SPARTA COMMERCIAL SERVICES, INC.
Form 10-Q
September 20, 2010

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

FORM 10-Q

(Mark One)

x QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended July 31, 2010

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

For the transition period from ________ to ___________.

Commission file number: 0-9483

SPARTA COMMERCIAL SERVICES, INC.
(Exact name of registrant as specified in its charter)

Nevada	30-0298178
(State or other jurisdiction of incorporation or organization)	(IRS Employer Identification No.)

462 Seventh Ave, 20th Floor, New York, NY 10018
(Address of principal executive offices) (Zip Code)

(212) 239-2666
(Registrant's telephone number, including area code)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for 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. x Yes o No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 504 of Regulation S-T (§229.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to file such files). o Yes o No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer o	Accelerated filer o
Non-accelerated filer o (Do not check if a smaller reporting company)	Smaller reporting company x

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

As of September 13, 2010, we had 451,783,408 shares of common stock issued and outstanding.

SPARTA COMMERCIAL SERVICES, INC.

FORM 10-Q
FOR THE QUARTER ENDED JULY 31, 2010

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PART I. FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

SPARTA COMMERCIAL SERVICES, INC.
CONDENSED CONSOLIDATED BALANCE SHEETS

	July 31, 2010 (Unaudited)	April 30, 2009
ASSETS		
Cash and cash equivalents	$ 3,801	$ 11,994
RISC loan receivables, net of reserve of $117,101 and $132,000, respectively (NOTE D)	1,556,056	1,761,474
Motorcycles and other vehicles under operating leases net of accumulated depreciation of $227,278 and $219,492 respectively, and loss reserve of $14,889 and $15,865, respectively (NOTE B)	281,906	305,265
Interest receivable	25,046	26,772
Purchased Portfolio (NOTE G)	31,237	33,559
Accounts receivable	55,493	98,322
Inventory (NOTE C)	7,140	14,622
Property and equipment, net of accumulated depreciation and amortization of $167,044 and $163,824, respectively (NOTE E)	24,204	27,423
Prepaid Expenses	22,954	-
Goodwill	10,000	-
Restricted cash	111,508	146,333
Other Assets	-	3,628
Deposits	48,967	48,967
Total assets	$ 2,178,312	$ 2,478,358
LIABILITIES AND DEFICIT		
Liabilities:		
Bank overdraft	$ 30,542	$ -
Accounts payable and accrued expenses	886,082	794,811
Senior Secured Notes Payable (NOTE F)	1,731,844	2,010,989
Notes Payable Net of Beneficial Conversion Feature of $60,902 and 0, respectively (NOTE G)	1,032,445	864,399
Loans payable-related parties (NOTE H)	383,760	383,760
Other liabilities	33,283	20,513
Derivative Liabilities	737,841	0
Deferred revenue	6,300	7,650
Total liabilities	4,842,097	4,082,121
Deficit:		
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, 125and 125shares issued and outstanding, respectively	12,500	12,500
	1	1

Preferred Stock B, 1,000 shares have been designated as Series B redeemable preferred stock, $0.001 par value, with a liquidation and redemption value of $10,000 per share, 157 and 0 shares issued and outstanding, respectively		
Preferred Stock C, 200,000 shares have been designated as Series C redeemable, convertible preferred, $0.001 par value, with a liquidation and redemption value of $10 per share, 42,000 and 0 shares issued and outstanding, respectively	42	42
Common stock, $.001 par value; 740,000,000 shares authorized, 412,729,902 and 392,782,210 shares issued and outstanding, respectively	412,730	392,782
Common stock to be issued, 20,935,435, and 23,967,965 respectively	20,935	23,967
Preferred Stock B to be issued, 5.4 and 0 shares, respectively	-	-
Additional paid-in-capital	31,695,268	31,470,653
Subscriptions Receivable	(2,118,309)	(2,118,309)
Accumulated deficit	(32,728,183)	(31,385,400)
Total deficiency in stockholders' equity	(2,705,016)	(1,603,763)
Noncontrolling interest	41,231	-
Total Deficit	(2,663,785)	(1,603,763)
Total Liabilities and Deficit	$ 2,178,312	$ 2,478,358

The accompanying notes are an integral part of these unaudited condensed consolidated financial statements.

SPARTA COMMERCIAL SERVICES, INC.
CONDENSED CONSOLIDATED STATEMENTS OF LOSSES
FOR THE THREE MONTHS ENDED JULY 31, 2010 AND 2009
(UNAUDITED)

	Three Months Ended July 31, 2010	Three Months Ended July 31, 2009
Revenue		
Rental Income, Leases	$ 29,753	$ 53,068
Interest Income, Loans	75,717	138,865
Other	26,677	24,870
	132,147	216,804
Operating expenses:		
General and administrative	718,668	592,197
Depreciation and amortization	19,561	122,692
Total operating expenses	738,229	714,889
Loss from operations	(606,082)	(498,085)
Other expense:		
Interest expense and financing cost, net	80,823	263,622
Non-cash financing costs	90,648	232,571
Non-cash derivative liability costs	534,242	-
Total Finance Related Expenses	705,713	496,193
Net loss	(1,311,795)	(994,279)
Net loss attributed to noncontrolling interest	8,769	-
Preferred dividend	(39,758)	191
Net loss attributed to common stockholders	$ (1,342,784)	$ (994,461)
Basic and diluted loss per share	$ (0.01)	$ (0.01)
Basic and diluted loss per share attributed to common stockholders	$ (0.01)	$ (0.01)
Weighted average shares outstanding	300,447,151	178,702,244

The accompanying notes are an integral part of these unaudited condensed consolidated financial statements.

SPARTA COMMERCIAL SERVICES, INC.
CONSOLIDATED STATEMENT OF DEFICIT
FOR THE THREE MONTHS ENDED JULY 31, 2010

ies A ferred Stock res	Amount	Series B Preferred Stock Shares	Amount	Series C Preferred Stock Shares	Amount	Common Stock Shares	Amount	Common Stock to be issued Shares	Amount	Subscription Receivable	Additional Paid in Capital	Accumulated Deficit	Nonco Int
25	12,500	157	1	42,000	42	392,782,210	392,782	23,966,965	23,967	(2,118,309)	31,470,654	(31,385,399)	
											75,000		
											(142,697)		
						7,735,419	7,735	(2,031,530)	(2,032)		84,296		
						968,000	968				14,680		
						1,126,917	1,127				16,873		
						9,400,000	9,400	(1,000,000)	(1,000)		115,800		
						717,356	717				(717)		
											21,807		
											39,572		
													40
													10

												(1,342,784)	(8
25	12,500	157	1	42,000	42	412,729,902	412,730	20,935,435	20,935	(2,118,309)	31,695,268	(32,728,183)	41

The accompanying notes are an integral part of these unaudited condensed consolidated financial statements.

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SPARTA COMMERCIAL SERVICES, INC.
CONDENSED STATEMENTS OF CASH FLOWS
FOR THE THREE MONTHS ENDED JULY 31, 2010 AND 2009
(UNAUDITED)

	Three Months Ended July 31, 2010	Three Months Ended July 31, 2009
CASH FLOWS FROM OPERATING ACTIVITIES		
Net Loss	$ (1,311,795)	$ (994,279)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation and Amortization	13,298	133,192
Allowance for loss reserves	15,875	(38,992)
Amortization of deferred revenue	1,350	(1,350)
Beneficial Conversion Discount	14,098	-
Shares issued for debt and accrued interest	15,648	-
Equity based compensation	146,007	204,671
Stock based finance cost	-	101,560
Non cash derivative liability cost	534,242	-
(Increase) decrease in operating assets and liabilities:		
Inventory	7,482	-
Interest receivable	1,726	(10,149)
Accounts receivable	42,829	-
Prepaid expenses and other assets	3,628	3,738
Restricted cash	34,825	77,214
Portfolio	(17,553)	-
Increase (decrease) in:	-	-
Accounts payable and accrued expenses	155,479	155,431
Net cash used in operating activities	(342,861)	(368,964)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Net liquidation of leased vehicles	16,550	58,535
Net Liquidation of RISC contracts	220,317	566,223
Net cash provided by investing activities	236,866	624,758
CASH FLOWS FROM FINANCING ACTIVITIES		
Net proceeds from sale of series A preferred stock of subsidiary	40,000	
Net proceeds from sale of common stock	89,999	50,000
Net Payments to senior lender	(279,145)	(566,105)
Net Proceeds from convertible notes	246,948	-
Net Proceeds from other notes	-	298,399
Net cash provided by (used in) financing activities	97,802	(217,706)
Net Increase (decrease) in cash and cash equivalents	$ (8,193)	$ 38,087
Unrestricted cash and cash equivalents, beginning of period	$ 11,994	(54,349)
Unrestricted cash and cash equivalents , end of period	$ 3,801	$ (16,262)
Cash paid for:		

Interest	$	55,513	$	118,077
Income taxes	$	-	$	-

Non-Cash Investing and Funding Activities (Note N)

The accompanying notes are an integral part of these unaudited condensed consolidated financial statements.

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SPARTA COMMERCIAL SERVICES, INC.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
JULY 31, 2010
(UNAUDITED)

NOTE A - SUMMARY OF ACCOUNTING POLICIES

A summary of the significant accounting policies applied in the preparation of the accompanying financial statements follows.

Basis of Presentation

The accompanying unaudited condensed consolidated financial statements as of July 31, 2010 and for the three month periods ended July 31, 2010 and 2009 have been prepared by the Company pursuant to the rules and regulations of the Securities and Exchange Commission, including Form 10-Q and Regulation S-K. The information furnished herein reflects all adjustments (consisting of normal recurring accruals and adjustments), which are, in the opinion of management, necessary to fairly present the operating results for the respective periods. Certain information and footnote disclosures normally present in annual financial statements prepared in accordance with accounting principles generally accepted in the United States of America have been omitted pursuant to such rules and regulations. The Company believes that the disclosures provided are adequate to make the information presented not misleading. These financial statements should be read in conjunction with the audited financial statements and explanatory notes for the year ended April 30, 2010 as disclosed in the Company's Form 10-K for that year as filed with the Securities and Exchange Commission.

On December 10, 2008, the Company formed Sparta Funding, LLC ("Sparta Funding"), a Delaware limited liability company, for which the Company is the sole member. Sparta Funding was formed as a special purpose company to borrow funds, but has yet to be utilized. In May 2010, the Company formed Specialty Reports, Inc, a Nevada Corporation ("SRI"), for the purpose of acquiring all of the assets of Cyclechex LLC, a Florida limited liability company. Cyclechex sole business was an e-commerce business which acquired the relevant motorcycle data and sold the data in the form of motorcycle history reports over the internet to consumers and dealers. As part of the transaction, the Company agreed to issue 24% of SRI common stock to the sole owner of Cyclechex, LLC.

The results of the three months ended July 31, 2010 are not necessarily indicative of the results to be expected for the full year ending April 30, 2011.

Estimates

The preparation of the financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

Revenue Recognition

The Company originates leases on new and used motorcycles and other powersports vehicles from motorcycle dealers throughout the United States. The Company's 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 Company's 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. Direct financing leases are recorded at the gross amount of the lease receivable (principal amount of the contract plus the calculated earned income over the life of the contract), and the unearned income at lease inception is amortized over the lease term.

SPARTA COMMERCIAL SERVICES, INC.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
JULY 31, 2010
(UNAUDITED)

NOTE A - SUMMARY OF ACCOUNTING POLICIES (continued)

The Company purchases Retail Installment Sales Contracts (“RISC”) from motorcycle dealers. 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 loan receivable current and long term. Interest income on these loans is recognized when it is earned.

The Company realizes 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.

The Company evaluates its operating and retail installment sales leases on an ongoing basis and has established reserves for losses, based on current and expected future experience.

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. The Company records a gain or loss for the difference between the proceeds received and the net book value of the motorcycle.

The Company charges fees to manufacturers and other customers related to creating a private label version of the Company’s 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.

The Company evaluates its operating and retail installment sales leases on an ongoing basis and has established reserves for losses, based on current and expected future experience.

Inventories

Inventories are valued at the lower of cost or market, with cost determined using the first-in, first-out method and with market defined as the lower of replacement cost or realizable value.

Website Development Costs

The Company recognizes website development costs in accordance with ASC 350-50, "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.

Cash Equivalents

For the purpose of the accompanying financial statements, all highly liquid investments with a maturity of three months or less are considered to be cash equivalents.

SPARTA COMMERCIAL SERVICES, INC.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
JULY 31, 2010
(UNAUDITED)

NOTE A - SUMMARY OF ACCOUNTING POLICIES (continued)

Income Taxes

Deferred income taxes are provided using the asset and liability method for financial reporting purposes in accordance with the provisions of ASC 740-10, "Accounting for Income Taxes". Under this method, deferred tax assets and liabilities are recognized for temporary differences between the tax bases of assets and liabilities and their carrying values for financial reporting purposes and for operating loss and tax credit carry forwards. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be removed or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in the statements of operations in the period that includes the enactment date.

ASC 740-10, “Accounting for Uncertainty in Income Taxes”, prescribes a recognition threshold and measurement attribute for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. ASC 740also provides guidance on derecognition, classification, treatment of interest and penalties, and disclosure of such positions. As a result of implementing ASC 740, there has been no adjustment to the Company’s financial statements and the adoption of ASC 740 did not have a material effect on the Company’s consolidated financial statements for the year ending April 30, 2010 or the three months ended July 31, 2010.

Fair Value Measurements

The Company adopted ASC 820, “Fair Value Measurements”. ASC 820 establishes a three-level fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets the lowest priority to unobservable inputs to fair value measurements of certain assets and Liabilities. The three levels of the fair value hierarchy under ASC 820 are described below:

- Level 1 — Quoted prices for identical instruments in active markets. Level 1 assets and liabilities include debt and equity securities and derivative contracts that are traded in an active exchange market, as well as certain securities that are highly liquid and are actively traded in over-the-counter markets.

- Level 2 — Quoted prices for similar instruments in active markets; quoted prices for identical or similar instruments in markets that are not active; and model derived valuations in which all significant inputs and significant value drivers are observable in active markets.

- Level 3 — Unobservable inputs that are supported by little or no market activity and that are significant to the fair value measurements. Level 3 assets and liabilities include financial instruments whose value is determined using pricing models, discounted cash flow methodologies, or similar techniques based on significant unobservable inputs, as well as management judgments or estimates that are significant to valuation.

This hierarchy requires the Company to use observable market data, when available, and to minimize the use of unobservable inputs when determining fair value. For some products or in certain market conditions, observable inputs may not always be available.

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SPARTA COMMERCIAL SERVICES, INC.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
JULY 31, 2010
(UNAUDITED)

NOTE A - SUMMARY OF ACCOUNTING POLICIES (continued)

Impairment of Long-Lived Assets

In accordance ASC 360-10, “Impairment or Disposal of Long-Lived Assets”, long-lived assets, such as property, equipment, motorcycles and other vehicles and purchased intangible assets subject to amortization are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of the asset may not be recoverable. Recoverability of assets to be held and used is measured by comparing the carrying amount of an asset to estimated undiscounted future cash flows expected to be generated by the asset. If the carrying amount of an asset exceeds its estimated future cash flows or quoted market prices in active markets if available, an impairment charge is recognized by the amount by which the carrying amount of the asset exceeds the fair value of the asset.

Comprehensive Income

In accordance with ASC 220-10, “Reporting Comprehensive Income,” establishes standards for reporting and displaying of comprehensive income, its components and accumulated balances. Comprehensive income is defined to include all changes in equity except those resulting from investments by owners and distributions to owners. Among other disclosures, ASC 220-10 requires that all items that are required to be recognized under current accounting standards as components of comprehensive income be reported in a financial statement that is displayed with the same prominence as other financial statements. At July 31, 2010 and April 30, 2010, the Company has no items of other comprehensive income.

Segment Information

The Company does not have separate, reportable segments under ASC 280-10, “Disclosures about Segments of an Enterprise and Related Information”. ASC 280-10 establishes standards for reporting information regarding operating segments in annual financial statements and requires selected information for those segments to be presented in interim financial reports issued to stockholders. ASC 280-10 also establishes standards for related disclosures about products and services and geographic areas. Operating segments are identified as components of an enterprise about which separate discrete financial information is available for evaluation by the chief operating decision maker, or decision making group, in making decisions how to allocate resources and assess performance. The information disclosed herein, materially represents all of the financial information related to the Company's principal operating segment.

Stock Based Compensation

The Company adopted ASC 718-10, which records compensation expense on a straight-line basis, generally over the explicit service period of three to five years.

ASC 718-10 requires companies to estimate the fair value of share-based payment awards on the date of grant using an option-pricing model. The value of the portion of the award that is ultimately expected to vest is recognized as expense over the requisite service periods in the Company’s Consolidated Statement of Operations. The Company is using the Black-Scholes option-pricing model as its method of valuation for share-based awards. The Company’s determination of fair value of share-based payment awards on the date of grant using an option-pricing model is

affected by the Company's stock price as well as assumptions regarding a number of highly complex and subjective variables. These variables include, but are not limited to the Company's expected stock price volatility over the term of the awards, and certain other market variables such as the risk free interest rate.

SPARTA COMMERCIAL SERVICES, INC.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
JULY 31, 2010
(UNAUDITED)

NOTE A - SUMMARY OF ACCOUNTING POLICIES (continued)

Concentrations of Credit Risk

Financial instruments and related items, which potentially subject the Company to concentrations of credit risk, consist primarily of cash, cash equivalents and receivables. The Company places its cash and temporary cash investments with high credit quality institutions. At times, such investments may be in excess of the FDIC insurance limit.

Allowance for Losses

The Company has loss reserves for its portfolio of Leases and for its portfolio of Retail Installment Sales Contracts ("RISC"). The allowance for Lease and RISC losses is increased by charges against earnings and decreased by charge-offs (net of recoveries). To the extent actual credit losses exceed these reserves, a bad debt provision is recorded; and to the extent credit losses are less than the reserve, additions to the reserve are reduced or discontinued until the loss reserve is in line with the Company's reserve ratio policy. Management's periodic evaluation of the adequacy of the allowance is based on the Company's past lease and RISC experience, known and inherent risks in the portfolio, adverse situations that may affect the borrower's ability to repay, the estimated value of any underlying collateral and current economic conditions. The Company periodically reviews its Lease and RISC receivables in determining its allowance for doubtful accounts.

The Company charges-off receivables when an individual account has become more than 120 days contractually delinquent. In the event of repossession, the asset is immediately sent to auction or held for release.

Property and Equipment

Property and equipment are recorded at cost. Minor additions and renewals are expensed in the year incurred. Major additions and renewals are capitalized and depreciated over their estimated useful lives. Depreciation is calculated using the straight-line method over the estimated useful lives. Estimated useful lives of major depreciable assets are as follows:

Leasehold improvements	3 years
Furniture and fixtures	7 years
Website costs	3 years
Computer Equipment	5 years

Advertising Costs

The Company follows a policy of charging the costs of advertising to expenses incurred. During the three months ended July 31, 2010 and the year ended April 30, 2010, the Company incurred no advertising costs.

Net Loss Per Share

The Company uses ASC 260-10, “Earnings Per Share”, for calculating the basic and diluted loss per share. The Company computes basic loss per share by dividing net loss and net loss attributable to common shareholders by the weighted average number of common shares outstanding. Common equivalent shares are excluded from the computation of net loss per share if their effect is anti-dilutive.

SPARTA COMMERCIAL SERVICES, INC.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
JULY 31, 2010
(UNAUDITED)

NOTE A - SUMMARY OF ACCOUNTING POLICIES (continued)

Per share basic and diluted net loss attributable to common stockholders amounted to $0.01 and $0.01 for the quarters ended July 31, 2010 and 2009, respectively. At July 31, 2010 and 2009, 98,589,643 and 35,672,510 potential shares, respectively, were excluded from the shares used to calculate diluted earnings per share as their inclusion would reduce net loss per share.

Liquidity

As shown in the accompanying condensed consolidated financial statements, the Company has incurred a net loss of $1,311,795 and $4,141,179 during the three months ended July 31, 2010 and the year ended April 30, 2010, respectively. The Company’s liabilities exceed its assets by $2,673,752 as of July 31, 2010.

Non-controlling Interest

As a result of adopting FASB ASC 810-10 Consolidations – Variable Interest Entities, the Company presents non-controlling as a component of equity on our Consolidated Balance Sheets and Consolidated Statement of Deficit.

Derivative Liabilities

The Company applies Financial Accounting Standards Board Accounting Standards Codification (“ASC”) Topic 815, “Derivatives and Hedging,” which provides a two-step model to determine whether a financial instrument or an embedded feature is indexed to an issuer’s own stock and thus able to qualify for equity treatment. The Company determines which instruments or embedded features require liability accounting and records the fair values as an accrued derivative liability. The changes in the values of the accrued derivative liabilities are shown in the accompanying statements of operations.

The pricing model we use for determining fair value of our derivatives is the Black-Scholes Pricing Model. Valuations derived from this model are subject to ongoing internal and external verification and review. The model uses market-sourced inputs such as interest rates and stock price volatilities. Selection of these inputs involves management's judgment and may impact net income.

Reclassifications

Certain reclassifications have been made to conform to prior periods' data to the current presentation. These reclassifications had no effect on reported losses.

Recent Accounting Pronouncements

In January 2010, the FASB issued Accounting Standards Update 2010-06, “Fair Value Measurements and Disclosures (Topic 820), Improving Disclosures about Fair Value Measurements” (FASB ASU 2010-06). FASB ASU 2010-06 amends Subtopic 820-10, Fair Value Measurements and Disclosures - Overall, and requires new disclosures related to the transfers in and out of Level 1 and 2, as well as requiring that a reporting entity present separately information

about purchases, sales, issuances, and settlements rather than as one net number. Additionally, FASB ASU 2010-06 amends Subtopic 820-10 by clarifying existing disclosures related to level of disaggregation as well as disclosures about inputs and valuation techniques. FASB ASU 2010-06 is effective for reporting periods beginning after December 15, 2009, except for the disclosures about purchases, sales, issuances and settlements in the roll forward of activity in Level 3 fair value measurements, these disclosures are effective for reporting periods beginning after December 15, 2010. The Company does not expect adoption of FASB ASU 2010-06 to have an impact on its financial condition or results of operations.

In June 2009, the FASB issued Accounting Standards Update 2009-16 “Transfer and Servicing,” which among other things, removes the concept of a qualifying special-purpose entity, and changes the requirements for derecognizing financial assets. Additionally, the update requires additional disclosures about transfers of financial assets, including securitization transactions and areas where companies have continued exposure to the risks related to transferred financial assets. The update is effective for annual reporting periods beginning after November 15, 2009. The Company is currently evaluating the impact that the update may have on future consolidated financial statements.

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.

SPARTA COMMERCIAL SERVICES, INC.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
JULY 31, 2010
(UNAUDITED)

NOTE B - MOTORCYCLES UNDER OPERATING LEASE

Motorcycles and other vehicles under operating leases at July 31, 2010 and April 30, 2010 consist of the following:

	July 31, 2010	April 30, 2010
Motorcycles and other vehicles	$ 524,073	$ 540,623
Less: accumulated depreciation	(227,278)	(219,492)
Motorcycles and other vehicles, net of accumulated depreciation	296,795	321,131
Less: estimated reserve for residual values	(14,889)	(15,865)
Motorcycles and other vehicles under operating leases, net	$ 281,906	$ 305,266

Depreciation expense was $16,342 and $90,940 for the quarter ended July 31, 2010 and the year ended April 30, 2010, respectively. Depreciation expense for the quarter ended July 31, 2009 was $27,183.

NOTE C - INVENTORY

Inventory is comprised of repossessed vehicles and vehicles which have been returned at the end of their lease. Inventory is carried at the lower of depreciated cost or market, applied on a specific identification basis. At July 31, 2010 the Company had repossessed vehicles valued at market of $7,140. At April 30, 2010, the Company had repossessed vehicles of value $14,622.

NOTE D - RETAIL (RISC) LOAN RECEIVABLES

RISC loan receivables, which are carried at cost, were $1,673,157 and $1,893,474 at July 31, 2010 and April 30, 2010, respectively, including deficiency receivables of $70,694 and $34,250, respectively. The following is a schedule by years of future principal payments related to these receivables. Certain of the assets are pledged as collateral for the note described in Note F.

Year ending July 31,	
2011	$ 793,200
2012	603,855
2013	274,026
2014	2,076
	$ 1,673,157

NOTE E - GOODWILL

The Company does not amortize goodwill. The company recorded goodwill in the amount of $10,000 as a result of the acquisition of Cyclechex, LLC during the quarter ended July 31, 2010. The Company will evaluate goodwill for impairment at year end.

NOTE F - PROPERTY AND EQUIPMENT

Property and equipment at July 31, 2010 and April 30, 2010 consist of the followings:

	July 31, 2010	April 30, 2010
Computer equipment, software and furniture	$ 191,247	$ 191,247
Less: accumulated depreciation and amortization	167,043	(163,824)
Net property and equipment	$ 24,204	$ 27,423

Depreciation expense was $3,220 and $17,919 for the quarter ended July 31, 2010 and the year ended April 30, 2010, respectively. Depreciation and amortization expense for the quarter ended July 31, 2009 was $4,480.

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SPARTA COMMERCIAL SERVICES, INC.
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NOTE G - NOTES PAYABLE - SENIOR LENDER

(a) The Company finances certain of its leases through a third party. The repayment terms are generally one year to five years and the notes are secured by the underlying assets. The weighted average interest rate at July 31, 2010 is 10.47%.

(b) On October 31, 2008, the Company purchased certain loans secured by a portfolio of secured motorcycle leases ("Purchased Portfolio") for a total purchase price of $100,000. The Company paid $80,000 at closing, $10,000 in April 2009 and agreed to pay the remaining $10,000 upon receipt of complete Purchase Portfolio documentation. As of July 31, 2010, the complete documentation has not been received. To finance the purchase, the Company issued a $150,000 Senior Secured Note dated October 31, 2008 ("Senior Secured Note") in exchange for $100,000 from the Senior Secured Note holder. Terms of the Senior Secured Note require the Company to make semi-monthly payments in amounts equal to all net proceeds from Purchased Portfolio lease payments and motorcycle asset sales received until the Company has paid $150,000 to the Senior Secured Note holder. The Company was obligated to pay any remainder of the Senior Secured Note by November 1, 2009 and has granted the Senior Secured Note holder a security interest in the Purchased Portfolio. The Company and the Senior Secured Note holder are in discussion as to extension of the Senior Secured Note.

Once the Company has paid $150,000 to the Senior Secured Note holder from Purchased Portfolio proceeds, the Company is obligated to pay fifty percent of all net proceeds from Purchased Portfolio lease payments and motorcycle asset sales until the Company and the Senior Secured Note holder mutually agree the Purchase Portfolio has no remaining proceeds.

As of July 31, 2010, the Company carries the Purchased Portfolio at $31,237 representing its $100,000 cost, which is less than its estimated market value, less collections through the period. The Company carries the liability for the Senior Secured Note at $96,368.

At July 31, 2010, the notes payable mature as follows:

12 months ended July 31,	Amount
2011	$ 887,110
2012	596,743
2013	247,839
2014	152
Total	$ 1,731,844

Notes payable to Senior Lenders at April 30, 2010 were $2,010,989.

SPARTA COMMERCIAL SERVICES, INC.
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NOTE H - NOTES PAYABLE

Notes Payable	July 31, 2010	April 30, 2010
Convertible notes (a)	$ 563,948	$ 280,000
Notes payable (b)	-	100,000
Bridge loans (c)	206,000	161,000
Collateralized note (d)	220,000	220,000
Convertible note (e)	103,399	103,399
Sub Total	1,093,347	864,399
Beneficial conversion discount on convertible notes	60,902	0
Total	$ 1,032,445	$ 864,399

(a) As of July 31, 2010, the Company had outstanding convertible unsecured notes with an original aggregate principal amount of $563,948, which accrue interest at rates ranging from 8% to 15% per annum. The majority of the notes are convertible into shares of common stock, at the Company's option, ranging from $0.012 to $0.021 per share. All but one of the convertible notes in the amount of $10,000 are current. One of the notes in the amount $50,000 is convertible at the note holder's option at a variable conversion price such that during the period during which the notes are outstanding, the note is convertible at the lower of (i) the price per share at which the Company sells or issues any shares of common stock (except for shares of common stock issued directly to vendors or suppliers of the Company in satisfaction of amounts owed to them, provided, however, that such vendors or suppliers shall not have an arrangement to transfer, sell or assign such shares of common stock prior to the issuance of such shares, shares issued pursuant to the Company's Employee Stock Option Plan, or any shares of common stock issued for no consideration or for a consideration per share before deduction of reasonable expenses or commissions or underwriting discounts or allowances in connection therewith, or (ii) 58% multiplied by the average of the lowest three lowest closing bid prices for the common stock during the ten trading day period ending one trading day prior to the submission date of the conversion notice by the note holder to the Company. The Company recorded a beneficial conversion discount of $45,000 for this note as of April 30, 2010. Another note in the amount of $10,000 due August 15, 2010 is convertible at $0.012 per share. In May 2010, the Company sold to one accredited investor a $25,000, nine month, 8% note convertible at the holder's option into such number of shares of the Company's common stock as determined by a forty-four percent discount from the average of the three lowest closing prices of the Company's common stock for the ten trading days immediately preceding the day the holder notices the Company of its intent to convert. The conversion price is subject to certain anti dilutive previsions. The Company has reserved up to 10,775,195 shares of its common stock for conversion pursuant to the terms of the note. In the event the note is not paid when due, the interest rate is increased to twenty-two percent until the note is paid in full.

During the quarter ended July 31, 2010, the Company sold to an accredited investor five one year, unsecured notes in the aggregate amount of $170,000. The notes bare 8% simple interest, payable in cash or shares, at the Company's option, with principal and accrued interest payable at maturity. At the Company's option, the notes are convertible into shares of common stock ranging from $0.012 to $0.018 per share.

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NOTE H - NOTES PAYABLE (continued)

During the quarter ended July 31, 2010, three note holders holding $80,000 in notes (all of which had been classified as notes payable (b) at April 30, 2010) sold their notes and the accrued interest there on to two accredited investors and simultaneously, the Company then exchanged one "old" $25,000 note for a $25,000 new 0% one year note convertible at the holder's option into common stock at the lesser of $0.06 per share or sixty percent of the average of the three lowest closing prices of the Company's common stock for the twenty successive trading days immediately preceding the day the holder elects to convert all or part of the note. In the event the note is not paid when due, the interest rate is increased to eighteen percent until the note is paid in full. Additionally, the Company exchanged with the other investor three "old" notes aggregating $55,000 for three new one year 8% notes aggregating $81,947.94. The notes are convertible at the holder's option at a conversion price equal to 70% of the lowest closing bid price of the Company's common stock for the three trading days prior to the day on which the Company receives a Notice of Conversion. In the event the note is not paid when due, the interest rate is increased to twenty-four percent until the note is paid in full.

(b) As of April 30, 2010, the Company had outstanding unsecured notes with an original principal amount of $100,000, which accrue interest ranging from 6% to 15% per annum, all of which were past due. In July 2010, $80,000 of these notes were purchased by a third party who exchanged the notes with the Company for new convertible notes all of which are current (see a above). The remaining $20,000 note was due August 8, 2009 and is accruing interest at a default rate of 15% and is also accruing penalty shares at the rate of 20,000 shares per month and this note has been reclassified as a Bridge loan (see c). The Company is in discussions with this note holder to recast the note.

(c) During the year ended April 30, 2007, the Company sold to five accredited investor's bridge notes in the aggregate amount of $275,000. The bridge notes were originally scheduled to expire on various dates through November 30, 2006, together with simple interest at the rate of 10%. The notes provided that 100,000 shares of the Company's unregistered common stock are to be issued as "Equity Kicker" for each $100,000 of notes purchased, or any prorated portion thereof. The Company had the right to extend the maturity date of notes for 30 to 45 days, in which event the lenders were entitled for "additional equity" equal to 60% of the "Equity Kicker" shares. In the event of default on repayment by the Company, the notes provided for a 50% increase in the "Equity Kicker" and the "Additional Equity" for each month, as penalty, that such default has not been cured, and for a 20% interest rate during the default period. The repayments, in the event of default, of the notes are to be collateralized by certain security interest. The maturity dates of the notes were subsequently extended to various dates between December 5, 2006 to September 30, 2009, with simple interest rate of 10%, and Additional Equity in the aggregate amount of 165,000 unregistered shares of common stock to be issued. Thereafter, the Company was in default on repayment of these notes. During the year ended April 30, 2009, $99,000 of these loans was repaid and during 2010, $15,000 of these notes and accrued interest thereon was converted into approximately 463,000 shares of the Company's common stock. The holders of the remaining notes have agreed to contingently convert those notes plus accrued interest into approximately 8,000,000 shares of the Company's common stock upon the Company's ability to meet all conditions precedent to begin drawing down on a senior credit facility. In July 2010, the Company sold to an accredited investor a one week 10%, $25,000 note and issued 25,000 shares of its restricted common stock as inducement for the note. The note is convertible at the holder's option into shares of common stock at $0.005 per share. In the event the note is not paid when due, the interest rate is increased to twenty percent until the note is paid in full and the Company is required to issue 50,000 shares of common stock per month until the note is paid in full. During the

quarter ending July 31, 2010 one $20,000 note (which was classified as Notes Payable (see b above)), has been reclassified as a Bridge Loan, was due August 8, 2009 and is accruing interest at a default rate of 15% and is also accruing penalty shares at the rate of 20,000 shares per month.. The Company is in discussions with this note holder to recast the note.

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SPARTA COMMERCIAL SERVICES, INC.
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NOTE H - NOTES PAYABLE (continued)

(d) During the year ended April 30, 2009, the Company sold a secured note in the amount of $220,000. The note bore 12.46% simple interest. The note matured on January 29, 2010 and has been extended to September 1, 2010 and is secured by a second lien on a pool of motorcycles. In July 2010, the note holder agreed to convert the note and all accrued interest thereon into approximately 12,000,000 shares of the Company's common stock upon the Company demonstrating that it can meet all conditions precedent to begin drawing down on a senior credit facility.

(e) On September 19, 2007, the Company sold to one accredited investor for the purchase price of $150,000 securities consisting of a $150,000 convertible debenture due December 19, 2007, 100,000 shares of unregistered common stock, and 400,000 common stock purchase warrants. The debentures bear interest at the rate of 12% per year compounded monthly and are convertible into shares of the Company's common stock at $0.0504 per share. The warrants may be exercised on a cashless basis and are exercisable until September 19, 2007 at $0.05 per share. In the event the debentures are not timely repaid, the Company is to issue 100,000 shares of unregistered common stock for each thirty day period the debentures remain outstanding. The Company has accrued interest and penalties as per the terms of the note agreement. In May, 2008, the Company repaid $1,474 of principal and $3,526 in accrued interest. Additionally, from April 26, 2008 through April 30, 2009, a third party to the note paid, on behalf of the Company, $41,728 of principal and $15,272 in accrued interest on the note, and the note holder converted $3,399 of principal and $6,601 in accrued interest into 200,000 shares of our common stock. As of July 31, 2010, the balance outstanding was past due.

NOTE I - LOANS PAYABLE TO RELATED PARTIES

At July 31, 2010 and April 30, 2010, included in accounts receivable, are $169 and $10,189.09, respectively, due from American Motorcycle Leasing Corp., a company controlled by a director and formerly controlled by the Company's Chief Executive Officer, for the purchase of motorcycles. Additionally, at July 31, 2010 and April 30, 2010, the Company had notes payable to an officer and a director of $383,760 and $383,760 respectively.

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NOTE J - EQUITY TRANSACTIONS

The Company is authorized to issue 10,000,000 shares of preferred stock with $0.001 par value per share, of which 35,850 shares have been designated as Series A convertible preferred stock with a $100 stated value per share, 1,000 shares have been designated as Series B Preferred Stock with a $10,000 stated value per share, and 200,000 shares have been designated as Series C Preferred Stock with a $10 per share liquidation value, and 750,000,000 shares of common stock with $0.001 par value per share. The Company had 125 and 125 shares of Series A preferred stock issued and outstanding as of July 31, 2010 and April 30, 2010, respectively. The Company had 157 and no shares of Series B Preferred stock issued and outstanding as of July 31, 2010 and April 30, 2010, respectively. The Company had 42,000 and 42,000 shares of Series C preferred stock issued and outstanding as of July 31, 2010 and April 30, 2010, respectively The Company has 412,729,902 and 392,782,210 shares of common stock issued and outstanding as of July 31, 2010 and April 30, 2010, respectively.

Preferred Stock Series A

No shares of Preferred Stock Series A were issued during the quarter ended July 31, 2010. However, a $185 preferred stock dividend, payable in Preferred Stock Series A, was declared during the quarter.

Preferred Stock Series B

No shares of Preferred Stock Series B were issued during the quarter ended July 31, 2010. However, a $39,573 preferred stock dividend, payable in Preferred Stock Series B, was declared during the quarter.

Preferred Stock Series C

No shares of Preferred Stock Series C were issued during the quarter ended July 31, 2010.

Common Stock

During the quarter ended July 31, 2010 and the quarter ended July 31, 2009, the Company expensed $146,007 and $43,660, respectively, for non-cash charges related to stock and option compensation expense.

During the quarter ended July 31, 2010:

- The Company issued 1,126,917 shares of its common stock upon the conversion of $18, 000 of notes payable.
- The Company sold 7,735,419 shares of common stock for $105,000 and issued three year warrants to purchase 7,735,419 shares of common stock at $0.07 per share.
- The Company issued, pursuant to penalty provisions of notes, 888,000 shares of unregistered common stock, valued at $14,208.
- The Company issued, pursuant to the terms of a promissory note, 80,000 shares of unregistered common stock valued at $1,440.
- The Company issued, pursuant to three consulting agreements, 4,900,000 shares of its common stock valued at $88,200, 1,000,000 ($18,000) of the shares had been accrued in the prior year.
- The Company issued to a consultant 1,000,000 shares of its common stock valued at $12,000.

- The Company issued to four members of its Advisory Council, 3,500,000 shares of its common stock valued at $42,000.

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NOTE J - EQUITY TRANSACTIONS (continued)

- The Company issued stock options, exercisable at $0.025 per share until May 12, 2015, subject to vesting at the rate of 20% on the grant date, 40% on May 12, 2011, and 40% on May 12, 2011, to the following officers and directors: Anthony Havens, 6,672,500 options; Kristian Srb, 2,465,000 options; Richard Trotter, 4,016,250 options; Jeffrey Bean, 956,000 options; Anthony Adler, 3,995,000 options; and Sandra Ahman, 3,145,000 options.

NOTE K – NONCONTROLLING INTEREST

In May 2010, the Company formed Specialty Reports, Inc, a Nevada Corporation ("SRI"), for the purpose of acquiring all of the assets of Cyclechex LLC, a Florida limited liability company. Cyclechex sole business was an e-commerce business which acquired the relevant motorcycle data and sold the data in the form of motorcycle history reports over the internet to consumers and dealers. As part of the transaction, the Company agreed to issue 24% of SRI common stock to the sole owner of Cyclechex, LLC.

In May 2010, the Company formed a new subsidiary, Specialty Reports, Inc. ("SRI"), and issued a 24% equity interest in SRI in consideration for substantially all of the assets of Cyclechex, LLC valued at $10,000.

During the three months ended July 31, 2010, SRI sold 8 shares of its Series A Preferred stock to three accredited investors for $40,000. The Series A Preferred stock does not pay a dividend. Each share has a liquidating value of $5,000 and is redeemable by SRI at any time after one year. Each share is convertible at the holder's option at any time into either 2,632 shares of SRI common stock, or 277,778 shares of the Company's common stock.

For the three months ended July 31, 2010 the noncontrolling interest is summarized as follows:

		Amount
Balance at May 1, 2010	$	-
Issuance of Series A Preferred Stock		40,000
Issuance of SRI Common stock for the purchase of Cyclechex, LLC		10,000
Noncontrolling interest's share of losses		(8,769)
Balance at June 30, 2010	$	41,231

NOTE L – FAIR VALUE MEASURMENTS

The Company follows the guidance established pursuant to ASC 820 which established a framework for measuring fair value and expands disclosure about fair value measurements. ASC 820 defines fair value as the amount that would be received for an asset or paid to transfer a liability (i.e., an exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date. ASC 820 also establishes a fair value hierarchy that requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. ASC 820 describes the following three levels of inputs that may be used:

Level 1: Quoted prices (unadjusted) in active markets that are accessible at the measurement date for identical assets and liabilities. The fair value hierarchy gives the highest priority to Level 1 inputs.

Level 2: Observable prices that are based on inputs not quoted on active markets but corroborated by market data.

Level 3: Unobservable inputs when there is little or no market data available, thereby requiring an entity to develop its own assumptions. The fair value hierarchy gives the lowest priority to Level 3 inputs.

The table below summarizes the fair values of our financial liabilities as of July 31, 2010:

	Fair Value at June 30, 2010	Fair Value Measurement Using		
		Level 1	Level 2	Level 3
Derivative liability	$ 737,841	—	—	$ 737,841
	$ 737,841	$ —	$ —	$ 737,841

The table below sets forth a summary of changes in the fair value of the Company's Level 3 financial liabilities (derivative liabilities) for the three months ended July 31, 2010:

	2010
Balance at beginning of year	$ -
Additions to derivative instruments	232,128
Change in fair value of warrant liability	505,713
Balance at end of period	$ 737,841

The following is a description of the valuation methodologies used for these items:

Derivative liability — these instruments consist of certain variable conversion features related to notes payable obligations and certain outstanding warrants. These instruments were valued using pricing models which incorporate the Company's stock price, volatility, U.S. risk free rate, dividend rate and estimated life.

The Company did not identify any other non-recurring assets and liabilities that are required to be presented in the balance sheets at fair value in accordance with ASC Topic 825.

NOTE M - SUBSEQUENT EVENTS

From August 1, 2010 through September 10, 2010, the Company:

- Sold to one accredited investor, 1,133,333 shares of restricted common stock for $17,000.
- Issued to four accredited investors, $40,000 of 12%, three month notes and a total of 350,000 shares issued as inducements for the loans.
- Issued to one accredited investor, a $25,000, 12%, three month note and 250,000 shares issued as inducements for the loan.
- Issued to one accredited investor a $30,000, 8%, one year notes convertible at the Company's option into shares of common stock at $0.018 per share.
- Issued to one accredited investor a $25,000, 8% 9 month note convertible at the note holders option into shares of the company's common stock at the lower of (i) the price per share at which the Company sells or issues any shares of common stock or (ii) 58% multiplied by the average of the lowest three lowest closing bid prices for the common stock during the ten trading day period ending one trading day prior to the submission date of the conversion notice by the note holder to the Company.

- The Company's majority owned subsidiary Specialty Reports, Inc., sold 30 shares of its Series A Preferred stock to eight accredited investors for $152,000. The Series A Preferred stock does not pay a dividend. Each share has a liquidating value of $5,000 and is redeemable by Specialty Reports at any time after one year. Each share is convertible at the holder's option at any time into either 2,632 shares of Specialty Reports, Inc common stock, or 277,778 shares of Sparta Commercial Services common stock.
  - Issued 996,350 shares of common stock upon conversion of $15,017 of its promissory notes.
  - Issued 1,815,000 shares of common stock which had been accrued in the Quarter ended July 31, 2010.
- The Company issued, pursuant to penalty provisions of notes, 296,000 shares of unregistered common stock, valued at $8,880.
- The Company issued, pursuant to two consulting agreements, 1,000,000 shares of its common stock valued at $18,000.

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SPARTA COMMERCIAL SERVICES, INC.
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NOTE N - GOING CONCERN MATTERS

The accompanying unaudited condensed consolidated financial statements have been prepared on a going concern basis, which contemplates the realization of assets and the satisfaction of liabilities in the normal course of business. As shown in the accompanying unaudited consolidated financial statements during the period October 1, 2001 (date of inception) through July 31, 2010, the Company incurred a cumulative loss of $32,728,183. Of these losses, $1,342,784 was incurred in the quarter ending July 31, 2010 and $994,279 in the quarter ending July 31, 2009. These factors among others may indicate that the Company will be unable to continue as a going concern for a reasonable period of time.

The Company’s existence is dependent upon management’s ability to develop profitable operations. Management is devoting substantially all of its efforts to developing its business and raising capital and there can be no assurance that the Company’s efforts will be successful. While, the planned principal operations have commenced, there can be no assurance can be given that management’s actions will result in profitable operations or the resolution of its liquidity problems. The accompanying statements do not include any adjustments that might result should the Company be unable to continue as a going concern.

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.

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

General

The following discussion of our financial condition and results of operations should be read in conjunction with (1) our interim unaudited financial statements and their explanatory notes included as part of this quarterly report, and (2) our annual audited financial statements and explanatory notes for the year ended April 30, 2010 as disclosed in our annual report on Form 10-K for that year as filed with the SEC.

"Forward-Looking" Information

This report on Form 10-Q 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," 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.

RESULTS OF OPERATIONS

Comparison of the Three Months Ended July 31, 2010 to the Three Months Ended July 31, 2009

For the three months ended July 31, 2010 and 2009, we have generated limited sales revenues, have incurred significant, but declining expenses, and have sustained significant, but declining losses. We believe we will continue to earn revenues from operations during the remainder of our fiscal year ending April 30, 2011.

Revenues

Revenues totaled $132,147 during the three months ended July 31, 2010 as compared to $216,804 during the three months ended July 31, 2009. Current period revenue was comprised primarily of $75,717 in interest income from RISC Loans, $29,753 in lease revenue, and $26,667 in other income. For the three months ended July 31, 2009, revenues were comprised primarily of $53,068 in lease revenue, $138,865 in interest income from RISC loans, and $24,870 in other income.

Costs and Expenses

General and administrative expenses were $718,668 during the three months ended July 31, 2010, compared to $592,197 during the three months ended July 31, 2009, an increase of $126,471 or 21.4%. Expenses incurred during the current three month period consisted primarily of the following expenses: compensation and related costs of $297,499; legal and accounting fees of $89,512; consulting fees of $32,184; rent and utilities of $88,269; and general office expenses of $65,197. Expenses incurred during the comparative three month period in 2009 consisted primarily of the following expenses: compensation and related costs, $308,531; accounting, audit and professional fees, $58,764; consulting fees, $38,866; rent and utilities, $88,467; and general office expenses, $97,569.

During the three months ended July 31, 2010, we incurred the following non-cash, equity based compensation charges: consulting, $124,200; employee stock and option compensation, $21,807, financing costs, $15,648; beneficial conversion discount expense, $75,000; and derivative expenses of $534,242. During the three months ended July 31, 2009, we incurred the following non-cash, equity based compensation charges: consulting, $30,000;

employee stock and option compensation, $43,660, and financing costs $232,571.

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Net Loss

We incurred a net loss before preferred dividends of $1,311,795 for our three months ended July 31, 2010 as compared to $994,279 for the corresponding three month period in 2009. The $317,517or 31.9% increase in our net loss before preferred dividends and net loss attributed to noncontrolling interest for our three month interim period ended July 31, 2010 was attributable primarily to $534,242 derivative liability expenses not incurred in the same period last year, $126,471 or 21.4% increase in general and administrative expenses, a $182,799 or a 69.4% decrease in interest expense, a $141,923 or 61% decrease in non-cash financing costs, a $103,131 or 84% decrease in depreciation, and a $84,657 or 39% decrease in revenues.

Our net loss attributable to common stockholders increased to $1,342,784 for our three month period ended July 31, 2010 as compared to $994,279 for the corresponding three month period in 2009.

LIQUIDITY AND CAPITAL RESOURCES

As of July 31, 2010, the Company had a negative net worth of $2,663,785. The Company generated a deficit cash flow from operations of $342,861 for the three months ended July 31, 2010.

Cash flows provided by investing activities for the three months ended July 31, 2010 was $236,866, primarily due to the pay offs of RISC Loans in the amount of $220,317 and net pay-offs of leases of $16,550.

Cash provided by financing activities during the three month period ended July 31, 2010, was $97,802 primarily due to: the sale of $90,000 of common stock proceeds from the sale of subsidiary preferred stock of $40,000, the net sale of notes payable in the amount of $246,948, and the net pay down of bank debt in the amount of $279,145.

We do not anticipate incurring significant research and development expenditures, and we do not anticipate the sale or acquisition of any significant property, plant or equipment, during the next twelve months. At July 31, 2010 we had 10 full time employees. If we fully implement our business plan, we anticipate our employment base may increase by approximately 100% 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.

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 continue seeking additional financing, which may be in the form of senior debt, subordinated debt or equity. We have signed a letter of interest with a senior lender with whom we are negotiating terms of a senior secured transaction, however, there is no assurance that we will be successful in these negotiations and we currently have no commitments for financing. There is no guarantee that we will be successful in raising the funds required to support our operations.

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 the above, 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 us. Any additional equity financing may be dilutive to stockholders and such additional equity securities may have rights, preferences or privileges that are senior to those of our 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 our operating flexibility. 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.

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

GOING CONCERN ISSUES

The independent auditors report on our April 30, 2010 and 2009 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.

In order to improve the Company's liquidity, the Company's management is actively pursuing additional financing through discussions with investment bankers, financial institutions and private investors. There can be no assurance the Company will be successful in its effort to secure additional 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 debt or equity investments in our Company; short term interim debt financing: and private placements of debt and equity securities with accredited investors.

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.

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.

OFF-BALANCE SHEET ARRANGEMENTS

The Company does not maintain off-balance sheet arrangements nor does it participate in non-exchange traded contracts requiring fair value accounting treatment.

TRENDS, RISKS AND UNCERTAINTIES

We have sought to identify what we believe to be the most significant risks to our business, but we cannot predict whether, or to what extent, any of such risks may be realized nor can we guarantee that we have identified all possible risks that might arise.

Our annual operating results may fluctuate significantly in the future as a result of a variety of factors, most of which are outside our control, including: the demand for our products and services; seasonal trends in purchasing, the amount and timing of capital expenditures and other costs relating to the commercial and consumer financing; price competition or pricing changes in the market; technical difficulties or system downtime; general economic conditions and economic conditions specific to the consumer financing sector.

Our annual results may also be significantly impacted by the impact of the accounting treatment of acquisitions, financing transactions or other matters. Particularly at our early stage of development, such accounting treatment can have a material impact on the results for any quarter. Due to the foregoing factors, among others, it is likely that our operating results may fall below our expectations or those of investors in some future quarter.

Our future performance and success is dependent upon the efforts and abilities of our management. To a very significant degree, we are dependent upon the continued services of Anthony L. Havens, our President and Chief Executive Officer and member of our Board of Directors. If we lost the services of either Mr. Havens, or other key employees before we could get qualified replacements, that loss could materially adversely affect our business. We do not maintain key man life insurance on any of our management.

Our officers and directors are required to exercise good faith and high integrity in our management affairs. Our bylaws provide, however, that our directors shall have no liability to us or to our shareholders for monetary damages for breach of fiduciary duty as a director except with respect to (1) a breach of the director’s duty of loyalty to the corporation or its stockholders, (2) acts or omissions not in good faith or which involve intentional misconduct or a knowing violation of law, (3) liability which may be specifically defined by law or (4) a transaction from which the director derived an improper personal benefit.

The present officers and directors own approximately 20% of the outstanding shares of common stock, without giving effect to shares underlying convertible securities, and therefore are in a position to elect all of our Directors and otherwise control the Company, including, without limitation, authorizing the sale of equity or debt securities of Sparta, the appointment of officers, and the determination of officers’ salaries. Shareholders have no cumulative voting rights.

We may experience growth, which will place a strain on our managerial, operational and financial systems resources. To accommodate our current size and manage growth if it occurs, we must devote management attention and resources to improve our financial strength and our operational systems. Further, we will need to expand, train and manage our sales and distribution base. There is no guarantee that we will be able to effectively manage our existing operations or the growth of our operations, or that our facilities, systems, procedures or controls will be adequate to support any future growth. Our ability to manage our operations and any future growth will have a material effect on our stockholders.

If we fail to remain current on our reporting requirements, we could be removed from the OTC Bulletin Board which would limit the ability of broker-dealers to sell our securities and the ability of stockholders to sell their securities in the secondary market. Companies trading on the OTC Bulletin Board, such as us, must be reporting issuers under Section 12 of the Securities Exchange Act of 1934, as amended, and must be current in their reports under Section 13, in order to maintain price quotation privileges on the OTC Bulletin Board. If we fail to remain current on our reporting requirements, we could be removed from the OTC Bulletin Board. As a result, the market liquidity for our securities could be severely adversely affected by limiting the ability of broker-dealers to sell our securities and the ability of stockholders to sell their securities in the secondary market.

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 policies involves the most complex, difficult and subjective estimates and judgments.

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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 our 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, we receive 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

The Company adopted ASC 718-10, which records compensation expense on a straight-line basis, generally over the explicit service period of three to five years.

ASC 718-10 requires companies to estimate the fair value of share-based payment awards on the date of grant using an option-pricing model. The value of the portion of the award that is ultimately expected to vest is recognized as expense over the requisite service periods in the Company’s Consolidated Statement of Operations. The Company is using the Black-Scholes option-pricing model as its method of valuation for share-based awards. The Company’s determination of fair value of share-based payment awards on the date of grant using an option-pricing model is affected by the Company’s stock price as well as assumptions regarding a number of highly complex and subjective variables. These variables include, but are not limited to the Company’s expected stock price volatility over the term of

the awards, and certain other market variables such as the risk free interest rate.

Allowance for Losses

The Company has loss reserves for its portfolio of Leases and for its portfolio of Retail Installment Sales Contracts ("RISC"). The allowance for Lease and RISC losses is increased by charges against earnings and decreased by charge-offs (net of recoveries). To the extent actual credit losses exceed these reserves, a bad debt provision is recorded; and to the extent credit losses are less than the reserve, additions to the reserve are reduced or discontinued until the loss reserve is in line with the Company's reserve ratio policy. Management's periodic evaluation of the adequacy of the allowance is based on the Company's past lease and RISC experience, known and inherent risks in the portfolio, adverse situations that may affect the borrower's ability to repay, the estimated value of any underlying collateral, and current economic conditions. The Company periodically reviews its Lease and RISC receivables in determining its allowance for doubtful accounts.

The Company charges-off receivables when an individual account has become more than 120 days contractually delinquent. In the event of repossession, the asset is immediately sent to auction or held for release.

Derivative Liabilities

The Company applies Financial Accounting Standards Board Accounting Standards Codification ("ASC") Topic 815, "Derivatives and Hedging," which provides a two-step model to determine whether a financial instrument or an embedded feature is indexed to an issuer's own stock and thus able to qualify for equity treatment. The Company determines which instruments or embedded features require liability accounting and records the fair values as an accrued derivative liability. The changes in the values of the accrued derivative liabilities are shown in the accompanying statements of operations.

The pricing model we use for determining fair value of our derivatives is the Black-Scholes Pricing Model. Valuations derived from this model are subject to ongoing internal and external verification and review. The model uses market-sourced inputs such as interest rates and stock price volatilities. Selection of these inputs involves management's judgment and may impact net income.

RECENT ACCOUNTING PRONOUNCEMENTS

See Note A to the Condensed Consolidated Financial Statements for a description of recent accounting pronouncements, including the expected dates of adoption and estimated effects on our consolidated financial statements, which is incorporated herein by reference.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Not applicable.

ITEM 4. CONTROLS AND PROCEDURES

Our management, with the participation of our Chief Executive Officer and our Principal Financial Officer, has evaluated the effectiveness of our disclosure controls and procedures (as such term is defined in Rules 13a-15(e) and 15d-15(e) under the Exchange Act) as of the end of the period covered by this report. Based on that evaluation, our Chief Executive Officer and Principal Financial Officer concluded that our disclosure controls and procedures as of the end of the period covered by this report were effective.

There was no change in our internal control over financial reporting (as defined in Rule 13a-15(f) of the Exchange Act) that occurred during the fiscal quarter to which this report relates that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

Management does not expect that our disclosure controls and procedures or our internal control over financial reporting will prevent or detect all error and fraud. Any control system, no matter how well designed and operated, is based upon certain assumptions and can provide only reasonable, not absolute, assurance that its objectives will be met. Further, no evaluation of controls can provide absolute assurance that misstatements due to error or fraud will not occur or that all control issues and instances of fraud, if any, within the Company have been detected.

PART II. OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

Not applicable.

ITEM 1A. RISK FACTORS

We are subject to certain risks and uncertainties in our business operations which are described below. The risks and uncertainties described below are not the only risks we face. Additional risks and uncertainties not presently known or that are currently deemed immaterial may also impair our business operations.

We have an operating history of losses.

Through our fiscal year ended April 30, 2010, we have generated cumulative sales revenues of $4,010,634, have incurred significant expenses, and have sustained significant losses. Our net loss for the year ended April 30, 2010 was $4,141,179 (after $1,558,078 in non-cash charges). As of April 30, 2010, we had a deficit net worth of $1,603,763. Through our first quarter ended July 31, 2010, we have generated cumulative sales revenues of $4,142,781, have incurred significant expenses, and have sustained significant losses. Our net loss for the quarter year ended July 31, 2010 was $1,342,784 (after $624,890 in non-cash charges). As of July 31, 2010, we had a deficit net worth of $2,692,523.

We have an agreement for a credit line with an institutional lender, who has acquired preferences and rights senior to those of our capital stock and placed restrictions on the payment of dividends. This line had been suspended.

In July 2005, we entered into a secured senior credit facility with New World Lease Funding for a revolving line of credit. New World received a security interest in substantially all of our assets with seniority over the rights of the holders of our preferred stock and our common stock. Until the security interests are released, those assets will not be available to us to secure future indebtedness. Presently, New World is not extending new loans to us or any of their borrowers; however, they have not formally terminated the facility. As of July 31, 2010, we owed New World an aggregate of $1,635,476 (which is secured by $1,969,952 of consumer Retail Installment Sales Contracts and Leases and $111,508 of restricted cash) to New World. In granting the credit line, New World also required that we meet certain financial criteria in order to pay dividends on any of our preferred shares and common shares. We may not be able to repay our outstanding indebtedness under the credit line.

Our business requires extensive amounts of capital and we will need to obtain additional financing in the near future.

In order to expand our business, we need raise additional senior debt as well as capital to support the portion of the future leases and retail installment sales contracts which are not financed by the senior lender. We generally refer to this portion as the “equity requirement” and the “sub-debt requirement”. Presently, we have very limited operating capital to fund the equity requirements for new financing transactions or to execute our business plan. In order to accomplish our business objectives, we expect that we will require substantial additional financing within a relatively short period. The lack of capital has made it difficult to offer the full line of financing products contemplated by our business plan. Without a senior bank line of credit, it will be extremely difficult to maintain and grow our business. We will have to raise approximately $2 million over the next twelve months to support our business plan. As our business grows, we will need to seek additional financing to fund growth. To the extent that our revenues do not provide sufficient cash flow to cover such equity requirements and any reserves required under any additional credit facility, we may have to obtain additional financing to fund such requirements as may exist at that time. There can be no assurance that we will have sufficient capital or be able to secure additional credit facilities

when needed. The failure to obtain additional funds, when required, on satisfactory terms and conditions, would have a material and adverse effect on our business, operating results and financial condition, and ultimately could result in the cessation of our business.

To the extent we raise additional capital by issuing equity securities; our stockholders may experience substantial dilution. Also, any new equity securities may have greater rights, preferences or privileges than our existing common stock. A material shortage of capital will require us to take drastic steps such as reducing our level of operations, disposing of selected assets or seeking an acquisition partner. If cash is insufficient, we will not be able to continue operations.

Our auditor's opinion expresses doubt about our ability to continue as a "going concern".

The independent auditor's report on our April 30, 2010 financial statements state that our historical losses raise substantial doubts about our ability to continue as a going concern. We cannot assure you that we will be able to generate revenues or maintain any line of business that might prove to be profitable. Our ability to continue as a going concern is subject to our ability to generate a profit or obtain necessary funding from outside sources, including obtaining additional funding from the sale of our securities, increasing sales or obtaining credit lines or loans from various financial institutions where possible. If we are unable to develop our business, we may have to discontinue operations or cease to exist, which would be detrimental to the value of our common stock. We can make no assurances that our business operations will develop and provide us with significant cash to continue operations.

A significant number of customers may fail to perform under their loans or leases.

As a lender or lessor, one of the largest risks we face is the possibility that a significant number of customers will fail to pay their payments when due. If customers' defaults cause losses in excess of our allowance for losses, it could have an adverse effect on our business, profitability and financial condition. If a borrower enters into bankruptcy, we may have no means of recourse. We have established an evaluation process designed to determine the adequacy of the allowance for losses. While this evaluation process uses historical and other objective information, the establishment of losses is dependent to a great extent on management's experience and judgment. We cannot assure you that our loss reserves will be sufficient to absorb future losses or prevent a material adverse effect on our business, profitability or financial condition.

A variety of factors and economic forces may affect our operating results.

Our operating results may differ from current forecasts and projections significantly in the future as a result of a variety of factors, many of which are outside our control. These factors include, without limitation, the receipt of revenues, which is difficult to forecast accurately, the rate of default on our loans and leases, the amount and timing of capital expenditures and other costs relating to the expansion of our operations, the introduction of new products or services by us or our competitors, borrowing costs, pricing changes in the industry, technical difficulties, general economic conditions and economic conditions specific to the motorcycle industry. The success of an investment in a consumer financing based venture is dependent, at least, in part, on extrinsic economic forces, including the supply of and demand for such services and the rate of default on the consumer retail installment contracts and consumer leases. No assurance can be given that we will be able to generate sufficient revenue to cover our cost of doing business. Furthermore, our revenues and results of operations will be subject to fluctuations based upon general economic conditions. Economic factors like unemployment, interest rates, the availability of credit generally, municipal government budget constraints affecting equipment purchases and leasing, the rate of inflation, and consumer perceptions of the economy may affect the rate of prepayment and defaults on customer leases and loans and the ability to sell or dispose of the related vehicles for an amount at least equal to their residual values which may have a material adverse effect on our business.

A material reduction in the interest rate spread could have a negative impact on our business and profitability.

A significant portion of our net income is expected to come from an interest rate spread, which is the difference between the interest rates paid by us on interest-bearing liabilities, and the interest rate we receive on interest-earning assets, such as loans and leases extended to customers. Interest rates are highly sensitive to many factors that are beyond our control, such as inflation, recession, global economic disruptions and unemployment. There is no assurance that our current level of interest rate spread will not decline in the future. Any material decline would have a material adverse effect on our business and profitability.

Failure to perfect a security interest could harm our business.

An ownership interest or security interest in a motor vehicle registered in most states may be perfected against creditors and subsequent purchasers without notice for valuable consideration only by complying with certain procedures specific to the particular state. While we believe we have made all proper filings, we may not have a perfected lien or ownership interest in all of the vehicles we have financed. We may not have a validly perfected ownership interest and security interest, respectively, in some vehicles during the period of the loan. As a result, our ownership or security interest in these vehicles will not be perfected and our interest could be inferior to interests of other creditors or purchasers who have taken the steps described above. If such creditors or purchasers successfully did so, the affected vehicles would not be available to generate their expected cash flow, which would have a material adverse effect on our business.

Risks associated with leasing.

Our business is subject to the risks generally associated with the ownership and leasing of vehicles. A lessee may default in performance of its consumer lease obligations and we may be unable to enforce our remedies under a lease. As a result, certain of these customers may pose credit risks to us. Our inability to collect receivables due under a lease and our inability to profitably sell or re-lease off-lease vehicles could have a material adverse effect on our business, financial condition or results of operations.

Adverse changes in used vehicle prices may harm our business.

Significant increases in the inventory of vehicles may depress the prices at which we can sell or lease our inventory of used vehicles composed of off-lease and repossessed vehicles or may delay sales or leases. Factors that may affect the level of used vehicles inventory include consumer preferences, leasing programs offered by our competitors and seasonality. In addition, average used powersports vehicle prices have fluctuated in the past, and any softening in the used powersports vehicle market could cause our recovery rates on repossessed vehicles to decline below current levels. Lower recovery rates increase our credit losses and reduce the amount of cash flows we receive.

Our business is dependent on intellectual property rights and we may not be able to protect such rights successfully.

Our intellectual property, including our license agreements and other agreements, which establish our rights to proprietary intellectual property developed in connection with our credit decisioning and underwriting software system, iPLUS®, is of great value to our business operations. Infringement or misappropriation of our intellectual property could materially harm our business. We rely on a combination of trade secret, copyright, trademark, and other proprietary rights laws to protect our rights to this valuable intellectual property. Third parties may try to challenge our intellectual property rights. In addition, our business is subject to the risk of third parties infringing or circumventing our intellectual property rights. We may need to resort to litigation in the future to protect our intellectual property rights, which could result in substantial costs and diversion of resources. Our failure to protect our intellectual property rights could have a material adverse effect on our business and competitive position.

We face significant competition in the industry.

We compete with commercial banks, savings and loans, industrial thrifts, credit unions and consumer finance companies, including large consumer finance companies such as GE Capital. Many of these competitors have well developed infrastructure systems in place as well as greater financial and marketing resources than we have. Additionally, competitors may be able to provide financing on terms significantly more favorable than we can offer. Providers of motorcycle financing have traditionally competed on the basis of interest rates charged, the quality of credit accepted, the flexibility of terms offered and the quality of service provided to dealers and customers. We

seek to compete predominantly on the basis of our high level of dealer service and strong dealer relationships, by offering flexible terms, and by offering both lease and loan options to customers with a broad range of credit profiles. Many of our competitors focus their efforts on different segments of the credit quality spectrum. While a number of our competitors have reduced their presence in the powersports financing industry because of industry specific factors and the current situation in the global credit markets, our business may be adversely affected if any of such competitors in any of our markets chooses to intensify its competition in the segment of the prime or sub-prime credit spectrum on which we focus or if dealers become unwilling to forward to us applications of prospective customers. To the extent that we are not able to compete effectively within our credit spectrum and to the extent that the intensity of competition causes the interest rates we charge to be lower, our results of operations can be adversely affected.

Our business is subject to various government regulations.

We are subject to numerous federal and state consumer protection laws and regulations and licensing requirements, which, among other things, may affect: (i) the interest rates, fees and other charges we impose; (ii) the terms and conditions of the contracts; (iii) the disclosures we must make to obligors; and (iv) the collection, repossession and foreclosure rights with respect to delinquent obligors. The extent and nature of such laws and regulations vary from state to state. Federal bankruptcy laws limit our ability to collect defaulted receivables from obligors who seek bankruptcy protection. Prospective changes in any such laws or the enactment of new laws may have an adverse effect on our business or the results of operations. Compliance with existing laws and regulations has not had a material adverse affect on our operations to date. We will need to periodically review our office practices in an effort to ensure such compliance, the failure of which may have a material adverse effect on our operations and our ability to conduct business activities.

We do not intend to pay dividends on our common stock.

We have never declared or paid any cash dividend on our common stock. We currently intend to retain any future earnings and do not expect to pay any dividends on our common stock in the foreseeable future. Future cash dividends on the common stock, if any, will be at the discretion of our board, and will depend on our future operations and earnings, capital requirements and surplus, general financial condition, contractual restrictions imposed by lending or other agreements, including agreements with holders of senior or preferential rights, and other factors that the board may consider important.

We have authorized a class of preferred stock which may alter the rights of common stock holders by giving preferred stock holders greater dividend rights, liquidation rights and voting rights than our common stockholders have.

Our board is empowered to issue, without stockholder approval, preferred stock, on one or more series, with dividend, liquidation, conversion, voting or other rights that could adversely affect the voting power or other rights of the holders of common stock. From time to time, we have designated, and may in the future designate, series of preferred stock carrying various preferences and rights different from, and greater than, our common stock. As of July 31, 2010, we have three series of preferred stock outstanding. Preferred stock could be utilized, under certain circumstances, as a method of discouraging, delaying or preventing a change in control of the company.

We are subject to various securities-related requirements as a reporting company.

We may need to improve our reporting and internal controls and procedures. We have in the past submitted reports with the SEC after the original due date of such reports. If we fail to remain current on our reporting requirements, our common stock could be removed from quotation from the OTC Bulletin Board, which would limit the ability to sell our common stock.

We are controlled by current officers, directors and principal stockholders.

Our directors, executive officers and principal stockholders beneficially own approximately 20% of our common stock as of July 31, 2010. Accordingly, these persons and their respective affiliates have the ability to exert substantial control over the election of our Board of Directors and the outcome of issues submitted to our stockholders, including approval of mergers, sales of assets or other corporate transactions. In addition, such control could preclude any unsolicited acquisition of our company and could affect the price of our common stock.

We are dependent on our management and the loss of any officer could hinder our implementation of our business plan.

We are heavily dependent upon management, the loss of any one of whom could have a material adverse effect on our ability to implement our business plan. While we have entered into employment agreements with certain executive officers, including our Chief Executive Officer, Principal Financial Officer and Chief Operating Officer, employment agreements could be terminated for a variety of reasons. The employment agreements with our Principal Financial Officer and Chief Operating Officer have expired and are being renegotiated. We do not presently carry key man insurance on the life of any employee. If, for some reason, the services of management, or of any member of management, were no longer available to us, our operations and proposed businesses and endeavors may be materially adversely affected. Any failure of management to implement and manage our business strategy may have a material adverse affect on us. There can be no assurance that our operating and financial control systems will be adequate to support our future operations. Furthermore, the inability to continue to upgrade the operating and financial control systems, the inability to recruit and hire necessary personnel or the emergence of unexpected expansion difficulties could have a material adverse effect on our business, financial condition or results of operations.

ITEM 2.   UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS.

Each of the issuance and sale of securities described below was deemed to be exempt from registration under the Securities Act in reliance on Section 4(2) of the Securities Act as transactions by an issuer not involving a public offering. No advertising or general solicitation was employed in offering the securities. Each purchaser is a sophisticated investor (as described in Rule 506(b) (2) (ii) of Regulation D) or an accredited investor (as defined in Rule 501 of Regulation D), and each received adequate information about the Company or had access to such information, through employment or other relationships, to such information. The Company applied proceeds from financing activities described below to working capital.

In the three months ended July 31, 2010, and in August 2010, the Company sold to one accredited investor two $25,000, nine month, 8% notes convertible at the holder’s option into such number of shares of the Company’s common stock as determined by a forty-two percent discount from the average of the three lowest closing prices of the Company’s common stock for the ten trading days immediately preceding the day the holder notices the Company of its intent to convert. The conversion price is subject to standard anti-dilutive provisions. The Company has reserved up to 21,203,449 shares of its common stock in the event of conversion pursuant to the terms of the note. In the event the note is not paid when due, the interest rate is increased to twenty-two percent until the note is paid in full. In August 2010, $5,000 of these notes was converted into 390,625 shares of common stock.

In July, 2010, the Company sold to an accredited investor a one week 10%, $25,000 note and issued 25,000 shares of its restricted common stock as inducement for the note. The note is convertible at the holder’s option into shares of common stock at $0.005 per share. In the event the note is not paid when due, the interest rate is increased to twenty percent until the note is paid in full and the Company is required to issue 50,000 shares of common stock per month until the note is paid in full.

In the four months ending August 31, 2010, the Company sold to an accredited investor seven one year, unsecured notes in the aggregate amount of $200,000. The notes bare 8% simple interest, payable in cash or shares, at the Company’s option, with principal and accrued interest payable at maturity. At the Company’s option, the notes are convertible into shares of common stock ranging from $0.012 to $0.018 per share.

In June 2010, three note holders holding $80,000 in notes sold their notes and the accrued interest thereon to two accredited investors, and simultaneously, the Company then exchanged one old $25,000 note for a $25,000 new 0% one year note convertible at the holder's option into common stock at the lesser of $0.06 per share or sixty percent of the average of the three lowest closing prices of the Company's common stock for the twenty successive trading days immediately preceding the day the holder elects to convert all or part of the note. In the event the note is not paid when due, the interest rate is increased to eighteen percent until the note is paid in full. Additionally, the Company exchanged with the other investor three old notes aggregating $55,000 for three new one year 8% notes aggregating $81,947.94. The notes are convertible at the holder's option at a conversion price equal to 70% of the lowest closing bid price of the Company's common stock for the three trading days prior to the day on which the Company receives a Notice of Conversion. In the event the note is not paid when due, the interest rate is increased to twenty-four percent until the note is paid in full. In June, July and August 2010, $26, 017 of these notes were converted into 1,736,642 shares of common stock.

In the three months ended July 31, 2010, the Company sold to three accredited investors 7,735,419 shares of its common stock and three year warrants to purchase 7,735,419 shares of its common stock, exercisable at $0.07 per share, for $90,000. As of July 31, 2010, 1,815,000 of the shares had not been issued.

In June and July, 2010, the Company issued, pursuant to three consulting agreements an aggregate of 4,900,000 shares of its common stock valued at $88,200, 1,000,000 ($18,000) of the shares had been accrued in the prior year.

In May, 2010, the Company issued to a consultant 1,000,000 shares of its common stock valued at $12,000.

In May, 2010, the Company issued to four members of its Advisory Council an aggregate of 3,500,000 shares of its common stock valued at $42,000

In August, 2010, the Company sold to one accredited investor 1,133,333 shares of restricted common stock for $17,000.

In August, 2010, the Company sold to five accredited investors, $65,000 of 12%, three month notes and issued a total of 600,000 shares issued as inducements for the loans.

In the three months July 31, 2010, the Company's majority owned subsidiary, Specialty Reports, Inc., sold 8 shares of its Series A Preferred stock to three accredited investors for $40,000, and, in the period from August 1, 2010 to September 10, 2010, sold an additional 30 shares to eight accredited investors for $152,000. The Series A Preferred stock does not pay a dividend. Each share has a liquidating value of $5,000 and is redeemable by Specialty Reports at any time after one year. Each share is convertible at the holder's option at any time into either 2,632 shares of Specialty Reports common stock, or 277,778 shares of Sparta Commercial Services common stock.

ITEM 3. DEFAULTS UPON SENIOR SECURITIES

Not applicable.

ITEM 4. (REMOVED AND RESERVED)

None

ITEM 5. OTHER INFORMATION

None

ITEM 6. EXHIBITS

The following exhibits are filed with this report:

Exhibit Number	Description of Exhibit
Exhibit 11	Statement re: computation of per share earnings is hereby incorporated by reference to “Financial Statements” of Part I - Financial Information, Item 1 - Financial Statements, contained in this Form 10-Q.
Exhibit 31.1*	Certification of Chief Executive Officer pursuant to Securities Exchange Act Rule 13a-14(a)/15d-14(a)
Exhibit 31.2*	Certification of Principal Financial Officer pursuant to Securities Exchange Act Rule 13a-14(a)/15d-14(a)
Exhibit 32.1*	Certification of Chief Executive Officer pursuant to 18 U.S.C. Section 1350
Exhibit 32.2*	Certification of Principal Financial Officer pursuant to 18 U.S.C. Section 1350

* Filed herewith

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

		SPARTA COMMERCIAL SERVICES, INC.
Date: September 20, 2010	By:	/s/ Anthony L. Havens Anthony L. Havens Chief Executive Officer
Date: September 20, 2010	By:	/s/ Anthony W. Adler Anthony W. Adler Principal Financial Officer