shares outstanding</b>	<b>127,304,396</b>	<b>122,061,446</b>

See accompanying notes to financial statements.

**SPARTA COMMERCIAL SERVICES, INC.**  
**STATEMENT OF (DEFICIENCY IN) STOCKHOLDERS' EQUITY**  
**FOR THE TWO YEARS ENDED APRIL 30, 2008**

	Preferred Stock		Common Stock		Common Stock to be issued		Stock Subscribed	Additional Paid in Capital	Deferred Compensation	Ac
	Shares	Amount	Shares	Amount	Shares	Amount				
<b>Balance, April 30, 2006</b>	19,795	\$ 1,979,500	114,180	\$ 114,180	5,838	\$ 5,838	330,000	\$ 12,553,884	(\$293,500)	(1