SPARTA COMMERCIAL SERVICES, INC.
Form 10-Q
September 21, 2009

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

FORM 10-Q

(Mark One)

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

For the quarterly period ended July 31, 2009

o TRANSITION REPORT UNDER SECTION 13 OR 15(d) OF THE EXCHANGE ACT

For the transition period from ________ to ___________.

Commission file number: 0-9483

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

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

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

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

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. x Yes o No

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

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

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

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

As of September 17, 2009, we had 317,282,431 shares of common stock issued and outstanding.

SPARTA COMMERCIAL SERVICES, INC.

FORM 10-Q
FOR THE QUARTER ENDED JULY 31, 2009

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PART I. FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

SPARTA COMMERCIAL SERVICES, INC.
CONDENSED CONSOLIDATED BALANCE SHEETS

	July 31, 2009 (Unaudited)	April 30, 2009
ASSETS		
Cash and cash equivalents	$ 3,713	$ 2,790
RISC loan receivable, current, net of reserve of $200,943 and $235,249 as of July 31, 2009 and April 30, 2009, respectively (NOTE D)	2,716,084	3,248,001
Motorcycles and other vehicles under operating leases, net of accumulated accumulated depreciation of $238,490 and $256,485, as of July 31,2009 and April 30, 2009, respectively and loss reserve of $28,040 and $32,726, as of July 31, 2009 and April 30, 2009, respectively (NOTE B)	540,766	621,797
Interest receivables	40,789	49,160,
Purchased Portfolio (NOTE F)	54,695	72,635
Accounts receivable	48,018	17,899
Inventory (NOTE C)	15,116	12,514
Property and equipment, net of accumulated depreciation and amortization of $152,385 and $147,905, respectively (NOTE E)	38,862	43,342
Prepaid expenses	504,500	593,529
Restricted cash	271,650	348,863
Deposits	48,967	48,967
Total assets	$ 4,283,159	$ 5,059,497
LIABILITIES AND STOCKHOLDERS' DEFICIT		
Bank overdraft	$ 19,975	$ 57,140
Accounts payable and accrued expenses	1,620,137	1,851,876
Notes payable - Senior Lender (NOTE F)	3,127,230	3,694,838
Notes payable (NOTE G)	1,723,899	5,102,458
Loans payable related parties (NOTE H)	378,260	378,260
Other liabilities	-	88,285
Deferred revenue	11,700	13,050
Total liabilities	6,881,202	11,185,907
Stockholders' deficit:		
Preferred stock, $0.001 par value; 10,000,000 shares authorized of which 35,850 shares have been designated as Series A convertible preferred stock, with a		

		July 31, 2009		April 30, 2009
stated value of $100 per share, 125 and 125 shares issued and outstanding, as of July 31, 2009 and April 30, 2009, respectively	$	12,500	$	12,500
Common stock, $0.001 par value; 340,000,000 shares authorized, 308,656,684 and 170,730,064 shares issued and outstanding, as of July 31, 2009 and April 30, 2009, respectively		308,657		170,730
Common stock to be issued, 1,540,950 and 16,735,453 shares, as of July 31, 2009 and April 30, 2009, respectively		1,541		16,735
Additional paid-in capital		25,220,953		20,820,672
Accumulated deficit		(28,141,694)		(27,147,047)
Total stockholders' deficit		(2,598,043)		(6,126,410)
Total liabilities and stockholders' deficit	$	4,283,159	$	5,059,497

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

SPARTA COMMERCIAL SERVICES, INC.
CONDENSED CONSOLIDATED STATEMENTS OF LOSSES
FOR THE THREE MONTHS ENDED JULY 31, 2009 AND 2008
(UNAUDITED)

	Three Months Ended July 31,	
	2009	2008
Revenue:		
Rental Income, Leases	$ 53,068	$ 89,694
Interest Income, Loans	138,865	204,044
Other	24,870	101,182
Total Revenues	216,804	394,919
Operating expenses:		
General and administrative	592,197	1,364,152
Depreciation and amortization	122,692	61,083
Total operating expenses	714,889	1,425,235
Loss from operations	(498,085)	(1,030,316)
Other expense:		
Interest expense and financing cost, net	(496,371)	(678,727)
Net loss	(994,456)	(1,709,042)
Preferred dividend payable	191	1,261
Net loss attributed to common stockholders	$ (994,647)	$ (1,710,304)
Basic and diluted loss per share	$ (0.01)	$ (0.01)
Basic and diluted loss per share attributed to common stockholders	$ (0.01)	$ (0.01)
Weighted average shares outstanding	178,702,244	146,924,245

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

SPARTA COMMERCIAL SERVICES, INC.
CONSOLIDATED STATEMENT OF STOCKHOLDERS' DEFICIT
FOR THE THREE MONTHS ENDED JULY 31, 2009

	Preferred Stock		Common Stock		Common Stock to be issued		Additional			
	Shares	Amount	Shares	Amount	Shares	Amount	Paid in Capital	Deferred Compensation	Accumulated Deficit	Total
Balance, April 30, 2009	125	$ 12,500	170,730,064	$ 170,730	16,735,453	$ 16,735	$ 20,820,672	$ -	$ (27,147,047)	$ (6,126,410)
Cancellation of shares	-	-	(400)	(0.40)	-	-	0.4	-	-	-
Sale of Stock	-	-	-	-	1,007,049	1,007	48,993	-	-	50,000
Shares issued for preferred stock conversion	-	-	10,733,974	10,733	(10,733,980)	(10,733)	-	-	-	-
Accrued Preferred Div.	-	-	-	-	-	-	-	-	(191)	(191)
Shares issued for financing cost	-	-	1,458,000	1,458	348,000	348	99,754	-	-	101,560
Shares issued for Accrued interest	-	-	200,000	200	(200,000)	(200)	-	-	-	-
Shares issued for conversion of notes & int.	-	-	122,286,961	122,289	(3,615,520)	(3,615)	4,003,564	-	-	4,122,237
Stock compensation	-	-	2,500,000	2,500	(2,000,000)	(2,000)	29,000	-	-	29,500
Shares issued for payables	-	-	748,086	748	-	-	43,799	-	-	44,547
Employee Option Expense	-	-	-	-	-	-	43,660	-	-	43,660
Warrant Compensation	-	-	-	-	-	-	131,511	-	-	131,511
Net Loss	--	-	-	-	-	-	-	-	(994,456)	(994,456)
Balance, July 31, 2009	125	$ 12,500	308,656,684	$ 308,657	1,541,002	$ 1,541	$ 25,220,953	$ -	$ (28,141,694)	$ (2,598,043)

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

SPARTA COMMERCIAL SERVICES, INC.
CONDENSED STATEMENTS OF CASH FLOWS
FOR THE THREE MONTHS ENDED JULY 31, 2009 AND 2008
(UNAUDITED)

	Three Months Ended July 31,	
	2009	2008
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net loss	$ (994,456)	$ (1,709,042)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation and amortization	31,663	61,083
Allowance for loss reserve	(38,992)	(1,330)
Amortization of deferred revenue	(1,350)	(3,850)
Amortization of beneficial conversion features	-	318,182
Equity based compensation	204,671	770,364
Stock based financing cost	101,560	-
Changes in operating assets and liabilities:		
(Increase) decrease in:		
Interest receivable	(10,149)	(6,256)
Prepaid expenses and other assets	(41,442)	(26,927)
Restricted cash	77,214	(9,598)
Increase (decrease) in:		
Accounts payable and accrued expenses	257,138	(119,086)
Net cash provided by (used) in operating activities	(414,143)	(726,458)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Net Proceeds from (Payments for) motorcycles and other vehicles	103,713	242,511
Net Purchases from (payments for) of RISC contracts	566,223	(393,354)
Net cash provided by (used in) investing activities	669,935	(150,843)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Sale of common stock	50,000	-
Proceeds from (payments to) notes from senior lender	(566,105)	107,147
Net Proceeds from (payments on) convertible notes	-	842,500
Net Proceeds from (payments on) other notes	298,399	(84,000)
Net Loan proceeds from other related parties	-	7,500
Net cash provided by (used in)financing activities	(217,706)	873,147
Net Increase (decrease) in cash	38,086	(4,154)
Cash and cash equivalents, beginning of period	$ (54,349)	$ 68,642
Cash and cash equivalents, end of period	$ (16,261)	$ 64,488
Cash paid for:		
Interest	$ 118,077	$ 103,142
Income taxes	$ -	$ 993

Non-Cash Transactions:			
Common stock issued in exchange for previously incurred debt and other liabilities	$	4,170,400	700,000

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

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SPARTA COMMERCIAL SERVICES, INC.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
JULY 31, 2009
(UNAUDITED)

NOTE A - SUMMARY OF ACCOUNTING POLICIES

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

Basis of Presentation

The accompanying unaudited condensed consolidated financial statements as of July 31, 2009 and for the three month periods ended July 31, 2009 and 2008 have been prepared by the Company pursuant to the rules and regulations of the Securities and Exchange Commission, including Form 10-Q and Regulation S-K and Form 10-QSB and Regulation S-B. The information furnished herein reflects all adjustments (consisting of normal recurring accruals and adjustments), which are, in the opinion of management, necessary to fairly present the operating results for the respective periods. Certain information and footnote disclosures normally present in annual financial statements prepared in accordance with accounting principles generally accepted in the United States of America have been omitted pursuant to such rules and regulations. The Company believes that the disclosures provided are adequate to make the information presented not misleading. These financial statements should be read in conjunction with the audited financial statements and explanatory notes for the year ended April 30, 2009 as disclosed in the Company's 10-K for that year as filed with the SEC, as it may be amended.

On December 10, 2008, the Company formed Sparta Funding, LLC ("Sparta Funding"), a Delaware limited liability company, for which the Company is the sole member. Sparta Funding was formed as a special purpose company to borrow funds from DZ Bank (see Part II, Item 1A).

The results of the three months ended July 31, 2009 are not necessarily indicative of the results to be expected for the full year ending April 30, 2010.

Estimates

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

Revenue Recognition

The Company originates leases on new and used motorcycles and other powersports vehicles from motorcycle dealers throughout the United States. The Company's leases are accounted for as either operating leases or direct financing leases. At the inception of operating leases, no lease revenue is recognized and the leased motorcycles, together with the initial direct costs of originating the lease, which are capitalized, appear on the balance sheet as "motorcycles under operating leases-net". The capitalized cost of each motorcycle is depreciated over the lease term, on a straight-line basis, down to the Company's original estimate of the projected value of the motorcycle at the end of the scheduled lease term (the "Residual"). Monthly lease payments are recognized as rental income. Direct financing leases are recorded at the gross amount of the lease receivable (principal amount of the contract plus the calculated earned income over the life of the contract), and the unearned income at lease inception is amortized over the lease term.

SPARTA COMMERCIAL SERVICES, INC.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
JULY 31, 2009
(UNAUDITED)

NOTE A - SUMMARY OF ACCOUNTING POLICIES (continued)

The Company purchases Retail Installment Sales Contracts (“RISC”) from motorcycle dealers. The RISCs are secured by liens on the titles to the vehicles. The RISCs are accounted for as loans. Upon purchase, the RISCs appear on the Company’s balance sheet as RISC loan receivable current and long term. Interest income on these loans is recognized when it is earned.

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

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.

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.

SPARTA COMMERCIAL SERVICES, INC.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
JULY 31, 2009
(UNAUDITED)

NOTE A - SUMMARY OF ACCOUNTING POLICIES (continued)

Income Taxes

Deferred income taxes are provided using the asset and liability method for financial reporting purposes in accordance with the provisions of 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.

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 or the three months ended July 31, 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. The hierarchy gives the highest priority to unadjusted quoted prices in active markets the lowest priority to unobservable inputs to fair value measurements of certain assets and Liabilities. The three levels of the fair value hierarchy under 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.

SPARTA COMMERCIAL SERVICES, INC.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
JULY 31, 2009
(UNAUDITED)

NOTE A - SUMMARY OF ACCOUNTING POLICIES (continued)

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 July 31, 2009 and April 30, 2009, the Company has no items of other comprehensive income.

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.

SPARTA COMMERCIAL SERVICES, INC.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
JULY 31, 2009
(UNAUDITED)

NOTE A - SUMMARY OF ACCOUNTING POLICIES (continued)

Concentrations of Credit Risk

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

Allowance for Losses

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

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

Property and Equipment

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

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

Advertising Costs

The Company follows a policy of charging the costs of advertising to expenses incurred. During the three months ended July 31, 2009, the Company incurred no advertising costs.

Net Loss Per Share

The Company uses SFAS No. 128, “Earnings Per Share” for calculating the basic and diluted loss per share. The Company computes basic loss per share by dividing net loss and net loss attributable to common shareholders by the weighted average number of common shares outstanding. Common equivalent shares are excluded from the computation of net loss per share if their effect is anti-dilutive.

SPARTA COMMERCIAL SERVICES, INC.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
JULY 31, 2009
(UNAUDITED)

NOTE A - SUMMARY OF ACCOUNTING POLICIES (continued)

Per share basic and diluted net loss attributable to common stockholders amounted to $0.01 and $0.01 for the quarters ended July 31, 2009 and 2008, respectively. At July 31, 2009 and 2008, 35,672,510 and 30,302,766 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 $994,456 and $4,921,846 during the three months ended July 31, 2009 and the year ended April 30, 2009, respectively. The Company’s liabilities exceed its assets by $2,598,044 as of July 31, 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.

Recent Accounting Pronouncements

In May of 2008, the FASB issued SFAS No. 162, “The Hierarchy of Generally Accepted Accounting Principles.” This statement identifies literature established by the FASB as the source for accounting principles to be applied by entities which prepare financial statements presented in conformity with generally accepted accounting principles (GAAP) in the United States. This statement is effective 60 days following approval by the SEC of the Public Company Accounting Oversight Board amendments to AU Section 411, “The Meaning of Present Fairly in Conformity With Generally Accepted Accounting Principles.” This statement will require no changes in the Company’s financial reporting practices.

In May 2009, the FASB issued SFAS No. 165, Subsequent Events (“SFAS 165”). This Statement is intended to establish general standards of accounting for and disclosure of events that occur after the balance sheet date but before financial statements are issued or are available to be issued. It requires the disclosure of the date through which an entity has evaluated subsequent events and the basis for that date, that is, whether that date represents the date the financial statements were issued or were available to be issued. This disclosure should alert all users of financial statements that an entity has not evaluated subsequent events after that date in the set of financial statements being presented. SFAS 165 is effective for interim and annual periods ending after June 15, 2009. We adopted SFAS No. 165 in the first quarter of fiscal 2010 and it did not result in significant changes to reporting of subsequent events either through recognition or disclosure.

In June 2009, the FASB issued SFAS No. 168, "The FASB Accounting Standards Codification and the Hierarchy of Generally Accepted Accounting Principles—a replacement of FASB Statement No. 162" ("SFAS 168"). SFAS 168 establishes the FASB Accounting Standards Codification ("ASC") as the source of authoritative accounting principles recognized by the FASB. Following this statement, the FASB will issue new standards in the form of Accounting Standards Updates ("ASUs"). SFAS 168 is effective for financial statements issued for interim and annual periods ending after September 15, 2009 and therefore is effective in the second quarter of fiscal 2010. The issuance of SFAS 168 will not change GAAP and therefore the adoption of SFAS 168 will only affect the specific references to GAAP

literature in the notes to the consolidated financial statements.

SPARTA COMMERCIAL SERVICES, INC.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
JULY 31, 2009
(UNAUDITED)

NOTE B - MOTORCYCLES UNDER OPERATING LEASE

Motorcycles and other vehicles under operating leases at July 31, 2009 and April 30, 2009 consist of the following:

	July 31, 2009	April 30, 2009
Motorcycles and other vehicles	$ 807,296	$ 911,008
Less: accumulated depreciation	(238,490)	(256,485)
Motorcycles and other vehicles, net of accumulated depreciation	568,806	654,523
Less: estimated reserve for residual values	(28,040)	(32,726)
Motorcycles and other vehicles under operating leases, net	$ 540,766	$ 621,797

Depreciation expense was $27,183 and $173,337 for the quarter ended July 31, 2009 and the year ended April 30, 2009, respectively. Depreciation expense for the quarter ended July 31, 2008 was $56,603.

SPARTA COMMERCIAL SERVICES, INC.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
JULY 31, 2009
(UNAUDITED)

NOTE C - INVENTORY

Inventory is comprised of repossessed vehicles and vehicles which have been returned at the end of their lease. Inventory is carried at the lower of depreciated cost or market, applied on a specific identification basis. At July 31, 2009 the Company had repossessed vehicles valued at market of $15,116. At April 30, 2009, the Company had repossessed vehicles of value $12,514.

NOTE D - RETAIL (RISC) LOAN RECEIVABLES

RISC loan receivables, which are carried at cost, were $2,917,027 and $3,483,250 at July 31, 2009 and April 30, 2009, respectively, including deficiency receivables of $46,409 and $122,554, respectively. The following is a schedule by years of future principal payments related to these receivables. Certain of the assets are pledged as collateral for the note described in Note F.

Year ending July 31,		
2010	$	881,215
2011		932,295
2012		768,746
2013		333,875
2014		896
	$	2,917,027

NOTE E - PROPERTY AND EQUIPMENT

Property and equipment at July 31, 2009 and April 30, 2009 consist of the followings:

		July 31, 2009		April 30, 2009
Computer equipment, software and furniture	$	191,247	$	191,247
Less: accumulated depreciation and amortization		(152,385)		(147,905)
Net property and equipment	$	38,862	$	43,342

Depreciation expense was $4,480 and $17,919 for the quarter ended July 31, 2009 and the year ended April 30, 2009, respectively. Depreciation expense for the quarter ended July 31, 2008 was $4,480.

NOTE F - NOTES PAYABLE - SENIOR LENDER

(a) The Company finances certain of its leases through a third party. The repayment terms are generally one year to five years and the notes are secured by the underlying assets. The weighted average interest rate at July 31, 2009 is 10.47%.

(b) On October 31, 2008, the Company purchased certain loans secured by a portfolio of secured motorcycle leases (“Purchased Portfolio”) for a total purchase price of $100,000. The Company paid $80,000 at closing and agreed to pay the remaining $20,000 upon receipt of additional Purchase Portfolio documentation. Proceeds from the Purchased Portfolio start accruing to the Company beginning November 1, 2008.

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NOTE F - NOTES PAYABLE - SENIOR LENDER (continued)

To finance the purchase, the Company issued a $150,000 Senior Secured Note dated October 31, 2008 (“Senior Secured Note”) in exchange for $100,000 from the Senior Secured Note holder. Terms of the Senior Secured Note require the Company to make semi-monthly payments in amounts equal to all net proceeds from Purchased Portfolio lease payments and motorcycle asset sales received until the Company has paid $150,000 to the Senior Secured Note holder. The Company is obligated to pay any remainder of the Senior Secured Note by November 1, 2009 and has granted the Senior Secured Note holder a security interest in the Purchased Portfolio.

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

As of July 31, 2009, the Company carries the Purchased Portfolio at $54,695 representing its $100,000 cost, which is less than its estimated market value, less collections through the period. The Company carries the liability for the Senior Secured Note at $105,012, which is net of note reductions and is net of $12,500 in deferred financing costs that will be amortized over the estimated term of the Senior Secured Note.

At July 31, 2009, the notes payable mature as follows:

12 months ended July 31,		Amount
2010	$	1,112,267
2011		942,019
2012		767,474
2013		305,318
2014		152
Total	$	3,127,230

Notes payable to Senior Lenders at April 30, 2009 were $3,694,838.

NOTE G – NOTES PAYABLE

Notes Payable		July 31, 2009		April 30, 2009
Convertible notes (a)	$	689,500	$	4,055,560
Notes payable (b)		535,000		547,500
Bridge loans (c)		176,000		176,000
Collateralized note (d)		220,000		220,000
Convertible note (e)		103,399		103,399
Total	$	1,723,899	$	5,102,458

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NOTE G – NOTES PAYABLE (continued)

(a) As of July 31, 2009, the Company had outstanding convertible unsecured and convertible demand notes with an original aggregate principal amount of $649,500, which accrue interest ranging from 6% to 10% per annum. All of the notes are current. The majority of the notes are convertible into shares of common stock, at the Company's option, ranging from $0.013 to $0.08 per share. The Company had outstanding notes that are convertible, at the holder's option, of $223,399 with a conversion prices ranging from $0.02 to $0.06 per share. The holders of these later notes have agreed to contingently convert their notes plus accrued interest into shares of the Company's common stock upon the Company's ability to meet all conditions precedent to begin drawing down on the DZ Bank's credit facility. The balance of the notes are convertible at the Company's option.

(b) As of July 31, 2009, the Company had outstanding unsecured notes with an original principal amount of $535,500, which accrues interest ranging from 6% to 12% per annum of which $100,000 was past due with the remaining notes maturing by September 2009. In August 2009, $17,500 of the notes plus accrued interest were converted into shares of the Company's common stock. The holder of an additional $25,000 in notes has agreed to convert his note and the accrued interest thereon into shares of the Company's common stock. Note holders with outstanding balances totaling $235,000, which are current, have agreed to contingently convert their notes plus accrued interest into shares of the Company's common stock upon the Company's ability to meet all conditions precedent to begin drawing down on the DZ Bank's credit facility.

(c) During the year ended April 30, 2007, the Company sold to five accredited investors bridge notes in the aggregate amount of $275,000. The bridge notes were originally scheduled to expire on various dates through November 30, 2006, together with simple interest at the rate of 10%. The notes provided that 100,000 shares of the Company's unregistered common stock are to be issued as "Equity Kicker" for each $100,000 of notes purchased, or any prorated portion thereof. The Company had the right to extend the maturity date of notes for 30 to 45 days, in which event the lenders were entitled for "additional equity" equal to 60% of the "Equity Kicker" shares. In the event of default on repayment by the Company, the notes provided for a 50% increase in the "Equity Kicker" and the "Additional Equity" for each month, as penalty, that such default has not been cured, and for a 20% interest rate during the default period. The repayments, in the event of default, of the notes are to be collateralized by certain security interest. The maturity dates of the notes were subsequently extended to various dates between December 5, 2006 to December 30, 2006, with simple interest rate of 10%, and Additional Equity in the aggregate amount of 165,000 unregistered shares of common stock to be issued. Thereafter, the Company was in default on repayment of these notes. During the year ended April 30, 2009, $99,000 of these loans was repaid. The holder of one remaining note for $100,000 plus the accrued interest thereon has agreed to convert into shares of the Company's common stock. The holders of the remaining $76,000 notes have agreed to contingently convert those notes plus accrued interest into shares of the Company's common stock upon the Company's ability to meet all conditions precedent to begin drawing down on the DZBank credit facility.

(d) During the year ended April 30, 2009, the Company sold a secured note in the amount of $220,000. The notes bore 12.46% simple interest. The note matures on October 29, 2010 and was secured by a second lien on a pool of motorcycles. In July 2009, the note holder agreed to convert the note and all accrued interest thereon into shares of the Company's common stock.

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NOTE G – NOTES PAYABLE (continued)

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

NOTE H - LOANS PAYABLE TO RELATED PARTIES

At July 31, 2009 and April 30, 2009, included in accounts receivable, are $169 and $169, respectively, due from American Motorcycle Leasing Corp., a company controlled by a director and formerly controlled by the Company's Chief Executive Officer, for the purchase of motorcycles.

NOTE I - FAIR VALUE MEASUREMENTS

The following table sets forth certain liabilities as of July 31, 2009 which are measured at fair value on a recurring basis by level within the fair value hierarchy. As required by SFAS No. 157, these are classified based on the lowest level of input that is significant to the fair value measurement, (in thousands):

(in thousands)	Level 1	Level 2	Level 3
RISC Loan receivables	$ –	$ 2,716,084	$ –
Senior secured notes payable	–	–	$ 3,127,230
Loans payable-related party	–	–	$ 378,260
Notes payable	–	–	$ 1,723,899

NOTE J - EQUITY TRANSACTIONS

The Company is authorized to issue 10,000,000 shares of preferred stock with $0.001 par value per share, of which 35,850 shares have been designated as Series A convertible preferred stock with a $100 stated value per share, and 1,000 shares have been designated as Series B Preferred Stock with a $10,000 stated value per share, and 340,000,000 shares of common stock with $0.001 par value per share. The Company had 125 and 125 shares of Series A preferred stock issued and outstanding as of July 31, 2009 and April 30, 2009, respectively. No shares of Series B Preferred stock had been issued as of July 31, 2009. The Company has 308,656,684 and 170,730,064 shares of common stock issued and outstanding as of July 31, 2009 and April 30, 2009, respectively.

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SPARTA COMMERCIAL SERVICES, INC.
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NOTE J - EQUITY TRANSACTIONS (continued)

Preferred Stock Series A

During the quarter ended July 31, 2009, 10,733,974 common shares previously recorded as shares to be issued for conversion of preferred were issued.

Preferred Stock Series B

On July 24, 2009, the Company designated 1,000 shares as Series B Preferred Stock. The Series B shares, with respect to dividend rights and rights upon liquidation, winding-up or dissolution, rank senior to the Company's common stock and any other class or series of preferred stock, and junior to all of the Company's 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. The Company's 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, the Company 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 the Company's 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 the Company's company. The Series B shares are redeemable at the Company's option on or after the fifth anniversary of the date of its issuance.

On July 29, 2009, the Company 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 the Company's Series B Preferred Stock for a one year period. From time to time, the Company may send a notice requiring Optimus to purchase shares of the Company's 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 the Company's 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 the Company's common stock.

The Company 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, the Company are to pay a non-refundable commitment fee of $250,000.00 to Optimus. Pursuant to a concurrent transaction between Optimus may borrow up to 33,990,000 shares of the Company's common stock from several of the Company's non-affiliated stockholders. On July 31, 2009, pursuant to the agreement, the Company requested Optimus to purchase 90 shares of the Company's Series B Preferred Stock valued at $900,000 and issued 13,500,000 five year warrants to purchase 13,500,000 shares of common stock at $0.09 per share. On August 14, 2009, the Company sold to Optimus 90 shares of Series B Preferred stock for gross proceeds of $900,000.

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NOTE J - EQUITY TRANSACTIONS (continued)

On the date of delivery of each purchase notice under the agreement, the Company will also issue to Optimus five-year warrants to purchase the Company's common stock at an exercise price equal to the closing price of the Company's 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.

Common Stock

During the quarter ended July 31, 2009 and the quarter ended July 31, 2008, the Company expensed $43,660 and $67,249, respectively, for non-cash charges related to stock and option compensation expense.

During the quarter ended July 31, 2009:

- the Company sold 1,007,049 shares of its common stock for $50,000, the shares were classified as to be issued as of July 31, 2009 and issued three year warrants to purchase 1,007,049 shares of its common stock exercisable at $0.15 per share;
- the Company issued, pursuant to penalty provisions of notes, 1,458,000 shares of unregistered common stock, valued at $101,560 ;the Company issued, pursuant to the terms of a note, 200,000 shares of its common stock in payment of $6,600 in accrued interest and $3,400 for principal reduction of the note;
- the Company issued 122,286,961 shares of unregistered common stock, (of which 3,615,520 had been classified as shares to be issued as of April 30, 2009) valued at $4,122,237, upon conversion of $3,708,058 in convertible notes and accrued interest resulting in an increase in additional-paid-in capital of $4,003,564;
- the Company issued, pursuant to a consulting agreement, 2,500,000 shares of its common stock valued at $29,500 (2,000,000 of these shares has been carried as shares to be issued as of April 30, 2009); and
- the Company issued 748,086 shares of common stock under its 2009 Consultant Stock Plan in satisfaction of accounts payable of $44,547.

On August 14, 2009, the Company filed a Schedule 14C with the Securities and Exchange Commission, and at the same time notified the Company's shareholders via an Information Statement, that in April, 2009, the holders of a majority of votes represented by the issued and outstanding shares of the Company common stock, at that time, by means of a written consent in lieu of a special meeting of the stockholders, voted in favor of amending the Company's Articles of Incorporation to increase the authorized number of shares of the Common Stock from 340,000,000 to 750,000,000. This increase in authorized shares of common stock will become effective on such date as the Company files a related Certificate of Amendment to Articles of Incorporation with the Secretary of State of Nevada.

On May 1, 2009, the Company adopted its 2009 Consultant Stock Plan. The plan provides for the issuance of up to 10,000,000 shares of the Company's common stock, pursuant to stock awards, to eligible consultants. The plan is effective for ten years from its adoption.

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NOTE K - SUBSEQUENT EVENTS

In accordance with SFAS No. 165, the Company has evaluated subsequent events through the date of this filing.

In August 2009, the Company issued 100,000 shares of common stock pursuant to a 10% bridge note issued in December 2008.

In August 2009, the Company issued 660,000 shares of common stock pursuant to penalty provisions of certain of the Company's outstanding notes.

In August and September 2009, $237,500 of the Company's notes and accrued interest thereon were converted into 7,365,753 shares of common stock.

In September 2009, pursuant to a March 2009 consulting agreement, the Company issued 500,000 shares of its common stock.

NOTE L - GOING CONCERN MATTERS

The accompanying unaudited consolidated financial statements have been prepared on a going concern basis, which contemplates the realization of assets and the satisfaction of liabilities in the normal course of business. As shown in the accompanying financial statements during the period October 1, 2001 (date of inception) through July 31, 2009, the Company incurred loss of $28,141,694. Of these losses, $994,456 was incurred in the quarter ending July 31, 2009 and $1,709,042 in the quarter ending July 31, 2008. These factors among others may indicate that the Company will be unable to continue as a going concern for a reasonable period of time.

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

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

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

General

The following discussion of our financial condition and results of operations should be read in conjunction with (1) our interim unaudited financial statements and their explanatory notes included as part of this quarterly report, and (2) our annual audited financial statements and explanatory notes for the year ended April 30, 2009 as disclosed in our annual report on Form 10-K for that year as filed with the SEC.

"Forward-Looking" Information

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

RESULTS OF OPERATIONS

Comparison of the Three Months Ended July 31, 2009 to the Three Months Ended July 31, 2008

For the three months ended July 31, 2009 and 2008, we have generated limited sales revenues, have incurred significant, but declining expenses, and have sustained significant, but declining losses. We believe we will continue to earn revenues from operations during the remainder of our fiscal year ending April 30, 2010.

Revenues

Revenues totaled $216,804 during the three months ended July 31, 2009 as compared to $394,919 during the three months ended July 31, 2008. Current period revenue was comprised primarily of $138,865 in interest income from RISC Loans, $53,068 in lease revenue, and $24,870 in other income. For the three months ended July 31, 2008, revenues were comprised primarily of $89,694 in lease revenue, $204,044 in interest income from RISC loans, $85,690 in recovery of prior year's expenses, $5,415 in other income, and $10,077 in gain on sale of vehicles.

Costs and Expenses

General and administrative expenses were $592,197 during the three months ended July 31, 2009, compared to $1,364,152 during the three months ended July 31, 2008, a decrease of $771,955 or 56.6%. Expenses incurred during the current three month period consisted primarily of the following expenses: compensation and related costs of $308,531; legal and accounting fees of $58,764; consulting fees of $38,866; rent and utilities of $88,467; and general office expenses of $97,569. Expenses incurred during the comparative three month period in 2008 consisted primarily of the following expenses: compensation and related costs, $403,037; accounting, audit and professional fees, $46,187; consulting fees, $64,800; rent and utilities, $93,893; general office expenses, $124,475; and loss reserve, $22,919.

During the three months ended July 31, 2009, we incurred the following non-cash, equity based compensation charges: consulting, $30,000; employee stock and option compensation, $43,660 and financing costs, $232,571. During the three months ended July 31, 2008, we incurred the following non-cash, equity based compensation charges: consulting, $520,000; employee stock and option compensation, $67,249; beneficial conversion cost of

$318,182 and financing costs, $183,115.

Net Loss

We incurred a net loss before preferred dividends of $994,456 for our three months ended July 31, 2009 as compared to $1,709,042 for the corresponding three month period in 2008. The $714,587 or 41.8% decrease in our net loss before preferred dividends for our three month interim period ended July 31, 2009 was attributable primarily to a $771,955 or 56.6% decrease in general and administrative expenses, and a $182,356 or a 26.87% decrease in interest expense and financing costs all partially off-set by a $178,116 or 45% decrease in revenues.

Our net loss attributable to common stockholders increased to $994,647 for our three month period ended July 31, 2009 as compared to $1,710,304 for the corresponding three month period in 2008.

LIQUIDITY AND CAPITAL RESOURCES

As of July 31, 2009, the Company had a negative net worth of $2,598,043. The Company generated a deficit cash flow from operations of $414,143 for the three months ended July 31, 2009. Cash flows provided by investing activities for the three months ended July 31, 2009 was $669,935, primarily due to the pay offs of RISC Loans in the amount of $566,223 and net pay-offs of leases of $103,713.

Cash flows used in investing activities for the three months ended July 31, 2008 was $150,843 primarily due to pay-offs of motorcycles and vehicles of $242,511 and purchases of RISC Loans in the amount of $393,354.

Cash used in financing activities during the three month period ended July 31, 2009, was $217,706 primarily due to the sale of $50,000 of common stock, the net sale of notes payable in the amount of $298,399, and the net pay down of bank debt in the amount of $566,105.

We do not anticipate incurring significant research and development expenditures, and we do not anticipate the sale or acquisition of any significant property, plant or equipment, during the next twelve months. At July 31, 2009 we had 11 full time employees. If we fully implement our business plan, we anticipate our employment base may increase by approximately 100% during the next twelve months. As we continue to expand, we will incur additional cost for personnel. This projected increase in personnel is dependent upon our generating revenues and obtaining sources of financing. There is no guarantee that we will be successful in raising the funds required or generating revenues sufficient to fund the projected increase in the number of employees.

While we have raised capital to meet our working capital and financing needs in the past, additional financing is required in order to meet our current and projected cash flow deficits from operations and development.

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. On August 12, 2009, we closed the initial tranche sale to Optimus in the amount of $900,000.

We believe that the proceeds from the sale of preferred stock to Optimus, as described above, when combined with the conversion of notes outstanding at April 30, 2009 as described above, 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.

GOING CONCERN ISSUES

The independent auditors report on our April 30, 2009 and 2008 financial statements included in the Company's Annual Report states that the Company's historical losses and the lack of revenues raise substantial doubts about the Company's ability to continue as a going concern, due to the losses incurred and its lack of significant operations. If we are unable to develop our business, we have to discontinue operations or cease to exist, which would be detrimental to the value of the Company's common stock. We can make no assurances that our business operations will develop and provide us with significant cash to continue operations.

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

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

The primary issues management will focus on in the immediate future to address this matter include: seeking additional credit facilities from institutional lenders; seeking institutional investors for debt or equity investments in our Company; short term interim debt financing: and private placements of debt and equity securities with accredited investors.

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

INFLATION

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

OFF-BALANCE SHEET ARRANGEMENTS

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

TRENDS, RISKS AND UNCERTAINTIES

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

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

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

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

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

The present officers and directors own approximately 50% of the outstanding shares of common stock, without giving effect to shares underlying convertible securities, and therefore are in a position to elect all of our Directors and otherwise control the Company, including, without limitation, authorizing the sale of equity or debt securities of Sparta, the appointment of officers, and the determination of officers' salaries. Shareholders have no cumulative voting

rights.

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

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

CRITICAL ACCOUNTING POLICIES

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

Revenue Recognition

The Company originates leases on new and used motorcycles and other powersports vehicles from motorcycle dealers throughout the United States. The Company’s leases are accounted for as either operating leases or direct financing leases. At the inception of operating leases, no lease revenue is recognized and the leased motorcycles, together with the initial direct costs of originating the lease, which are capitalized, appear on the balance sheet as “motorcycles under operating leases-net”. The capitalized cost of each motorcycle is depreciated over the lease term, on a straight-line basis, down to the Company’s original estimate of the projected value of the motorcycle at the end of the scheduled lease term (the “Residual”). Monthly lease payments are recognized as rental income. Direct financing leases are recorded at the gross amount of the lease receivable (principal amount of the contract plus the calculated earned income over the life of the contract), and the unearned income at lease inception is amortized over the lease term.

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.

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

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

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

Stock-Based Compensation

On December 16, 2004, the Financial Accounting Standards Board (FASB) issued FASB Statement No. 123(R) (revised 2004), "Share-Based Payment" which is a revision of FASB Statement No. 123, "Accounting for Stock-Based Compensation". SFAS 123(R) supersedes APB opinion No. 25, "Accounting for Stock Issued to Employees", and amends FASB Statement No. 95, "Statement of Cash Flows". Generally, the approach in SFAS 123(R) is similar to the approach described in SFAS 123. However, SFAS 123(R) requires all share-based payments to employees, including grants of employee stock options, to be recognized in the income statement based on their fair values. Pro-forma disclosure is no longer an alternative. Management has elected to apply SFAS 123(R) in the third quarter of fiscal year 2006.

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

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

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Not applicable.

ITEM 4. CONTROLS AND PROCEDURES

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

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

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

PART II. OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

Not applicable.

ITEM 1A. RISK FACTORS

Risks Related to Our Financial Results

We have an operating history of losses.

Through our fiscal quarter ended July 31, 2009, we have generated cumulative sales revenues of $3,514,075, have incurred significant expenses, and have sustained significant losses. Our net loss for the quarter ended July 31, 2009 was $994,456 (after $353,908 in non-cash charges). As of July 31, 2009, we had a deficit net worth of $2,598,043.

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 July 31,, 2009, we owed an aggregate of $3,022,218 (which is secured by $3,439,424 of consumer retail Installment Sales Contracts and Leases and $271,650 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 31, 2009, with the exception of an agreement with Optimus Capital Partners, LLC, 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.

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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.

On August 12, 2009, we sold to Optimus 90 shares of Series B Preferred stock for gross proceeds of $900,000 (net proceeds of $645,000 after deducting a 5% commitment fee for the $5,000,000 Preferred Stock Purchase Agreement and a $5,000 tranche closing fee).

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 out 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.

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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 22.6% of our common stock as of July 31, 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 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS.

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

During the three months ended July 31, 2009, the Company sold to six accredited investors four month unsecured notes and warrants in the aggregate amount of $180,000. The warrants are for a term of three years and entitle the holder to purchase a total of 5,001,613 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. $90,000 of these notes plus accrued interest thereon were converted into 2,205,594 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 Company agreed to issued to the investor 80,000 shares of the Company’s unregistered 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 $134,000. At the Company’s option, the notes are convertible into shares of common stock ranging from $0.035 to $0.048 per share.

During the three months ended July 31, 2009, the Company sold to one accredited investor unsecured 10% note in the amount of $20,000 due August 6, 2009. As an inducement for the loan, the Company agreed to issue 100,000 shares of common stock. In the event of default, the interest rate is to increase to 15% and the number of shares issuable to the lender is to increase by 20,000 per month until the default is cured.

During the quarter ended July 31, 2009, the Company sold 1,007,049 shares of its common stock and issued three year warrants to purchase 1,007,049 shares of its common stock at $0.15 per share for $50,000. As of July 31, 2009, the shares had not been issued.

ITEM 3. DEFAULTS UPON SENIOR SECURITIES

Not applicable.

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

On August 14, 2009, the Company filed a Schedule 14C with the Securities and Exchange Commission, and at the same time notified the Company’s shareholders via an Information Statement, that in April, 2009, the holders of a majority of votes represented by the issued and outstanding shares of the Company common stock, at that time, by means of a written consent in lieu of a special meeting of the stockholders, voted in favor of amending the Company’s Articles of Incorporation to increase the authorized number of shares of the common stock from 340,000,000 to 750,000,000. This increase in authorized shares of common stock will become effective on such date as the Company files a related Certificate of Amendment to Articles of Incorporation with the Secretary of State of Nevada.

ITEM 5. OTHER INFORMATION

On July 29, 2009, the Company entered into a Preferred Stock Purchase Agreement with Optimus Capital Partners, LLC pursuant to which Optimus is committed to purchase up to $5,000,000 of the Company's Series B Preferred Stock for a one year period. On July 31, 2009, pursuant to the agreement, the Company requested Optimus to purchase 90 shares of our Series B Preferred Stock and issued 13,500,000 five year warrants to purchase 13,500,000 shares of common stock at $0.09 per share. On July 14, 2009, the Company sold to Optimus 90 shares of Series B Preferred stock for gross proceeds of $900,000.

ITEM 6. EXHIBITS

The following exhibits are filed with this report:

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

* Filed herewith

SIGNATURES

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

SPARTA COMMERCIAL SERVICES, INC.

Date: September 21, 2009 By: /s/ Anthony L. Havens
Anthony L. Havens
Chief Executive Officer

Date: September 21, 2009 By: /s/ Anthony W. Adler
Anthony W. Adler
Principal Financial Officer