

SPARTA COMMERCIAL SERVICES, INC.
Form 10-K
August 13, 2009

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
FORM 10-K

(Mark One)

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the fiscal year ended April 30, 2009

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

For the transition period from _____ to _____.

Commission file number: 0-9483

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

NEVADA
(State or other jurisdiction of incorporation or organization)

30-0298178
(I.R.S. Employer Identification No.)

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

10018
(Zip Code)

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

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

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

Common Stock, par value \$0.001
(Title of class)

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes No

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 preceeding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes No

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

Edgar Filing: SPARTA COMMERCIAL SERVICES, INC. - Form 10-K

(§229.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to file such files). Yes No

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (§229.405 of this chapter) is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

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 "large accelerated filer", "accelerated filer", and "smaller reporting company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer

Accelerated filer

Non-accelerated filer (Do not check if a smaller reporting company)

Smaller reporting company

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

The issuer's revenues for its most recent fiscal year: \$1,144,644.

The aggregate market value of voting and non-voting common equity of the issuer held by non-affiliates, after including 75,000 vested but unissued shares, on October 30, 2008 was \$3,941,727.

As of August 11, 2009, we had 309,733,087, shares of common stock issued and outstanding.

DOCUMENTS INCORPORATED BY REFERENCE: None.

SPARTA COMMERCIAL SERVICES, INC.

TABLE OF CONTENTS

	Page
PART I	
Item 1. Business	3
Item 1A. Risk Factors	11
Item 1B. Unresolved Staff Comments	16
Item 2. Properties	16
Item 3. Legal Proceedings	16
Item 4. Submission of Matters to a Vote of Security Holders	16
PART II	
Item 5. Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities	17
Item 6. Selected Financial Data	19
Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations	19
Item 7A. Quantitative and Qualitative Disclosures About Market Risk	24
Item 8. Financial Statements and Supplementary Data	25
Item 9. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure	53
Item 9A. Controls and Procedures	53
Item 9B. Other Information	53
PART III	
Item 10. Directors, Executive Officers and Corporate Governance	55
Item 11. Executive Compensation	57
Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters	60
Item 13. Certain Relationships and Related Transactions, and Director Independence	62
Item 14. Principal Accountant Fees and Services	63
Item 15. Exhibits, Financial Statement Schedules	64
Signatures	66

PART I

ITEM 1. BUSINESS

General Overview

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

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

We have, and continue to develop, relationships with powersports dealers and manufacturers to provide our financing products to their customers. We also seek to expand our "Private Label" versions of our financing products to motorcycle, scooter, and all-terrain vehicle manufacturers and distributors to enable their dealers to assist their customers in acquiring the powersports vehicle of their choice.

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

Our Business

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

We have and continue to develop additionally relationships with powersports vehicle dealers and manufacturers to provide our financing products to their customers. We also seek to provide powersport vehicle manufacturers and distributors a private label version of our financing products to enable their dealers to assist their customers in acquiring the powersports vehicle of their choice. Additionally, we offer an equipment leasing product to municipalities, including, but not limited to, the leasing of police motorcycles.

Business Overview

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

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

Sparta's management believes that by offering dealers (and their customers) the option of either financing or leasing, Sparta will capture a greater share of the dealer's business. Additionally, by offering both alternatives, once

profitability is achieved, Sparta believes that it will be in a position to achieve greater cash-flow than it could by offering only one of these alternatives because depreciation generated by Sparta's leasing activities will reduce income tax due on income resulting from Sparta's retail installment sales contracts.

Retail Installment Sales Contracts and Leases

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

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

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

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

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

In May 2006, we entered into a limited Marketing Agreement with netLoan Funding, LLC ("netLoan"). eBay Motors is under an agreement with netLoan whereby eBay Motors customers wishing to finance powersports vehicles are

referred to the netLoan web site. Under our agreement with netLoan, these customers are then redirected from the netLoan web site electronically to a co-branded Sparta iPLUS® web site where their credit applications are processed. In April 2008, this agreement was amended and expanded to include referrals from eLoan's and NADA's (National Automotive Dealers Association) powersports web pages and to include credit applications from these three sources for all motorcycles over 550cc. We pay netLoan a fee for each funded contract or lease processed through this co-branded web site. This program is inactive at the present time.

Municipal Leasing of Equipment, including Police Motorcycles

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

Private Label Programs for Manufacturers and Distributors

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

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

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

Revenue from Ancillary Products and Services

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

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

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

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

Revenue from Remarketing Off-Lease and Repossessed Vehicles

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

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

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

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

Credit and Collections

Policies and Procedures

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

Credit Evaluation Process and Collateral Guidelines

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

iPLUS® (internet Purchasing Leasing Underwriting Servicing)

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

Major features of iPLUS® include:

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

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

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

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

Collection Procedures

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

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

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

7

Using Diversification to Reduce Portfolio Risk

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

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

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

Portfolio Performance – Contracts and leases over 30 days delinquent were 1.88% of total portfolio balances at April 30, 2007, 2.85% at April 30, 2008, and 3.70% at April 30, 2009. Cumulative net losses and charge-offs as a percent of cumulative portfolio originations were 1.53% at April 30, 2007, 1.17% at April 30, 2008, and 3.27% at April 30, 2009. Additionally, as of April 30, 2009, the Company maintained a cash reserve with its Senior Lender equal to 9.72% of the outstanding loan balance with that lender.

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

Market Information

As reported in the 2008 Statistical Annual Report of the Motorcycle Industry Council, retail sales of new motorcycles have grown steadily from 1991 through 2006. North American registrations of new 651cc and higher motorcycles were 479,939 in 2008, a 7% decline from 2007 at 516,100. Sparta estimates that the 2008 US retail market for new and used 600cc+ motorcycles was \$8.5 billion.

U.S. sales of new ATVs were estimated to be 432,000 units in 2008, a 29% decline from 2007 as reported in Powersports Business Magazine in the February 9, 2009 issue. Sales of Utility ATVs in 2008 were essentially unchanged from 2007 at 130,000 units according to the same Powersports Business issue.

Estimated U.S scooter unit sales for calendar 2008 are estimated to be 76,700 up approximately 41.5% from calendar year 2007, according to Powersports Business Magazine in the February 11, 2009 issue.

Sales and Marketing

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

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

with a group of dealers in a common geographic area.

8

The Dealer Support Group accepts dealer application packages from dealers that want to be either or both our Authorized Sparta Dealers or Authorized Private Label Dealers. They notify the approved dealers that they have been approved and provide them with the required information to process applications and print contracts using iPLUS®, including a Dealer Sign Up packet. The Dealer Services Group is available to directly assist dealers by telephone and follow up with dealers on conditional approvals to assist them in forwarding the funding packages to us for purchase. This group also accepts all incoming calls from dealers, answering their inquiries or directing them, if necessary, to the appropriate department.

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

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

Competition

The consumer finance industry is highly fragmented and highly competitive. Broadly speaking, Sparta competes with commercial banks, savings & loans, industrial thrift and credit unions, and a variety of local, regional, and national consumer finance companies. While there are numerous financial service companies that provide consumer credit in the automobile markets, including banks, other consumer finance companies, and finance companies owned by automobile manufacturers and retailers, most financial service companies are reluctant to provide financing for powersports vehicles. Customers who approach these lending sources to obtain financing for the purchase of a powersports vehicle are often encouraged to pursue a personal unsecured loan instead.

There are few companies that provide nationwide dealer-based leasing options in the powersports industry segment and these tend to be private label factory programs supporting their own brands. Because of their narrow focus (such as requiring that the equipment be covered by the brand's warranty); these companies have met with limited success. Independent consumer financial services companies and large commercial banks that participated in this market have withdrawn substantially from the motorcycle loan niche over the past two years or have tightened their underwriting criteria. For instance, Sparta's closest competitors, Capitol One, HSBC and GE Capital have chosen to refocus their efforts toward enterprises that are more in line with their traditional core business. Sparta believes that those companies may have suffered as a result of compromising their underwriting criteria for the sake of volume. In addition, management believes that our competitors' practice of financing all makes and models of a particular manufacturer results in lower overall portfolio performance because of the poor demographics associated with some of those product lines. The marketplace also includes small competitors such as local credit unions, local banks, and a few regional players.

Sparta competes for customers with commercial banks, savings and loans, credit unions, consumer financing companies, and manufacturers finance subsidiaries. Additionally, some powersports manufacturers such as

Harley-Davidson and BMW have subsidiaries that provide financing to their own dealers.

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

Regulation

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

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

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

- Telephone Consumer Protection Act. The Telephone Consumer Protection Act prohibits telephone solicitation calls to a customer's home before 8 a.m. or after 9 p.m. In addition, if we make a telephone solicitation call to a customer's home, the representative making the call must provide his or her name, our name, and a telephone number or address at which our representative may be contacted. The Telephone Consumer Protection Act also requires that we maintain a record of any requests by customers not to receive future telephone solicitations, which must be maintained for five years.
- Bankruptcy. Federal bankruptcy and related state laws may interfere with or affect our ability to recover collateral or enforce a deficiency judgment.

Employees

As of April 30, 2009, we had 14 full-time employees. None of our employees are covered by a collective bargaining agreement. We have never experienced a work stoppage and we believe that we have satisfactory working relations with our employees.

ITEM 1A.

RISK FACTORS

Risks Related to Our Financial Results

We have an operating history of losses.

Through our fiscal year ended April 30, 2009, we have generated cumulative sales revenues of \$3,297,271, have incurred significant expenses, and have sustained significant losses. Our net loss for the year ended April 30, 2009 was \$4,921,846 (after \$1,794,610 in non-cash charges). As of April 30, 2009, we had a deficit net worth of \$6,126,410.

We have entered into credit lines with institutional lenders, which have acquired preferences and rights senior to those of our capital stock and placed restrictions on the payment of dividends.

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, the New World line is inactive. As of April 30, 2009, we owed an aggregate of \$3,588,322 (which is secured by \$4,005,220 of consumer retail Installment Sales Contracts and Leases and \$348,863 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.

In December 2008, our wholly owned subsidiary, Sparta Funding, LLC, entered into an agreement for a secured credit facility with DZBank. The DZBank facility requires, among other things, that we have a minimum tangible net worth of \$2,000,000 before Sparta Funding can access credit for the purchase of consumer retail installment sales contracts from our authorized and private label dealers and the purchase of vehicles for lease to customers of our authorized and private label dealers. In addition to the tangible net worth we must obtain commitments for \$3,000,000 of additional capital (in the form of subordinated debt or other committed capital satisfactory to DZ Bank) to access the DZBank facility. We are engaged in discussions with potential investors regarding such commitments, but as July 30, 2009, with the exception of the agreement with Optimus Capital Partners, no definitive agreements have been reached for such commitments, nor are have we reached any agreement on potential terms of any such commitments. Unless and until we receive such commitments or DZBank waives such requirement, we will not be able to access the DZBank

facility. If Sparta Funding is able to access the DZBank facility, all of the consumer retail and installment sales contracts, consumer leases and the underlying vehicles obtained through the use of the DZBank facility will be pledged as security therefore. If Sparta Funding is unable to repay its outstanding indebtedness under the DZBank facility, DZBank could foreclose on all of those pledged assets. If Sparta Funding is unable to access the DZBank facility or does not have sufficient cash flow to repay the DZBank facility, we will not be able to implement our business plan, which would have a material adverse affect on our future viability.

On July 29, 2009, we entered into a Preferred Stock Purchase Agreement with Optimus Capital Partners, LLC, an unaffiliated investment fund. Under the agreement, Optimus is committed to purchase up to \$5,000,000 of our Series B Preferred Stock for a one year period. From time to time, we may send a notice requiring Optimus to purchase shares of our Series B Preferred Stock, subject to satisfaction of certain closing conditions. Optimus will not be obligated to purchase the Series B Preferred Stock (i) in the event the closing price of our common stock during the nine trading days following delivery of a purchase notice falls below 75% of the closing price on the trading day prior to the date such notice is delivered to Optimus, or (ii) to the extent such purchase would result in Optimus and its affiliates beneficially owning more than 9.99% of our common stock.

On the date of delivery of each purchase notice under the agreement, we will also issue to Optimus five-year warrants to purchase our common stock at an exercise price equal to the closing price of our common stock on the trading day prior to the delivery date of the notice. The number of shares issuable upon exercise of the warrant will be equal in value to 135% of the purchase price of the Series B Preferred Stock to be issued in respect of the related notice. Each warrant will be exercisable on the earlier of (i) the date on which a registration statement registering for resale the shares of common stock issuable upon exercise of such warrant becomes effective and (ii) the date that is six months after the issuance date of such warrant.

The Series B shares, with respect to dividend rights and rights upon liquidation, winding-up or dissolution, rank senior to our common stock and any other class or series of preferred stock, and junior to all of our existing and future indebtedness. The Series B shares accrue dividends at an annual rate of 10%. Accrued dividends are payable upon redemption of the Series B shares. Our common stock may not be redeemed while Series B shares are outstanding. The Series B certificate of designations provides that, without the approval of a majority of the Series B shares, we cannot authorize or create any class of stock ranking as to distribution of assets upon a liquidation senior to or otherwise pari passu with the Series B shares, liquidate, dissolve or wind-up our business and affairs, or effect certain fundamental corporate transactions, or otherwise alter or change adversely the powers, preferences or rights given to the Series B shares. The Series B shares have a liquidation preference per share equal to the original price per share thereof plus all accrued dividends thereon upon liquidation, including upon consummation of certain fundamental corporate transactions, dissolution, or winding up of our company. The Series B shares are redeemable at our option on or after the fifth anniversary of the date of its issuance.

There can be no assurance that the funding available under this Purchase Agreement will be sufficient to fund our working capital requirements or the requirements of DZ Bank.

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

Subject to meeting certain financial covenants described above, we have an extendable, one year, \$25 million secured, committed revolving credit facility with the DZBank facility which allows us to borrow up to 80% of the value of a powersports vehicle, in the case of leased vehicles, or 80% of the amount financed by the ultimate purchaser in the case of vehicles which are sold. As a result, in order to expand our business, we need capital to support the portion of the value which is 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. While we believe that if we obtain additional financing and we obtain the required DZ Bank capital commitments, we will have sufficient capital resources to access the DZBank facility and fund our working capital needs for the next twelve months, as our business grows, we may need to seek additional financing to fund such growth. To the extent that our revenues do not provide sufficient cash flow to cover such equity requirements and any reserves required under an 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, 2009 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.

Risks Related to Our Business

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

As a lender, 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 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 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 General Electric. 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 are controlled by current officers, directors and principal stockholders.

Our directors, executive officers and principal stockholders beneficially own approximately 38.7% of our common stock as of April 30, 2009. 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 the Company and could affect the price of our common stock.

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 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 affect on our ability to implement our business plan. While we have entered into employment agreements with certain executive officers, including our Chief Executive Officer and Chief Operating Officer, employment agreements could be terminated for a variety of reasons. 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 affect on our business, financial condition or results of operations.

ITEM 1B.

UNRESOLVED STAFF COMMENTS

Not applicable.

ITEM 2.

PROPERTIES

Our executive offices are located at 462 Seventh Avenue, 20th Floor, New York, NY 10018. We have an agreement for use of office space at this location under a lease expiring on November 30, 2012. The office space contains approximately 7,000 square feet. The rent for the year ended April 30, 2010 is \$297,590, for the year ended April 30, 2011 is \$304,985, for the year ended April 30, 2012 is \$312,565, and for the seven months ending November 30, 2012 is \$184,947. We believe that our existing facilities will be adequate to meet our needs for the foreseeable future. Should we need additional space, management believes it will be able to secure additional space at commercially reasonable rates

ITEM 3.

LEGAL PROCEEDINGS

As at April 30, 2009, we were not a party to any material pending legal proceeding. From time to time, we may become involved in various lawsuits and legal proceedings, which arise in the ordinary course of business.

ITEM 4.

SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

Not applicable.

PART II

ITEM MARKET FOR REGISTRANT'S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND
5. ISSUER PURCHASES OF EQUITY SECURITIES

Market Information

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

	High	Low
Fiscal Year 2009		
First quarter (May 1, 2008 – July 31, 2008)	\$ 0.14	\$ 0.07
Second quarter (August 1, 2008 – October 31, 2008)	\$ 0.10	\$ 0.03
Third quarter (November 1, 2008 – January 31, 2009)	\$ 0.09	\$ 0.02
Fourth quarter (February 1, 2009 – April 30, 2009)	\$ 0.09	\$ 0.02
Fiscal Year 2008		
First quarter (May 1, 2007 - July 31, 2007)	\$ 0.10	\$ 0.04
Second quarter (August 1, 2007 - October 31, 2007)	\$ 0.10	\$ 0.04
Third quarter (November 1, 2007 - January 31, 2008)	\$ 0.065	\$ 0.03
Fourth quarter (February 1, 2008 - April 30, 2008)	\$ 0.16	\$ 0.04

Holders

The approximate number of holders of record of our common stock as of April 30, 2009 was 3,015 excluding stockholders holding common stock under nominee security position listings.

Dividends

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

As of April 30, 2009, we had outstanding 125 shares of Series A Convertible Preferred Stock, \$.001 par value. The Series A shares pay a 6% annual dividend which may be paid in cash or shares of common stock at our option. We have not, as of April 30, 2009, distributed any dividends, in cash or in shares of common stock. Upon conversion of the Series A shares, all accrued and unpaid dividends shall be "extinguished".

On July 24, 2009, we designated 1,000 shares as Series B Preferred Stock. As of July 31, 2009, no Series B shares were outstanding. The Series B shares accrue dividends at an annual rate of 10%. Accrued dividends are payable upon redemption of the Series B shares.

Recent Sales of Unregistered Securities

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.

During the quarter ended April 30, 2009, the Company sold to eight accredited investors four month unsecured notes in the aggregate amount of \$237,000. The notes bore 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 were convertible into shares of common stock ranging from \$0.02 to \$0.048 per share. One note in the amount of \$25,000 included three year warrants to purchase 694,444 shares of the Company's common stock at \$0.15 per share. The notes with maturity dates were to mature in four months on various dates through August 16, 2009. These notes plus accrued interest thereon were converted into shares of common stock in July 2009.

During the quarter ended April 30, 2009, the Company sold to one accredited investor unsecured demand notes in the aggregate amount of \$158,000. The notes bore 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 \$0.02 to \$0.038 per share.

During the quarter ended April 30, 2009, the Company issued to five individuals 1,874,997 shares of its common stock upon conversion of 292,500 shares of series A convertible preferred stock, of which 222,500 had been converted in the prior fiscal year, but the shares had not been issued.

During the three months ended April 30, 2009, we issued to a member of our Advisory Council, in recognition of services, 500,000 shares of our common stock valued at \$35,000.

During the three months ended July 31, 2009, the Company sold to five accredited investors four month unsecured notes and warrants in the aggregate amount of \$165,000. The warrants are for a term of three years and entitle the holder to purchase a total of 4,853,153 shares of our common stock at \$0.15 per share. The notes bore 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 were convertible into shares of common stock ranging from \$0.02 to \$0.048 per share. The notes were to mature on various dates through November 8, 2009. Four of these notes aggregating \$65,000 plus accrued interest thereon were converted into 2,186,887 shares of common stock in July 2009.

During the three months ended July 31, 2009, the Company sold to one accredited investor a four month unsecured 10% note due November 8, 2009 in the amount of \$20,000. As an inducement for the loan, the note holder was given 80,000 shares of the Company's common stock.

During the three months ended July 31, 2009, the Company sold to one accredited investor unsecured 8% demand notes in the aggregate amount of \$149,000. At the Company's option, the notes are convertible into shares of common stock ranging from \$0.02 to \$0.048 per share.

During the three months ended July 31, 2009, the Company sold to one accredited investor an unsecured 10% note in the amount of \$20,000. At the note holder's option, the notes are convertible into shares of common stock at \$0.02 per share.

During the three months ended July 31, 2009, pursuant to the terms of a March 2009 consulting agreement, the Company issued 2,500,000 shares of its common stock valued at \$75,000. The agreement requires the Company to issue an additional 3,500,000 shares, payable 500,000 per month in arrears.

During the three months ended July 31, 2009, pursuant to the terms of his note, the Company issued 200,000 shares of its common stock to one note holder in payment of \$6,600.99 in accrued interest and \$3,399.01 for principal reduction of the note.

On July 29, 2009, we entered into a Preferred Stock Purchase Agreement with Optimus Capital Partners, LLC. Upon the terms and subject to the conditions of the agreement, Optimus is committed to purchase up to \$5,000,000 of our Series B Preferred Stock for a one year period. From time to time, we may require Optimus to purchase shares of our Series B Preferred Stock, subject to satisfaction of certain closing conditions. In connection with each draw down, we will also issue Optimus a five-year common stock purchase warrant. The warrant will have an exercise price equal to the closing price of our common stock on the preceding trading day, and be exercisable into such number of common shares equal in value to 135% of the purchase price of the Series B Preferred Stock issued. The warrant may be exercised by cash payment, by delivery of a recourse promissory note, or by cashless exercise. We agreed, to file after each drawn down, and to seek and maintain effectiveness of, a registration statement covering the shares underlying the issued warrants. On the earlier of the first draw down or 6 months from the date of the agreement, we are to pay a non-refundable commitment fee of \$250,000 to Optimus. Pursuant to a concurrent transaction between Optimus and several of our non-affiliated stockholders, Optimus can borrow up to 33,990,000 shares of our common stock from them.

ITEM 6.

SELECTED FINANCIAL DATA

Not applicable.

ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

"FORWARD-LOOKING" INFORMATION

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

The following discussion and analysis should be read in conjunction with the information set forth in the audited financial statements for the years ended April 30, 2009 and April 30, 2008 and footnotes found in the Company's Annual Report on Form 10-K.

RESULTS OF OPERATIONS

For the year ended April 30, 2009, we have generated marginally increased revenues, have incurred significant expenses, and have sustained significant losses. We believe we will continue generate increasing revenues from operations in fiscal 2010.

Revenues

Revenues totaled \$1,144,644 in fiscal 2009 compared to revenues of \$1,129,691 in fiscal 2008. Fiscal 2009 revenues were primarily comprised of \$759,801 in interest income from Retail Installment Sales Contracts, \$298,476 in income from Operating and Finance Leases, \$14,492 in Commissions on municipal lease transactions, \$28,737 from gain on disposition of vehicles, and \$43,139 in other fee income.

Costs and Expenses

We incurred employee compensation and benefit costs of \$1,461,957 for the year ended April 30, 2009 compared with \$1,720,945 in fiscal 2008. The decrease is related to the reduced costs we recognized in decreasing our employee base during the year from 18 employees at fiscal year-end 2008 to 14 employees at fiscal year-end 2009. In order for us to expand our business in the future and to attract and retain quality personnel, management anticipates that we will continue to offer competitive compensation, including awards of common stock or stock options, to consultants and employees.

We paid \$290,639 and \$322,020 to its Chief Executive Officer, in fiscal 2009 and 2008, respectively. These payments were charged to operations, and are included in the compensation costs described above.

In connection with placement transactions, we expensed non-cash costs in the form of shares of common stock or warrants of \$605,389 and \$449,926 for the years ended April 30, 2009 and 2008, respectively. In connection with consulting services, we expensed non-cash costs in the form of shares of common stock or warrants of \$633,629 and \$206,850 for the years ended April 30, 2009 and 2008, respectively. These amounts were charged to financing costs.

Additionally, during the fiscal year ended April 30, 2009, we expensed \$222,409 as the value of employee stock and option based compensation as compared to \$261,850 in the prior fiscal year. At April 30, 2009 and 2008, accrued preferred dividends of \$758 and \$28,422, respectively, which were charged to retained earnings.

We incurred consulting costs of \$166,800 for the year ended April 30, 2009, as compared to \$215,399 for the year ended April 30, 2008. This decrease was the result of reduced reliance on outside consultants. We incurred legal and accounting fees of \$187,891 for the year ended April 30, 2009, as compared to \$226,933 for the year ended April 30, 2008.

We incurred other operating expenses of \$1,089,029 for the year ended April 30, 2009. Notable expenses in this category are: general office expenses of \$78,067; rent of \$310,419; loss reserve expense of \$445,288; travel and entertainment of \$52,423; utilities of \$66,857; web development of \$30,226; credit bureaus of \$39,714; lease booking fees of \$13,250; marketing of \$18,319; maintenance contracts of \$17,665; and taxes of \$16,799. We incurred other operating expenses of \$1,043,238 for the year ended April 30, 2008. Notable expenses in this category are: general office expenses of \$290,621; rent of \$225,953; loss reserve expense of \$125,252; travel and entertainment of \$92,411; utilities of \$82,719; web development of \$89,387; credit bureaus of \$43,728; marketing of \$40,902; maintenance contracts of \$18,039; and taxes of \$23,208.

Interest costs for the fiscal year ended April 30, 2009 were \$963,890 as compared to \$702,233 for the fiscal year ended April 30, 2008. Depreciation and amortization for the fiscal year ended April 30, 2009 was \$310,601 as compared to \$274,773 for the fiscal year ended April 30, 2008.

Net Loss

Our net loss attributable to common stockholders for the year ended April 30, 2009 increased \$901,828 (22.4%) to \$4,922,605 from a loss of \$4,020,776 for the year ended April 30, 2008. The increase in net loss attributable to common stockholders was primarily due to: a \$200,841 (5.1%) increase in total operating expenses from \$3,969,988 to \$4,170,829; a \$14,953 (1.3%) increase in revenues from \$1,129,691 to \$1,144,644; and a \$743,604 (64.5%) increase in interest expense and financing costs from \$1,152,259 to \$1,895,661.

Our net loss per common share (basic and diluted) attributable to common stockholders was \$0.03 for the year ended April 30, 2009 and \$0.03 for the year ended April 30, 2008.

LIQUIDITY AND CAPITAL RESOURCES

As of April 30, 2009, we had a deficit net worth of \$6,126,410. We generated a deficit in cash flow from operations of \$2,303,295 for the year ended April 30, 2009. This deficit is primarily attributable to net loss from operations of \$4,922,605, adjusted for equity based compensation of \$915,652, stock based financing costs of \$539,240 allowance for loss reserve of \$156,432, beneficial conversion discount of convertible securities of \$325,000, issuance of shares for debt and accrued interest of \$226,941, and extinguishment of preferred dividends payable of \$117,437, and to changes in the balances of current assets, consisting primarily of an increase in pre-paid expenses of \$532,849 and a decrease in other receivables of \$9,223, and current liabilities, consisting primarily of an increase in accounts payable of \$562,407 and a decrease in restricted cash of \$96,039. Cash flows provided by investing activities for the year ended April 30, 2009 were \$1,239,431, comprising of \$449,002 for the retirement of leased vehicles, liquidation of Retail Installment Sales Contracts in the amount of \$863,065, and the purchase of a portfolio of loans on leases of \$72,635. We met our cash requirements during the period through net proceeds from the issuances of notes of \$2,382,415, and we repaid senior loans of \$1,441,542 during the period.

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.

In December 2008 we, along with our wholly-owned affiliate, Sparta Funding LLC, a Delaware limited liability company, entered into a \$25,000,000 committed, extendable, secured credit facility with DZBank AG Deutsche Zentral-Genossenschaftsbank, Frankfurt am Main, New York Branch pursuant to a Revolving Credit Agreement which

allows Sparta Funding to borrow 80% of the value of a powersports vehicle in the case of leased vehicles or 80% of the amount financed by the ultimate purchaser in the case of vehicles, which are sold at a floating interest rate equal to 30 day commercial paper rate plus 275 basis points. We will serve as originator and servicer of the leases and purchases financed by Sparta Funding through the DZBank credit facility. We are required to satisfy certain tangible net worth and committed capital thresholds as a condition of accessing funds under the DZBank credit facility.

On July 29, 2009, we entered into a Preferred Stock Purchase Agreement with Optimus Capital Partners, LLC, pursuant to which Optimus, upon the terms and subject to the conditions of the agreement, is committed to purchase up to \$5,000,000 of our Series B Preferred Stock. From time to time until July 28, 2010, we may require Optimus to purchase shares of our Series B Preferred Stock, subject to satisfaction of certain closing conditions.

We believe that the proceeds from the sale of preferred stock to Optimus, as described above, when combined with the conversion of \$3,475,958 in convertible notes outstanding at April 30, 2009, which are convertible at the Company's option, and \$1,626,500 in other notes outstanding at April 30, 2009, for which the Company has received verbal commitments for the future conversion of all but \$250,000 in such notes (however, there can be no assurance that the note holders will in fact convert), will satisfy the minimum thresholds to utilize the DZBank credit facility.

We continue seeking additional financing, which may be in the form of subordinated debt, in order to provide support for the DZBank credit facility. Other than described above, we currently have no commitments for financing. There is no guarantee that we will be successful in raising the funds required.

We estimate that we will need approximately \$2,000,000 in addition to our normal operating cash flow to conduct operations during the next twelve months. Based on 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.

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

The independent auditors report on our April 30, 2009 and 2008 financial statements included in this Annual Report states that our historical losses and the lack of revenues raise substantial doubts about our ability to continue as a going concern, due to the losses incurred and lack of significant operations. 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 the Company's common stock. We can make no assurances that our business operations will develop and provide us with significant cash to continue operations.

PLAN OF OPERATIONS

Addressing the Going Concern Issues

In order to improve our liquidity, our management is actively pursuing additional equity financing through discussions with investment bankers and private investors. There can be no assurance that we will be successful in our efforts to secure additional equity financing.

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

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

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

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

Product Research and Development

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

Acquisition or Disposition of Plant and Equipment

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

Number of Employees

From our inception through the period ended April 30, 2009, we have relied on the services of outside consultants for services and currently have fourteen full-time employees. In order for us to attract and retain quality personnel, we anticipate we will have to offer competitive salaries to future employees. If we fully implement our business plan, we anticipate our employment base may increase by approximately 50% during the next twelve months. As we continue to expand, we will incur additional cost for personnel. This projected increase in personnel is dependent upon our generating revenues and obtaining sources of financing. There is no guarantee that we will be successful in raising the funds required or generating revenues sufficient to fund the projected increase in the number of employees.

Inflation

The impact of inflation on our costs and the ability to pass on cost increases to our customers over time is dependent upon market conditions. We are not aware of any inflationary pressures that have had any significant impact on our operations over the past year, and we do not anticipate that inflationary factors will have a significant impact on future operations.

CRITICAL ACCOUNTING POLICIES

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

policies affecting our financial statements, we believe the following critical accounting policy involves the most complex, difficult and subjective estimates and judgments.

Revenue Recognition

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

The RISCs are secured by liens on the titles to the vehicles. The RISCs are accounted for as loans. Upon purchase, the RISCs appear on 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 SFAS No. 123(R) during third quarter of Fiscal year 2006, which no longer permits the use of the intrinsic value method under APB No. 25. The Company is recording the compensation expense on a straight-line basis, generally over the explicit service period of three to five years.

SFAS 123(R) 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.

RECENT ACCOUNTING PRONOUNCEMENTS

For information regarding recent accounting pronouncements and their effect on the Company, see “Recent Accounting Pronouncements” in Note A of the Notes to Consolidated Financial Statements contained herein.

Off-Balance Sheet Arrangements

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

ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Not applicable.

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

	Page
Report of Independent Registered Public Accounting Firm	26
Balance Sheets as of April 30, 2009 and 2008	27
Statements of Losses for the years ended April 30, 2009 and 2008	28
Statement of Deficiency in Stockholders' Equity for the years ended April 30, 2009 and 2008	29
Statements of Cash Flows for the years ended April 30, 2009 and 2008	30
Notes to Financial Statements	31 – 52

25

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

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

We have audited the accompanying consolidated balance sheets of Sparta Commercial Services, Inc., as of April 30, 2009 and 2008, and the related consolidated statements of losses, deficiency in stockholders' equity and cash flows for each of the two years in the period ended April 30, 2009. These financial statements are the responsibility of the company's management. Our responsibility is to express an opinion on the financial statements based upon our audits.

We conducted our audits in accordance with standards of the Public Company Accounting Oversight Board (United States of America). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatements. The Company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. Our audit included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly we express no such opinion. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of Sparta Commercial Services, Inc. at April 30, 2009 and 2008, and the consolidated results of its operations and its cash flows for each of the two years in the period ended April 30, 2009, in conformity with accounting principles generally accepted in the United States of America.

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

New York, New York
August 13, 2009

/s/ R B S M LLP

SPARTA COMMERCIAL SERVICES, INC.
CONSOLIDATED BALANCE SHEETS

	April 30, 2009	April 30, 2008
ASSETS		
Cash and cash equivalents	\$ 2,790	\$ 68,642
RISC loan receivables, net of reserve of \$235,249 and \$86,312, respectively (NOTE D)	3,248,001	4,260,002
Motorcycles and other vehicles under operating leases net of accumulated depreciation of \$256,485 and \$336,100, respectively, and loss reserve of \$32,726 and \$25,231, respectively (NOTE B)	621,797	1,251,631
Interest receivable	49,160	58,382
Purchased portfolio (NOTE F)	72,635	-
Accounts receivable	17,899	37,024
Inventory (NOTE C)	12,514	79,069
Property and equipment, net of accumulated depreciation and amortization of \$147,905 and \$129,986, respectively (NOTE E)	43,342	61,261
Prepaid expenses	593,529	-
Restricted cash	348,863	444,902
Deposits	48,967	48,967
Total assets	\$ 5,059,497	\$ 6,309,879
LIABILITIES AND DEFICIENCY IN STOCKHOLDERS' EQUITY		
Liabilities:		
Bank overdraft	\$ 57,140	\$ -
Accounts payable and accrued expenses	1,851,876	1,461,955
Accrued equity based penalties	-	2,178
Senior secured notes payable (NOTE F)	3,694,838	5,029,864
Note payable (NOTE G)	5,102,458	3,812,859
Loans payable-related parties (NOTE H)	378,260	244,760
Other liabilities	88,285	6,741
Deferred revenue	13,050	22,617
Total liabilities	11,185,907	10,580,974
Deficiency in Stockholders' Equity:		
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, 125 and 825 shares issued and outstanding, respectively	12,500	82,500
Common stock, \$.001 par value; 340,000,000 shares authorized, 170,730,064 and 130,798,657 shares issued and outstanding, respectively	170,730	130,799
Common stock to be issued, 16,735,453 and 12,160,210 respectively	16,735	12,160
Additional paid-in-capital	20,820,672	17,727,889
Accumulated deficit	(27,147,047)	(22,224,442)
Total deficiency in stockholders' equity	(6,126,410)	(4,271,095)
Total Liabilities and deficiency in stockholders' equity	\$ 5,059,497	\$ 6,309,879

See accompanying notes to consolidated financial statements.

SPARTA COMMERCIAL SERVICES, INC.
CONSOLIDATED STATEMENT OF LOSSES

	Year Ended April 30,	
	2009	2008
Revenue		
Rental income, Leases	\$ 298,476	\$ 391,029
Interest income, Loans	759,801	615,531
Other	86,367	123,131
Total revenue	1,144,644	1,129,691
Operating expenses:		
General and administrative	3,860,228	3,695,215
Depreciation and amortization	310,601	274,773
Total operating expenses	4,170,829	3,969,988
Loss from operations	(3,026,186)	(2,840,297)
Other expense (income):		
Interest expense and financing cost, net	1,895,661	1,152,259
Change in value of warrant liabilities	-	(202)
	1,895,661	1,152,057
Net loss	(4,921,846)	(3,992,354)
Preferred dividend	758	28,422
Net loss attributed to common stockholders	\$ (4,922,605)	\$ (4,020,776)
Basic and diluted loss per share	\$ (0.03)	\$ (0.03)
Basic and diluted loss per share attributed to common stockholders	\$ (0.03)	\$ (0.03)
Weighted average shares outstanding	159,112,249	127,304,396

See accompanying notes to consolidated financial statements.

SPARTA COMMERCIAL SERVICES, INC.
 CONSOLIDATED STATEMENT OF (DEFICIENCY IN) STOCKHOLDERS' EQUITY
 FOR THE TWO YEARS ENDED APRIL 30, 2009

	Preferred Stock		Common Stock		Common Stock to be issued		Additional Paid in Capital	Deferred Compensation	Accumulated Deficit	Total
	Shares	Amount	Shares	Amount	Shares	Amount				
Balance, April 30, 2007	19,795	\$ 1,979,500	123,216,157	\$ 123,215	-	\$ -	\$ 14,595,827	\$ (24,000)	\$ (18,203,666)	\$ (1,529,000)
Shares issued	-	-	-	-	-	-	-	-	-	-
Conversion of preferred shares issued	(18,970)	(1,897,000)	-	-	12,160,210	12,160	1,884,840	-	-	-
Shares issued financing	-	-	4,982,500	4,983	-	-	403,818	-	-	408,801
Deferred compensation recorded	-	-	-	-	-	-	-	24,000	-	24,000
Stock compensation recorded	-	-	2,600,000	2,600	-	-	174,400	-	-	177,000
Employee compensation recorded	-	-	-	-	-	-	20,000	-	-	20,000
Share repurchases	-	-	-	-	-	-	261,850	-	-	261,850
Grant of restricted stock	-	-	-	-	-	-	189,503	-	-	189,503
Deferred compensation recorded	-	-	-	-	-	-	-	-	(28,422)	(28,422)
Dividends	-	-	-	-	-	-	-	-	-	-
Deferred compensation recorded	-	-	-	-	-	-	215,649	-	-	215,649
Restructuring costs	-	-	-	-	-	-	(17,997)	-	-	(17,997)
Net loss	-	-	-	-	-	-	-	-	(3,992,354)	(3,992,354)
Balance, April 30, 2008	825	\$ 82,500	130,798,657	\$ 130,798	12,160,210	\$ 12,160	\$ 17,727,890	\$ -	\$ (22,224,442)	\$ (4,271,000)
	(700)	(70,000)	1,875,000	1,875	(1,426,280)	(1,426)	69,551	-	-	-

Shares issued										
Conversion of preferred										
Official										
Conversion										
Amount	-	-	-	-	100,000	100	324,900	-	-	325,000
Issued										
Preferred										
Dividend	-	-	-	-	-	-	117,438	-	(758)	116,680
Shares issued										
Financing	-	-	7,272,000	7,272	586,000	586	531,382	-	-	539,658
Shares issued										
Accrued										
Interest	-	-	2,585,420	2,585	482,190	482	114,815	-	-	117,477
Shares issued										
Conversion										
Warrants	-	-	20,714,217	20,714	3,333,333	3,333	1,003,753	-	-	1,027,800
Stock										
Compensation										
Accrued	-	-	7,484,769	7,485	1,500,000	1,500	624,644	-	-	633,634
Shares issued										
Debt										
Conversion	-	-	-	-	-	-	-	-	-	-
Employee										
Compensation										
Accrued	-	-	-	-	-	-	15,000	-	-	15,000
Employee										
Expense	-	-	-	-	-	-	222,409	-	-	222,409
Plant										
Expense	-	-	-	-	-	-	46,791	-	-	46,791
Repairs	-	-	-	-	-	-	6,881	-	-	6,881
Plant										
Expenditure	-	-	-	-	-	-	15,217	-	-	15,217
Loss	-	-	-	-	-	-	-	-	(4,921,846)	(4,921,846)
Balance, April 30, 2009	125	\$ 12,500	170,730,064	\$ 170,730	16,735,453	\$ 16,735	\$ 20,820,672	\$ -	\$ (27,147,047)	\$ (6,126,375)

See accompanying notes to consolidated financial statements.

SPARTA COMMERCIAL SERVICES, INC.
CONSOLIDATED STATEMENT OF CASH FLOWS

	Year end April 30, 2009	Year end April 30, 2008
CASH FLOWS FROM OPERATING ACTIVITIES		
Net Loss	\$ (4,921,846)	\$ (3,992,354)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation	191,256	274,773
Allowance for loss reserves	156,432	26,147
Amortization of deferred revenue	(9,567)	(24,148)
Amortization of deferred compensation	-	24,000
Amortization of beneficial conversion feature	325,000	-
Shares issued for financing costs	226,941	-
Equity based compensation	915,652	488,700
Stock based finance cost	539,240	449,926
Extinguishment of dividend payable	117,437	215,253
Change in fair value of warrant liability	15,217	-
Changes in operating assets and liabilities:	-	-
(Increase) decrease in:		
Other Receivables	9,223	(32,550)
Prepaid expenses and other assets	(532,849)	(9,887)
Restricted cash	96,039	(159,959)
Deposits and other	6,881	1,725
Increase (decrease) in:		
Accounts payable and accrued expenses	561,649	281,621
Net cash used in operating activities	(2,303,295)	(2,456,753)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Net proceeds from (payments for) motorcycles and other vehicles	449,002	(403,951)
Net proceeds from (payment for) RISC contracts	863,065	(1,852,442)
Purchase of portfolio	(72,635)	-
Net cash provided by (used in) investing activities	1,239,431	(2,256,393)
CASH FLOWS FROM FINANCING ACTIVITIES		
Net Proceeds from notes from senior lender	(1,441,542)	2,044,657
Net proceeds from notes	2,248,915	2,672,600
Net Loan proceeds from other related parties	133,500	42,500
Net cash provided by financing activities	940,873	4,759,757
Net Increase (decrease) in cash	\$ (122,992)	\$ 46,611
Unrestricted cash and cash equivalents, beginning of period	\$ 68,642	22,032
Unrestricted cash and cash equivalents , end of period	\$ (54,350)	\$ 68,643
Cash paid for:		
Interest	\$ 570,618	\$ 400,868

Income taxes	\$	2,366	\$	23,208
--------------	----	-------	----	--------

Non-Cash Investing and Financing Activities (Note N)

See accompanying notes to consolidated financial statements.

30

SPARTA COMMERCIAL SERVICES, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
APRIL 30, 2009 AND 2008

NOTE A - SUMMARY OF ACCOUNTING POLICIES

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

Business and Basis of Presentation

The Company is in the business as an originator and indirect lender for retail installment loan and lease financing for the purchase or lease of new and used motorcycles (specifically 550cc and higher) and utility-oriented 4-stroke all terrain vehicles (ATVs).

On December 10, 2008, we formed Sparta Funding, LLC ("Sparta Funding"), a Delaware limited liability company, for which we are the sole member. Sparta Funding was formed as a special purpose company to borrow funds from DZ Bank (see Note M).

Estimates

The preparation of the consolidated 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, and unearned income at lease inception is amortized over the lease term.

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.

SPARTA COMMERCIAL SERVICES, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
APRIL 30, 2009 AND 2008

NOTE A - SUMMARY OF ACCOUNTING POLICIES (continued)

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. At April 30, 2009 and 2008, the Company had recorded deferred revenue related to these contracts of \$13,050 and \$22,617, respectively.

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 Emerging Issue Task Force ("EITF") No. 00-02, "Accounting for Website Development Costs." As such, the Company expenses all costs incurred that relate to the planning and post implementation phases of development of its website. Direct costs incurred in the development phase are capitalized and recognized over the estimated useful life. Costs associated with repair or maintenance for the website are included in cost of net revenues in the current period expenses.

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.

Income Taxes

Deferred income taxes are provided using the asset and liability method for financial reporting purposes in accordance with the provisions of Statements of Financial Standards No. 109, "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.

SPARTA COMMERCIAL SERVICES, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
APRIL 30, 2009 AND 2008

NOTE A - SUMMARY OF ACCOUNTING POLICIES (continued)

In June 2006, the FASB issued FASB Interpretation No. 48, Accounting for Uncertainty in Income Taxes-an interpretation of FASB Statement No. 109 ("FIN 48"). FIN 48 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. FIN 48 also provides guidance on derecognition, classification, treatment of interest and penalties, and disclosure of such positions. As a result of implementing FIN 48, there has been no adjustment to the Company's financial statements and the adoption of FIN 48 did not have a material effect on the Company's consolidated financial statements for the year ending April 30, 2009.

Fair Value Measurements

Effective May 1, 2009, the Company adopted SFAS No. 157, Fair Value Measurements (SFAS 157). SFAS 157 establishes a three-level fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value of certain assets and liabilities. The hierarchy gives the highest priority to unadjusted quoted prices in active markets the lowest priority to unobservable inputs to fair value measurements. The three levels of the fair value hierarchy under SFAS 157 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.

Impairment of Long-Lived Assets

In accordance with SFAS 144, 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

Statement of Financial Accounting Standards No. 130 ("SFAS 130"), 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, SFAS 130 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 April 30, 2009 and 2008, the Company has no items of other comprehensive income.

SPARTA COMMERCIAL SERVICES, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
APRIL 30, 2009 AND 2008

NOTE A - SUMMARY OF ACCOUNTING POLICIES (continued)

Segment Information

The Company does not have separate, reportable segments under Statement of Financial Accounting Standards No. 131, Disclosures about Segments of an Enterprise and Related Information ("SFAS 131"). SFAS 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. SFAS 131 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 SFAS No. 123(R) during third quarter of Fiscal year 2006, which no longer permits the use of the intrinsic value method under APB No. 25. The Company is recording the compensation expense on a straight-line basis, generally over the explicit service period of three to five years.

SFAS 123(R) 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.

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.

SPARTA COMMERCIAL SERVICES, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
APRIL 30, 2009 AND 2008

NOTE A - SUMMARY OF ACCOUNTING POLICIES (continued)

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 years ended April 30, 2009 and 2008, the Company incurred advertising costs of \$8,116 and \$24,274, respectively.

Net Loss Per Share

The Company uses SFAS No. 128, "Earnings Per Share" for calculating the basic and diluted loss per share. We compute 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.

Per share basic and diluted net loss attributable to common stockholders amounted to \$0.03 and \$0.03 for the years ended April 30, 2009 and 2008, respectively. At April 30, 2009 and 2008, 37,948,231 and 87,421,173 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 consolidated financial statements, the Company has incurred a net loss of \$4,921,846 and \$3,992,354 during the years ended April 30, 2009 and 2008, respectively. The Company's liabilities exceed its assets by \$6,126,410 as of April 30, 2009.

Reclassifications

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

SPARTA COMMERCIAL SERVICES, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
APRIL 30, 2009 AND 2008

NOTE A - SUMMARY OF ACCOUNTING POLICIES (continued)

New Accounting Pronouncements

In December 2007, the FASB issued SFAS No. 141(R), "Business Combinations" ("SFAS No. 141(R)"), which establishes principles and requirements for how an acquirer recognizes and measures in its financial statements the identifiable assets acquired, the liabilities assumed, and any noncontrolling interest in an acquiree, including the recognition and measurement of goodwill acquired in a business combination. SFAS No. 141R is effective as of the beginning of the first fiscal year beginning on or after December 15, 2008. The Company does not expect the adoption of SFAS No. 141(R) will have significant effect on its results of operations and financial condition.

In December 2007, the FASB issued SFAS No. 160, "Noncontrolling Interest in Financial Statements, an amendment of ARB No. 51" ("SFAS No. 160"), which will change the accounting and reporting for minority interests, which will be recharacterized as noncontrolling interests and classified as a component of equity within the balance sheets. SFAS No. 160 is effective as of the beginning of the first fiscal year beginning on or after December&