

SPARTA COMMERCIAL SERVICES, INC.  
Form 10-Q  
September 19, 2012

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

\_\_\_\_\_  
FORM 10-Q  
\_\_\_\_\_

(Mark One)

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

For the quarterly period ended July 31, 2012

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

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

Commission file number: 0-9483

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

Nevada  
(State or other jurisdiction of incorporation or organization)

30-0298178  
(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.  Yes  No

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

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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

Accelerated filer

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

Smaller reporting company

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

As of September 18, 2012, we had 11,386,182 shares of common stock issued and outstanding.

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SPARTA COMMERCIAL SERVICES, INC.

FORM 10-Q  
FOR THE QUARTER ENDED JULY 31, 2012

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## PART I. FINANCIAL INFORMATION

## ITEM 1. FINANCIAL STATEMENTS

SPARTA COMMERCIAL SERVICES, INC.  
CONDENSED CONSOLIDATED BALANCE SHEETS

|   | July 31, 2012<br>(unaudited) | April 30,<br>2012 |
|---|------------------------------|-------------------|
| <b>ASSETS</b>   |                              |                   |
| Cash and cash equivalents   | \$ 32,382                    | \$ 19,138         |
| RISC loan receivables, net of reserve of \$13,539 and \$15,276, respectively (NOTE D)   | 204,094                      | 290,235           |
| Motorcycles and other vehicles under operating leases net of accumulated depreciation of \$101,123 and \$120,151, respectively, and loss reserve of \$11,952 and \$10,498, respectively (NOTE B)                                  | 202,840                      | 243,284           |
| Interest receivable   | 3,600                        | 3,807             |
| Accounts receivable   | 97,365                       | 162,350           |
| Inventory (NOTE C)  | 37,728                       | 25,885            |
| Property and equipment, net of accumulated depreciation of \$190,335 and \$187,842, respectively (NOTE E)   | 19,006                       | 21,499            |
| Goodwill  | 10,000                       | 10,000            |
| Restricted cash   | 54,941                       | 54,937            |
| Other assets  | 19,311                       | 9,628             |
| Deposits  | 48,967                       | 48,967            |
| Total assets  | \$ 730,234                   | \$ 889,730        |
| <b>LIABILITIES AND DEFICIT</b>  |                              |                   |
| <b>Liabilities:</b>   |                              |                   |
| Accounts payable and accrued expenses   | \$ 1,404,937                 | \$ 1,267,160      |
| Senior secured notes payable (NOTE F)   | 390,266                      | 516,012           |
| Notes payable net of beneficial conversion feature of \$561,149 and \$33,979, respectively (NOTE G)   | 1,242,355                    | 1,791,692         |
| Loans payable-related parties (NOTE H)  | 393,760                      | 386,760           |
| Derivative liabilities  | 441,574                      | 374,697           |
| Total liabilities   | 3,872,892                    | 4,336,321         |
| <b>Deficit:</b>   |                              |                   |
| Preferred Stock, \$.001 par value; 10,000,000 shares authorized of which 35,850 shares have been designated as Series A convertible preferred stock, with a stated value of \$100 per share,<br>125 shares issued and outstanding | 12,500                       | 12,500            |
| Preferred Stock B, 1,000 shares have been designated as Series B redeemable preferred   | 1,570                        | 1,570             |

|   |              |              |
|---|--------------|--------------|
| stock, \$0.001 par value, with a liquidation and redemption value of \$10,000 per share,<br>157 shares issued and outstanding   |              |              |
| Preferred Stock C, 200,000 shares have been designated as Series C redeemable, convertible preferred,<br>\$0.001 par value, with a liquidation and redemption value of \$10 per share,<br>0 shares issued and outstanding | -            | -            |
| Common stock, \$0.001 par value; 740,000,000 shares authorized, 9,874,172 and 8,668,123 shares<br>issued and outstanding, respectively  | 9,874        | 8,668        |
| Common stock to be issued, 481,670 and 1,125,099, respectively  | 482          | 1,125        |
| Preferred Stock B to be issued, 45.05 and 41.09 shares, respectively  | -            | -            |
| Additional paid-in-capital  | 36,520,117   | 35,209,835   |
| Subscriptions receivable, preferred stock, Series B   | (2,118,309)  | (2,118,309)  |
| Accumulated deficit   | (38,327,116) | (37,265,135) |
| Total deficiency in stockholders' equity  | (3,900,882)  | (4,149,745)  |
| Noncontrolling Interest   | 758,224      | 703,154      |
| Total deficit   | (3,142,658)  | (3,446,592)  |
| Total liabilities and deficit   | \$ 730,234   | \$ 889,730   |

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

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SPARTA COMMERCIAL SERVICES, INC.  
CONDENSED CONSOLIDATED STATEMENTS OF LOSSES  
FOR THE THREE MONTHS ENDED JULY 31, 2012 AND 2011  
(UNAUDITED)

|  | Three Months Ended<br>July 31 |              |
|--|-------------------------------|--------------|
|  | 2012                          | 2011         |
| Revenue  |                               |              |
| Rental income, leases  | \$33,997                      | \$28,359     |
| Interest income, loans   | 12,012                        | 35,041       |
| Information technology   | 110,364                       | 69,196       |
| Other  | 22,711                        | 17,403       |
|  | 179,082                       | 149,999      |
| Operating expenses:  |                               |              |
| General and administrative   | 836,833                       | 575,431      |
| Depreciation and amortization                                      | 18,269                        | 17,023       |
| Total operating expenses   | 855,102                       | 592,454      |
| Loss from operations   | (676,020 )                    | (442,455 )   |
| Other expense (income):  |                               |              |
| Interest expense and financing cost, net                           | 98,588                        | 107,255      |
| Non-cash financing costs   | 44,429                        | 41,715       |
| Amortization of debt discount                                      | 174,612                       | 36,111       |
| Loss (gain) on change in fair value of derivative liability        | 28,498                        | (293,413 )   |
| Total finance related expenses (income)                            | 346,127                       | (108,333 )   |
| Net loss   | \$(1,022,147 )                | \$(334,122 ) |
| Net (income) loss attributed to noncontrolling interest            | (70 )                         | 8,415        |
| Preferred dividend   | (39,764 )                     | (39,764 )    |
| Net loss attributed to common stockholders                         | \$(1,061,981 )                | \$(365,471 ) |
| Basic and diluted loss per share                                   | \$(0.11 )                     | \$(0.05 )    |
| Basic and diluted loss per share attributed to common stockholders | \$(0.12 )                     | \$(0.05 )    |
| Weighted average shares outstanding                                | 9,093,687                     | 6,764,110    |

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

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SPARTA COMMERCIAL SERVICES, INC.  
 CONDENSED CONSOLIDATED STATEMENT OF DEFICIT  
 FOR THE THREE MONTHS ENDED JULY 31, 2012  
 (UNAUDITED)

|   | Series A<br>Preferred<br>Stock |           | Series B<br>Preferred<br>Stock |          | Common Stock |          | Common Stock<br>to be issued |          | Subscriptions<br>Receivable | Additional<br>Paid in<br>Capital | Acco<br>D      |
|---|--------------------------------|-----------|--------------------------------|----------|--------------|----------|------------------------------|----------|-----------------------------|----------------------------------|----------------|
|   | Shares                         | Amount    | Shares                         | Amount   | Shares       | Amount   | Shares                       | Amount   |                             |                                  |                |
| Balance April<br>30, 2012   | 125                            | \$ 12,500 | 157                            | \$ 1,570 | 8,668,123    | \$ 8,668 | 1,125,099                    | \$ 1,125 | \$(2,118,309)               | \$ 35,209,835                    | \$(37,000,000) |
| Reverse stock<br>split correction                                   |                                |           |                                |          | 5,000        | \$ 5     | (1,000)                      | \$ (1)   |                             | (466)                            |                |
| Preferred<br>dividend to be<br>issued                               |                                |           |                                |          |              |          |                              |          |                             | 39,569                           |                |
| Derivative<br>liability<br>reclassification                         |                                |           |                                |          |              |          |                              |          |                             | 663,403                          |                |
| Sale of<br>common stock   |                                |           |                                |          | 321,380      | 321      | (139,490)                    | (139)    |                             | 135,818                          |                |
| Common<br>shares issued<br>for financing<br>cost                    |                                |           |                                |          | 44,560       | 45       | (8,090)                      | (8)      |                             | 44,398                           |                |
| Common<br>shares issued<br>for conversion<br>of notes &<br>interest |                                |           |                                |          | 670,910      | 671      | (485,950)                    | (486)    |                             | 111,879                          |                |
| Stock based<br>compensation   |                                |           |                                |          | 155,300      | 155      |                              |          |                             | 149,616                          |                |
| Purchase of<br>assets by<br>issuing<br>common shares                |                                |           |                                |          | 8,899        | 9        | (8,899)                      | (9)      |                             |                                  |                |
| Employee<br>options<br>expense                                      |                                |           |                                |          |              |          |                              |          |                             | 166,064                          |                |
| Sale of<br>subsidiary's<br>preferred stock                          |                                |           |                                |          |              |          |                              |          |                             |                                  |                |
| Preferred<br>dividend<br>declared                                   |                                |           |                                |          |              |          |                              |          |                             |                                  |                |
| Net loss  |                                |           |                                |          |              |          |                              |          |                             |                                  | (1,000,000)    |
| Balance July<br>31, 2012  | 125                            | \$ 12,500 | 157                            | \$ 1,570 | 9,874,172    | \$ 9,874 | 481,670                      | \$ 482   | \$(2,118,309)               | \$ 36,520,117                    | \$(37,000,000) |

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



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SPARTA COMMERCIAL SERVICES, INC.  
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS  
FOR THE THREE MONTHS ENDED JULY 31, 2012 AND 2011  
(UNAUDITED)

|   | Three Months Ended<br>July 31, |              |
|---|--------------------------------|--------------|
|   | 2012                           | 2011         |
| <b>CASH FLOWS FROM OPERATING ACTIVITIES</b>                                 |                                |              |
| Net Loss  | \$ (1,022,147)                 | \$ (334,122) |
| Adjustments to reconcile net loss to net cash used in operating activities: |                                |              |
| Depreciation and amortization   | 18,269                         | 41,457       |
| Allowance for loss reserves   | (283)                          | (10,515)     |
| Amortization of debt discount   | 174,612                        | 36,111       |
| Shares issued for interest  | 34,022                         | 3,646        |
| Equity based compensation   | 315,835                        | 60,214       |
| Stock based finance cost  | 44,435                         | 41,721       |
| Loss (gain) on change in fair value of derivative liabilities               | 28,498                         | (293,413)    |
| (Increase) decrease in operating assets:                                    |                                |              |
| Inventory   | (11,843)                       | (9,243)      |
| Interest receivable   | 207                            | (5,898)      |
| Accounts receivable   | 64,985                         | 31,518       |
| Other assets  | (9,684)                        | -            |
| Restricted cash   | (4)                            | 9,806        |
| Portfolio   | -                              | 1,214        |
| Increase (decrease) in operating liabilities:                               |                                |              |
| Accounts payable and accrued expenses                                       | 137,120                        | 40,750       |
| Net cash used in operating activities                                       | (225,977)                      | (386,171)    |
| <b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>                                |                                |              |
| Net liquidation (purchase) of leased vehicles                               | 23,213                         | (462)        |
| Net liquidation of RISC contracts   | 87,878                         | 208,539      |
| Net cash provided by investing activities                                   | 111,091                        | 208,077      |
| <b>CASH FLOWS FROM FINANCING ACTIVITIES</b>                                 |                                |              |
| Net proceeds from sale of common stock                                      | 136,000                        | 82,840       |
| Sale of subsidiary preferred stock  | 55,000                         | 80,000       |
| Net payments to senior lender   | (125,746)                      | (233,518)    |
| Net proceeds from convertible notes   | 83,000                         | 183,244      |
| Net payments on notes   | (27,125)                       | -            |
| Net loan proceeds from other related parties                                | 7,000                          | 112,766      |
| Net cash provided by financing activities                                   | 128,129                        | 225,332      |
| Net increase in cash and cash equivalents                                   | \$ 13,243                      | \$ 47,238    |
| Unrestricted cash and cash equivalents, beginning of period                 | \$ 19,138                      | \$ 10,786    |
| Unrestricted cash and cash equivalents, end of period                       | \$ 32,382                      | \$ 58,024    |
| <b>Cash paid during the period for:</b>                                     |                                |              |
| Interest  | \$ 39,638                      | \$ 43,913    |
| Income taxes  | \$ 330                         | \$ -         |

See Note M for non-cash investing and financing activities.

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, 2012  
(UNAUDITED)

NOTE A – SUMMARY OF ACCOUNTING POLICIES

A summary of the significant accounting policies applied in the preparation of the accompanying unaudited condensed consolidated financial statements is as follows.

Basis of Presentation

The accompanying unaudited condensed consolidated financial statements as of July 31, 2012 and for the three month periods ended July 31, 2012 and 2011 have been prepared by the Company pursuant to the rules and regulations of the Securities and Exchange Commission, including Form 10-Q and Regulation S-K. The information furnished herein reflects all adjustments (consisting of normal recurring accruals and adjustments), which are, in the opinion of management, necessary to fairly present the operating results for the respective periods. Certain information and footnote disclosures normally present in annual financial statements prepared in accordance with accounting principles generally accepted in the United States of America have been omitted pursuant to such rules and regulations. The Company believes that the disclosures provided are adequate to make the information presented not misleading. These unaudited condensed consolidated financial statements should be read in conjunction with the audited consolidated financial statements and explanatory notes for the year ended April 30, 2012 as disclosed in the Company's Form 10-K for that year as filed with the Securities and Exchange Commission.

The unaudited condensed consolidated financial statements include the accounts of the Company and its wholly-owned subsidiary, Specialty Reports, Inc. All significant inter-company transactions and balances have been eliminated in consolidation.

Business

Sparta Commercial Services, Inc. ("Sparta" "we," "us," or the "Company"), had been in the business as an originator and indirect lender for retail installment loan and lease financing for the purchase or lease of new and used motorcycles (specifically 550cc and higher) and utility-oriented 4-stroke all terrain vehicles (ATVs). The Company continues to offer a leasing program for municipalities. Since May 2010, the Company has concentrated its efforts on developing and marketing vehicle history reports, over the internet, and mobile apps for vehicle dealers and other market segments.

The results of operations for the three months ended July 31, 2012 are not necessarily indicative of the results to be expected for any other interim period or the full year ending April 30, 2013.

New Accounting Requirements and Disclosures

There were various updates recently issued, most of which represented technical corrections to the accounting literature or applications to specific industries and are not expected to have a material impact on the Company's unaudited condensed consolidated financial position, results of operations or cash flows.

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'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") which 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.

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

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 sales of the reports and mobile applications by the Company's subsidiary, Specialty Reports, Inc., are recognized on a cash basis.

#### Inventories

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

#### Website Development Costs

The Company recognizes website development costs in accordance with ASC 350-50, "Accounting for Website Development Costs." As such, the Company expenses all costs incurred that relate to the planning and post implementation phases of development of its website. Direct costs incurred in the development phase are capitalized and recognized over the estimated useful life. Costs associated with repair or maintenance for the website are included in cost of net revenues in the current period expenses.

#### Cash Equivalents

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

#### Income Taxes

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

ASC 740-10, "Accounting for Uncertainty in Income Taxes," prescribes a recognition threshold and measurement attribute for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. ASC 740 also provides guidance on derecognition, classification, treatment of interest and penalties, and disclosure of such positions. As a result of implementing ASC 740, there has been no adjustment to the Company's financial statements and the adoption of ASC 740 did not have a material effect on the Company's consolidated financial statements for the year ending April 30, 2012 or the three months ended July 31, 2012.

#### Fair Value Measurements

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

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SPARTA COMMERCIAL SERVICES, INC.  
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS  
JULY 31, 2012  
(UNAUDITED)

- Level 1 — Quoted prices for identical instruments in active markets. Level 1 assets and liabilities include debt and equity securities and derivative contracts that are traded in an active exchange market, as well as certain securities that are highly liquid and are actively traded in over-the-counter markets.
- Level 2 — Quoted prices for similar instruments in active markets; quoted prices for identical or similar instruments in markets that are not active; and model derived valuations in which all significant inputs and significant value drivers are observable in active markets.
- Level 3 — Unobservable inputs that are supported by little or no market activity and that are significant to the fair value measurements. Level 3 assets and liabilities include financial instruments whose value is determined using pricing models, discounted cash flow methodologies, or similar techniques based on significant unobservable inputs, as well as management judgments or estimates that are significant to valuation.

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

#### Impairment of Long-Lived Assets

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

#### Comprehensive Income

In accordance with ASC 220-10, "Reporting Comprehensive Income," establishes standards for reporting and displaying of comprehensive income, its components and accumulated balances. Comprehensive income is defined to include all changes in equity except those resulting from investments by owners and distributions to owners. Among other disclosures, ASC 220-10 requires that all items that are required to be recognized under current accounting standards as components of comprehensive income be reported in a financial statement that is displayed with the same prominence as other financial statements. At July 31, 2012 and April 30, 2012, the Company has no items of other comprehensive income.

#### Segment Information

The Company adopted ASC 280-10 "Disclosures about Segments of an Enterprise and Related Information". ASC 280-10 establishes standards for reporting information regarding operating segments in annual financial statements and requires selected information for those segments to be presented in consolidated financial reports issued to stockholders. ASC 280-10 also establishes standards for related disclosures about products and services and geographic areas. Operating segments are identified as components of an enterprise about which separate discrete

financial information is available for evaluation by the chief operating decision maker, or decision making group, in making decisions how to allocate resources and assess performance. The information disclosed herein, materially represents all of the financial information related to the Company's principal operating segments.

#### Stock Based Compensation

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

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



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SPARTA COMMERCIAL SERVICES, INC.  
 NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS  
 JULY 31, 2012  
 (UNAUDITED)

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, 2012 and 2011, the Company incurred \$2,000 and \$920 in advertising costs, respectively.

Net Loss Per Share

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

Per share basic and diluted net loss attributable to common stockholders amounted to \$0.12 and \$0.05 for the three months ended July 31, 2012 and 2011, respectively. At July 31, 2012 and 2011, 4,721,308 and 2,530,022 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 unaudited condensed consolidated financial statements, the Company has incurred a net loss attributable to common stockholders of \$1,061,981 and \$365,471 during the three months ended July 31, 2012 and 2011, respectively. The Company had a negative net worth of \$3,142,658 at July 31, 2012.

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## Reclassifications

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

## Recent Accounting Pronouncements

There were various updates recently issued, most of which represented technical corrections to the accounting literature or applications to specific industries and are not expected to have a material impact on the Company's unaudited condensed consolidated financial position, results of operations or cash flows.

## NOTE B – MOTORCYCLES AND OTHER VEHICLES UNDER OPERATING LEASES

Motorcycles and other vehicles under operating leases at July 31, 2012 and April 30, 2012 consist of the following:

|   | July 31,<br>2012 | April 30,<br>2012 |
|---|------------------|-------------------|
| Motorcycles and other vehicles                                  | \$ 315,915       | \$ 373,933        |
| Less: accumulated depreciation                                  | (101,123)        | (120,151)         |
| Motorcycles and other vehicles, net of accumulated depreciation | 214,792          | 253,782           |
| Less: estimated reserve for residual values                     | (11,952)         | (10,498)          |
| Motorcycles and other vehicles under operating leases, net      | \$ 202,840       | \$ 243,284        |

Depreciation expense for vehicles for the three months ended July 31, 2012 and for the fiscal year ended April 30, 2012 was \$15,777 and \$65,345, respectively. Depreciation expense for vehicles for the three months ended July 31, 2011 was \$14,028. The following is a schedule by years of future lease payments and residual amounts due related to these leases. Certain of the leases are pledged as collateral for the note described in Note F.

| Year ending July 31, |            |
|----------------------|------------|
| 2013                 | \$ 70,726  |
| 2014                 | 132,344    |
| 2015                 | 9,790      |
| 2016                 | 1,932      |
|                      | \$ 214,792 |

## 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, 2012, the Company's inventory of repossessed or returned vehicles valued at market was \$37,728, which will be resold.

NOTE D – RETAIL (RISC) LOAN RECEIVABLES

RISC loan receivables, which are carried at cost, were \$217,633 and \$305,511 at July 31, 2012 and April 30, 2012, respectively, including deficiency receivables of \$10,322 and \$21,513, 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, |    |         |
| 2013                 | \$ | 205,989 |
| 2014                 |    | 7,315   |
| 2015                 |    | 4,329   |
|                      | \$ | 217,633 |

The Company considers its portfolio of retail (RISC) loan receivables to be homogenous and consist of a single segment and class. Consequently the Company analyzes credit performance primarily in the aggregate rather than stratification by any particular credit quality indicator.

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The company considers an RISC contract delinquent when an obligor fails to make a contractually due payment by the following due date, which date may have been extended within limits specified in the servicing agreements. The period of delinquency is based on the number of days payments are contractually past due. Automobile contracts less than 31 days delinquent are not included. The following table summarizes the delinquency status of finance receivables as of July 31, 2012 and April 30, 2012:

| Delinquency Status             | July 31,<br>2012 | April 30,<br>2012 |
|--------------------------------|------------------|-------------------|
| Current                        | \$ 107,406       | \$ 273,204        |
| 31-60 days past due            | 70,105           | 1,680             |
| 61-90 days past due            | 10,343           | 3,628             |
| 91-120 days past due           | 19,457           | 5,486             |
|                                | 207,311          | 283,998           |
| Paying deficiency receivables* | 10,322           | 21,513            |
|                                | \$ 217,633       | \$ 305,511        |

\*Paying deficiency are receivables resulting from RISC contract terminations which were terminated for less than the required termination amount and on which the customer is making payments pursuant to written or oral agreements with the Company. The Company's policy is to write-off any deficiency receivable over 120 days old and on which the customer has not made any payments in the last 120 days.

RISC receivables totaling \$21,139 and \$22,065 at July 31, 2012 and April 30, 2012, respectively, have been placed on non-accrual status because of their bankruptcy status.

The following table presents a summary of the activity for the allowance for credit losses, as of July 31, 2012 and April 30, 2012, respectively:

|                              | July 31,<br>2012 | April 30,<br>2012 |
|------------------------------|------------------|-------------------|
| Balance at beginning of year | \$ 15,276        | \$ 45,015         |
| Provision for credit losses  | 502              | 32,922            |
| Charge-offs                  | (2,239)          | (62,661)          |
| Recoveries*                  |                  |                   |
| Balance at end of period     | \$ 13,539        | \$ 15,276         |

\* Recoveries are credited to deficiency receivables

Excluded from RISC receivables are contracts that were previously classified as RISC receivables but were reclassified as inventory because we have repossessed the vehicles securing the RISC Contracts. The following table presents a summary of such repossessed inventory together with the allowance for losses in repossessed inventory that is included in the allowance for credit losses:

July 31,                      April 30,

|   | 2012      | 2012      |
|---|-----------|-----------|
| Gross balance of repossessions in inventory   | \$ 37,728 | \$ 31,833 |
| Allowance for losses on repossessed inventory | -         | (5,948)   |
| Net repossessed inventory                     | \$ 37,728 | \$ 25,885 |

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## NOTE E – PROPERTY AND EQUIPMENT

Major classes of property and equipment at July 31, 2012 and April 30, 2012 consist of the followings:

|  | July 31,<br>2012 | April 30,<br>2012 |
|--|------------------|-------------------|
| Computer equipment, software and furniture | \$ 209,341       | \$ 209,341        |
| Less: accumulated depreciation             | (190,335)        | (187,842)         |
| Net property and equipment                 | \$ 19,006        | \$ 21,499         |

Depreciation expense for property and equipment was \$2,493 and \$2,994, respectively for the three months ended July 31, 2012 and 2011, and \$11,166 for the year ended April 30, 2012.

## NOTE F – PURCHASED PORTFOLIO AND SECURED SENIOR NOTES

|  | July 31,<br>2012 | April 30,<br>2012 |
|--|------------------|-------------------|
| Senior secured institutional lender (a)      | \$ 175,276       | \$ 288,815        |
| Secured, subordinated, individual lender (a) | 196,354          | 208,561           |
| Secured, subordinated, individual lender (b) | 18,636           | 18,626            |
| Total  | \$ 390,266       | \$ 516,012        |

(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, 2012 is 10.48%.

(b) On October 31, 2008, the Company purchased certain loans secured by a portfolio of secured motorcycle leases (“Purchased Portfolio”) for a total purchase price of \$100,000. The Company paid \$80,000 at closing, \$10,000 in April 2009 and agreed to pay the remaining \$10,000 upon receipt of additional Purchase Portfolio documentation. Proceeds from the Purchased Portfolio started accruing to the Company beginning November 1, 2008.

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 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 note holder.

The Company is obligated to pay any remainder of the Senior Secured Note by November 1, 2009 and has granted the note holder a security interest in the Purchased Portfolio. The due date of the note has been extended to October 31, 2013. Once the Company has paid \$150,000 to the lender 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 lender mutually agree the Purchase Portfolio has no remaining proceeds.



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At July 31, 2012, these notes payable to the three creditors mature as follows:

| 12 Months Ended | Amount     |
|-----------------|------------|
| July 31,        |            |
| 2013            | \$ 262,633 |
| 2014            | 121,639    |
| 2015            | 5,994      |
|                 | \$ 390,266 |

## NOTE G – NOTES PAYABLE

|  | July 31,<br>2012 | April 30,<br>2012 |
|--|------------------|-------------------|
| Notes convertible at holder's option (a)                     | \$ 1,413,504     | \$ 1,385,671      |
| Notes convertible at Company's option (b)                    | -                | 25,000            |
| Notes with interest only convertible at Company's option (c) | 360,000          | 360,000           |
| Non convertible notes payable (d)                            | 30,000           | 55,000            |
| Subtotal   | 1,803,504        | 1,825,671         |
| Less, Debt discount  | (561,149)        | (33,979)          |
| Total  | \$ 1,242,355     | \$ 1,791,692      |

During the year ended April 30, 2012, the Company renegotiated the terms and conditions of the majority of its notes outstanding and has reclassified and consolidated those notes as indicated in the above table.

- (a) Notes convertible at holder's option consists of: (i) a \$995,105, 8% note due April 30, 2013, convertible at the holder's option at \$0.495 per share; (ii) a \$37,500, 8% note due December 27, 2012, and a \$53,000, 8% note due February 18, 2013, both convertible at the note holder's option at a variable conversion price such that during the period during which the notes are outstanding, with both notes convertible at 58% multiplied by the average of the three lowest closing bid prices for the common stock during the ten trading day period ending one trading day prior to the submission date of the conversion notice by the note holder to the Company (the "Discount Conversion Rate". The Company has reserved up to 991,961 shares of its common stock for conversion pursuant to the terms of the notes. In the event the notes are not paid when due, the interest rate is increased to twenty-two percent until the note is paid in full; (iii) a \$103,399, 12% note due August 31, 2012, convertible at the holder's option at \$3.75 per share, the Company is paying 1,334 monthly penalty shares on this note, which had been past due and is now current, until the note is paid in full; (iv) seven notes aggregating \$118,250, all due October 30, 2013 with interest ranging from 15% to 20%, the Company is paying 667 monthly penalty shares until the note is paid in full on one \$25,000 note which had been past due, all of the notes are convertible at the holder's option at \$0.375 per share; and (v) three notes aggregating \$106,250, all due October 30, 2013 with interest ranging from 20% to 25%, all of the notes are convertible at the holder's option at \$0.375 per share.
- (b) Convertible at Company's option, this note was paid in full during the quarter.
- (c)

Notes with interest only convertible at Company's option consist of: (i) two 22% notes in the amounts of \$10,000 each, due October 31, 2012 and August 30, 2012 respectively, and a \$25,000 note due May 1, 2011. The Company is in discussion with this latter note holder to extend the due date of the note and is paying the note holder 3,334 shares per month until the note is paid or renegotiated. Interest is payable on all three notes at the Company's option in cash or in shares at the rate of \$1.50 per share. (ii) a \$315,000, 12.462% note due April 30, 2013. Interest is payable quarterly with a minimum of \$600 in cash with the balance payable in cash or stock at the Company's option as calculated as the volume weighted average price of the Company's common stock for the ten day trading period immediately preceding the last day of each three month period.

- (d) Non convertible notes consist of a \$30,000 note due October 31, 2012 which bears no interest; the Company has agreed to pay 2,667 monthly penalty shares until the note is paid in full on this note which had been past due.

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The Company's derivative financial instruments consist of embedded derivatives related to the short term Convertible Notes Payable. These embedded derivatives include certain conversion features indexed to the Company's common stock. The accounting treatment of derivative financial instruments requires that the Company record the derivatives and related items at their fair values as of the inception date of the Convertible Notes Payable and at fair value as of each subsequent balance sheet date. In addition, under the provisions of Accounting Standards Codification subtopic 815-40, Derivatives and Hedging; Contracts in Entity's Own Equity ("ASC 815-40"), as a result of entering into the Convertible Notes Payable, the Company is required to classify all other non-employee stock options and warrants as derivative liabilities and mark them to market at each reporting date. Any change in fair value inclusive of modifications of terms will be recorded as non-operating, non-cash income or expense at each reporting date. If the fair value of the derivatives is higher at the subsequent balance sheet date, the Company will record a non-operating, non-cash charge. If the fair value of the derivatives is lower at the subsequent balance sheet date, the Company will record non-operating, non-cash income.

NOTE H – LOANS PAYABLE TO RELATED PARTIES

As of July 31, 2012, aggregated loans payable, without demand and with no interest, to officers and directors were \$393,760. At July 31, 2012 and April 30, 2012, included in accounts receivable, are \$10,189, due from American Motorcycle Leasing Corp., a company controlled by a director and formerly controlled by the Company's Chief Executive Officer.

NOTE I – EQUITY TRANSACTIONS

On May 18, 2012, the Company's Board of Directors declared effective a one for seventy-five reverse common stock split. All per share amounts in these unaudited condensed consolidated financial statements and accompanying notes have been retroactively adjusted to the earliest period presented for the effect of this reverse stock split.

The Company is authorized to issue 10,000,000 shares of preferred stock with \$0.001 par value per share, of which 35,850 shares have been designated as Series A convertible preferred stock with a \$100 stated value per share, 1,000 shares have been designated as Series B Preferred Stock with a \$10,000 per share liquidation value, and 200,000 shares have been designated as Series C Preferred Stock with a \$10 per share liquidation value, and 740,000,000 shares of common stock with \$0.001 par value per share. The Company had 125 shares of Series A preferred stock issued and outstanding as of July 31, 2012 and April 30, 2012. The Company had 157 shares of Series B preferred stock issued and outstanding as of July 31, 2012 and April 30, 2012. The Company had nil shares of Series C preferred stock issued and outstanding as of July 31, 2012 and April 30, 2012. The Company has 9,874,172 and 8,668,123 shares of common stock issued and outstanding as of July 31, 2012 and April 30, 2012, respectively.

Preferred Stock, Series A

During the quarter ended July 31, 2012, there were no transactions in Series A Preferred, however, at July 31, 2012, there were \$5,478 of accrued dividends payable on the Series A Preferred, compared to the accrual of \$5,288 at April 30, 2012. At the Company's option, these dividends may be paid in shares of the Company's Common Stock.

Preferred Stock, Series B

During the quarter ended July 31, 2012, there were no transactions in Series B Preferred Stock, however, at July 31, 2012, there were \$39,573 of dividends accrued and re-classified as 3.96 shares of Series B Preferred Stock payable. There were a total of 41.09 shares of Series B Preferred payable at April 30, 2012 representing a total of \$410,846 in accrued dividends.

#### Preferred Stock Series C

There were no shares of Series C Preferred Stock issued and outstanding at July 31, 2012 or at April 31, 2012.

#### Common Stock

During the three months ended July 31, 2012, the Company expensed \$315,835 for non-cash charges related to stock and option compensation expense.

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During the three months ended July 31, 2012, the Company:

issued 837,572 shares of common stock which had been classified as to be issued at April 30, 2012, sold 181,899 shares of common stock to thirteen accredited investors for \$136,000, of which 94,637 shares remained to be issued at July 31, 2012,

issued 184,960 shares of common stock upon the conversion of \$112,064 principal amount of convertible notes and accrued interest thereon, 100,480 of the shares remained to be issued at July 31, 2012.

Issued 36,471 shares of common stock valued at \$44,435 pursuant to terms of various notes, issued 155,300 shares of common stock valued at \$149,771 pursuant to consulting agreements, and the Company's majority owned subsidiary, Specialty Reports, Inc., sold 11 shares of its Series C Preferred stock to four accredited investors for \$55,000. The Series C Preferred stock does not pay a dividend. Each Series C Preferred share has a liquidating value of \$5,000 and is redeemable by Specialty Reports, Inc. at any time after one year. Each Series C Preferred share is convertible at the holder's option at any time into either 1,000 shares of Specialty Reports, Inc. common stock, or 2,000 shares of Sparta Commercial Services, Inc. common stock.

## NOTE J – NONCONTROLLING INTEREST

For the three months ended July 31, 2012, the noncontrolling interest is summarized as follows:

|  | Amount     |
|--|------------|
| Balance at April 30, 2012                  | \$ 703,154 |
| Issuance of Series C Preferred Stock       | 55,000     |
| Noncontrolling interest's share of profits | 70         |
| Balance at July 31, 2012                   | \$ 758,224 |

## NOTE K – FAIR VALUE MEASUREMENTS

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

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

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

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

The table below summarizes the fair values of financial liabilities as of July 31, 2012:

|                        | Fair Value at<br>July 31,<br>2012 | Fair Value Measurement Using |         |            |
|------------------------|-----------------------------------|------------------------------|---------|------------|
|                        |                                   | Level 1                      | Level 2 | Level 3    |
| Derivative liabilities | \$ 441,574                        | -                            | -       | \$ 441,574 |

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

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

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

#### NOTE L – BUSINESS SEGMENTS AND GEOGRAPHIC INFORMATION

The Company's reportable operating segments are strategic businesses differentiated by the nature of their products, activities and customers and are described as follow:

Specialty Reports, Inc. (SRI), the Company's Information Technology segment, is engaged in the developing and marketing over the internet of vehicle history reports for use by buyers and sellers of motorcycles, recreational vehicles (RV) and automobiles. Additionally, SRI develops custom and semi-custom mobile applications (mobile apps) for motorcycle, RV, and automotive dealers branded as Specialty Mobile Apps, and mobile apps for other markets under the iMobile App brand.

Sparta Commercial Services, (SCS), the Company's Financial Services segment, is engaged in the marketing and financing, on a pass through basis, of vehicle and equipment leases for municipalities. Prior to 2010, SCS had been actively engaged in consumer financing of motorcycles.

The measurement of losses and assets of the reportable segments is based on the same accounting principles applied in the unaudited condensed consolidated financial statements.

|                     | Three months ended July 31, |            |
|---------------------|-----------------------------|------------|
|                     | 2012                        | 2011       |
| Revenues:           |                             |            |
| SRI                 | \$ 68,718                   | \$ 80,803  |
| SCS                 | 110,364                     | 69,196     |
| Total Revenue       | \$ 179,082                  | \$ 149,999 |
|                     |                             |            |
| Cost of Sales:      |                             |            |
| SRI                 | \$ 34,613                   | \$ 6,000   |
| SCS                 | n/a                         | n/a        |
| Total Cost of Sales | \$ 34,613                   | \$ 6,000   |
| Gross Profit:       |                             |            |
| SRI                 | \$ 34,105                   | \$ 74,803  |
| SCS                 | 110,364                     | 69,196     |
| Total Gross Profit  | \$ 144,469                  | \$ 143,999 |

All of the Company's assets as of July 31, 2012 and 2011 were attributable to U.S. operations. SRI commenced operations in May 2010 and is 90% owned by the Company. There is no significant geographical concentration of the Company's revenues within the United States. The Company's revenues from outside of the United States are less than one percent.



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NOTE M – NON-CASH FINANCIAL INFORMATION

During the three months ended July 31, 2012, the Company:

- Declared preferred dividends of \$39,764
- Classified preferred dividends to be issued of \$39,573
- Classified \$701,782 as debt discount on consolidation of notes payable to convertible notes payable
- Agreed to issue 184,960 shares of common stock upon the conversion of \$112,064 principal amount of convertible notes and accrued interest thereon, 100,480 of the shares were unissued at July 31, 2012
  - Issued 36,741 shares of common stock valued at \$44,435 pursuant to the terms of the notes
  - Issued 155,300 shares of common stock valued at \$149,771 pursuant to consulting agreements

NOTE N – SUBSEQUENT EVENTS

During August and September 2012, the Company:

Issued 6,000 shares of S-8 stock for \$5,717 in accounts payable.

Issued 118,429 shares of common stock upon the conversion of \$93,042 notes and accrued interest thereon.

Sold 257,329 shares of common stock to ten accredited investors for \$151,000, 39,421 of the shares remained to be issued as of August 31, 2012.

Issued 125,425 shares pursuant to the terms of their notes valued at \$122,223.

Issued 13,334 shares of common stock valued at \$12,000 to a consultant.

Entered into a \$165,000, 5%, convertible note with an institutional lender. The note is subject to a 10% original issue discount (“OID”) in addition to the interest. On closing, the lender advanced an initial \$50,000 and may make additional advances in such amounts and at such dates as the lender chooses. Each advance is for a term of twelve months and the Company will pay no interest if the note is repaid within 90 days. The Conversion Price of the note is the lesser of \$1.20 or 70% of the average of the three lowest closing prices during the 20 trading days immediately previous to the day the conversion notice is delivered to the Borrower.

Issued shares of its common stock to an institution pursuant to an Order for Approval of Stipulation for Settlement of Claims (“Order”) between the Company and the institution in settlement of \$313,910 of accounts payable, see Part II Other Information.

NOTE O – GOING CONCERN MATTERS

The accompanying unaudited condensed consolidated financial statements have been prepared on a going concern basis, which contemplates the realization of assets and the satisfaction of liabilities in the normal course of business. As shown in the accompanying unaudited condensed consolidated financial statements during the period July 1, 2001 (date of inception) through July 31, 2012, the Company incurred loss of \$38,327,116. Of these losses, \$1,061,981 was incurred in the three months ending July 31, 2012. 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 unaudited condensed consolidated financial statements do not include any adjustments that might result should the Company be unable to continue as a going concern.

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

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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, 2012 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, 2012 to the Three Months Ended July 31, 2011

For the three months ended July 31, 2012 and 2011, we have generated limited sales revenues, have incurred significant expenses, and have sustained significant losses

Revenues

Revenues totaled \$179,082 during the three months ended July 31, 2012 as compared to \$149,999 during the three months ended July 31, 2011. Current period revenue was comprised of \$110,364 in information technology revenue, \$33,997 in lease revenue, \$12,012 in interest income from RISC loans, and \$22,711 in other income. Prior period revenue was comprised of \$69,196 in information technology revenue, \$28,359 in lease revenue, \$35,041 in interest income from RISC loans, and \$17,403 in other income. This increase in revenues was due to the \$41,168 (59%) increase in information technology revenue, the continued run-off of our RISC loan portfolio which declined \$86,141 (30%) in the quarter and resulted in a decrease of \$23,029 (66%) and we had a \$40,444 (17%) decrease in our lease portfolio and resulted in a nominal increase of \$5,638 (20%) and a nominal \$5,308 (31%) increase in other income. Prior period RISC portfolio run-off was \$40,676 (54%) while the lease portfolio declined \$1,394 (5%). Information technology income increased \$62,231 (893%) and other income decreased \$2,309 (12%). The run-off of our portfolios will continue as we concentrate our efforts on our information technology products and services.

Costs and Expenses

General and administrative expenses were \$836,833 during the three months ended July 31, 2012, compared to \$575,431 during the three months ended July 31, 2011. The \$261,402 (45%) increase was primarily due to a \$255,621 increase in non-cash charges for the value of stock and warrant based consulting fees and employee stock option compensation; and increases in rent and utilities expenses. Expenses incurred during the current three month period consisted primarily of the following expenses: compensation and related costs, \$230,036; accounting, audit and professional fees, \$64,746; consulting fees, \$18,958; rent, utilities and telecommunications expenses \$96,493; travel and entertainment, \$2,863; and stock and warrant based compensation, \$193,831. Expenses incurred during the

comparative three month period in 2011 consisted primarily of the following expenses: compensation and related costs, \$273,111; accounting, audit and professional fees, \$61,273; consulting fees, \$62,436; rent, utilities and telecommunications expenses \$66,228; travel and entertainment, \$3,658; and stock and warrant based compensation, \$60,214.

#### Net Loss

We incurred a net loss before preferred dividends and non-controlling interest of \$1,022,147 for our three months ended July 31, 2012 as compared to a net loss of \$334,122 for the corresponding interim period in 2011, a \$688,02 (206%) increase. The increase in our net loss before preferred dividends for our three month interim period ended July 31, 2012 was attributable primarily to the increase in general and administrative expenses discussed above, a \$321,911 (110%) increase in the change in the non-cash charge for fair value of derivative liabilities, the \$138,501 (384%) increase in non-cash amortization of debt discount, and offset by \$29,083 (19%) increase in revenues.

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The Company's policy is to repossess any loans or leases which are 90 days past due and to write off accounts which are over 120 days past due. At July 31, 2012, the Company's delinquent accounts 60 days or more past due were 13.69% of the outstanding balance as compared to 3.5% at July 31, 2011 and 3.0% at April 30, 2012. This level of delinquencies reflects both the continued run-off of the portfolios and the general economic climate.

During the quarter ended July 31, 2012, the Company charged off \$2,239 of accounts over 120 days representing a loss of 0.5% of the average outstanding combined lease and loan portfolios for the period. For the three months ended July 31, 2011 the equivalent charge offs were \$10,512 or 0.7% of the average outstanding combined lease and loan portfolios for the period. While comparable period charge-offs declined slightly on a percentage basis, the current period delinquencies over 60 days indicate that charge-offs may increase in subsequent periods. The Company maintains loss reserves of 5% and 4% for our RISC loan and lease portfolios, respectively, which we believe are adequate.

We also incurred non-cash preferred dividend expense of \$39,764 for each of our three month periods ended July 31, 2012 and 2011.

Our net loss attributable to common stockholders increased to \$1,061,981 for our three month period ended July 31, 2012 as compared to a net loss of \$365,471 for the corresponding period in 2011. The \$696,510 or 191% increase in net loss attributable to common stockholders for our three month period ended July 31, 2012 was due primarily to the factors described above.

## LIQUIDITY AND CAPITAL RESOURCES

As of July 31, 2012, we had a negative net worth of \$3,142,658. We generated a deficit in cash flow from operations of \$225,966 for the three months ended July 31, 2012. This deficit is primarily attributable to our net loss from operations of \$1,022,147, partially offset by, other non-cash charges including: depreciation and amortization of \$18,269, amortization of debt discount of \$174,612, value of shares issued for debt and accrued interest of \$34,022, equity based compensation of \$315,835, stock based finance cost of \$44,435 and changes in the value of derivative liabilities of \$28,498, and to changes in the balances of current assets and liabilities. Accounts payable and accrued expenses increased by \$137,131, receivables decreased \$65,192, other assets increased by \$9,684, and inventory increased \$11,843.

Cash flows provided by investing activities for the three months ended July 31, 2012 was \$111,091 primarily due to the net proceeds of RISC contracts.

We met our cash requirements during the three month period through net proceeds from the sale of common and preferred equity in the amount of \$191,000 and net proceeds from convertible notes of \$83,000. We made payments on senior secured debt financing of \$125,746, repaid \$27,125 in notes and borrowed \$7,000 from a director of the Company. Additionally, we have received limited revenues from leasing and financing motorcycles and other vehicles, fees from our municipal lease program, and from our subsidiary, Specialty Reports, Inc.

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, 2012 we had 9 full time employees. If we are able to fully implement our business plan, we anticipate our employment base may increase by approximately 50% during the next twelve months. As we continue to expand, we will incur additional cost for personnel. This projected increase in personnel is dependent upon our obtaining sources of financing originating loans and leases and generating revenues there from. 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.

We continue seeking additional financing, which may be in the form of senior debt, subordinated debt or equity. There is no guarantee that we will be successful in raising the funds required to support our operations. We estimate that we will need approximately \$1,500,000 in addition to our normal operating cash flow to conduct operations during 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.

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### GOING CONCERN ISSUES

The independent auditors report on our April 30, 2012 and 2011 consolidated 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 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.



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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.

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

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

Our leases are accounted for as either operating leases or direct financing leases. At the inception of operating leases, no lease revenue is recognized and the leased motorcycles, together with the initial direct costs of originating the lease, which are capitalized, appear on the balance sheet as "motorcycles under operating leases-net". The capitalized cost of each motorcycle is depreciated over the lease term, on a straight-line basis, down to the original estimate of the projected value of the motorcycle at the end of the scheduled lease term (the "Residual"). Monthly lease payments are

recognized as rental income. An acquisition fee classified as fee income on the financial statements is received and recognized in income at the inception of the lease. Direct financing leases are recorded at the gross amount of the lease receivable, and unearned income at lease inception is amortized over the lease term.

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

Early lease terminations also occur because of (i) a default by the lessee, (ii) the physical loss of the motorcycle, or (iii) the exercise of the lessee's early termination. In those instances, we receive the proceeds from either the resale or release of the repossessed motorcycle, or the payment by the lessee's insurer. We record a gain or loss for the difference between the proceeds received and the net book value of the motorcycle. We charge fees to manufacturers and other customers related to creating a private label version of our financing program including web access, processing credit applications, consumer contracts and other related documents and processes. Fees received are amortized and booked as income over the length of the contract.

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Revenues in our Specialty Reports, Inc. subsidiary are recognized on a cash basis.

### Stock-Based Compensation

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

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

### Allowance for Losses

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

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

### RECENT ACCOUNTING PRONOUNCEMENT

See Note A to the unaudited 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.

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ITEM 3. QUANTATIVE 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, and in light of the material weaknesses found in our internal controls, 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 not effective.

A material weakness is a deficiency, or combination of deficiencies, in internal control over financial reporting, such that there is a reasonable possibility that a material misstatement of our annual or interim financial statements will not be prevented or detected on a timely basis. In our assessment of the effectiveness of internal control over financial reporting, we determined that control deficiencies existed that constituted material weaknesses, as described below:

- lack of documented policies and procedures;
- we have no audit committee;
- there is a risk of management override given that our officers have a high degree of involvement in our day to day operations.
- there is no effective separation of duties, which includes monitoring controls, between the members of management.

Management is currently evaluating what steps can be taken in order to address these material weaknesses.

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.

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PART II. OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

On September 7, 2012, the Company issued 1,000,000 Shares of its common stock (“Initial Issuance”) to Ironridge Global IV, Ltd. (“Ironridge”). The Initial Issuance was pursuant to an Order for Approval of Stipulation for Settlement of Claims (“Order”) between the Company and Ironridge, in settlement of \$313,910 of accounts payable to attorneys and accountants of the Company which Ironridge had purchased from certain creditors of the Company (the “Claim Amount”). The Order was entered on August 31, 2012 by the Superior Court of the State of California, County of Los Angeles, and Central District. In addition to the Initial Issuance, the Order also provides for an adjustment in the total number of shares of common stock which may be issuable to Ironridge, based on a calculation period for the transaction defined as that number of consecutive trading days of the Company’s common stock following the date on which the Initial Issuance shares have been issued, (“Issuance Date”) required for the aggregate trading volume of the shares of the Company’s common stock, as reported by Bloomberg LP, to exceed \$2.0 million (“Calculation Period”). Pursuant to the Order, Ironridge will retain (a) 25,000 shares of common stock, plus (b) that number of shares of common stock (the "Final Amount") with an aggregate value equal to (i) the sum of the Claim Amount, agent fees and plus Ironridge’s reasonable attorney fees and expenses (less \$10,000 previously paid) through the end of the Calculation Period; (ii) divided by 75% of the following: the volume weighted average price ("VWAP") of the Company’s common stock over the length of the Calculation Period, as reported by Bloomberg, not to exceed the arithmetic average of the individual daily VWAPs of any five trading days during the Calculation Period. The Order further provides that if, at any time during the Calculation Period, the total Initial Issuance shares previously issued to Ironridge are less than any reasonably possible Final Amount, or a daily VWAP is below 75% of the closing price on the day before the Issuance Date, Ironridge may request that the Company reserve and issue additional shares of its common stock (each, an "Additional Issuance"), as soon as possible, and in any event within three business days of such request subject to a 9.99% beneficial ownership limitation specified in the Order. At the end of the Calculation Period, (a) if the sum of the Initial Issuance and any Additional Issuance is less than the Final Amount, the Company shall issue additional shares of common stock to Ironridge, up to the Final Amount; and (b) if the sum of the Initial Issuance and any Additional Issuance is greater than the Final Amount, Ironridge shall promptly return any remaining Shares to the Company and its transfer agent for cancellation. In connection with the transaction, Ironridge represented that it does not hold any short position in the Shares and warranted that it would not to engage in or affect, directly or indirectly, any short sale of the Shares. The issuance to Ironridge is exempt from the registration requirements of the Securities Act of 1933, as amended, pursuant to Section 3(a) (10) thereof, as an issuance of securities in exchange for bona fide outstanding claims, where the terms and conditions of such issuance are approved by a court after a hearing upon the fairness of such terms and conditions.

ITEM 1A. RISK FACTORS

We are subject to certain risks and uncertainties in our business operations including those which are described below. The risks and uncertainties described below are not the only risks we face. Additional risks and uncertainties not presently known or which are currently deemed immaterial may also impair our business operations. A description of factors that could materially affect our business, financial condition or operating results were included in Item 1A “Risk Factors” of our Form 10-K for the year ended April 30, 2012, filed August 14, 2012, and is incorporated herein by reference.

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

Each of the issuance and sale of securities described below was deemed to be exempt from registration under the Securities Act in reliance on Section 4(2) of the Securities Act as transactions by an issuer not involving a public offering. No advertising or general solicitation was employed in offering the securities. Each purchaser is a

sophisticated investor (as described in Rule 506(b) (2) (ii) of Regulation D) or an accredited investor (as defined in Rule 501 of Regulation D), and each received adequate information about the Company or had access to such information, through employment or other relationships, to such information. The Company applied proceeds from financing activities described below to working capital.

During the three months ended July 31, 2012, the Company sold to one accredited investor a \$53,000 nine month, 8% note convertible at the holder's option into such number of shares of the Company's common stock as determined by a forty-two percent discount from the average of the three lowest closing prices of the Company's common stock for the ten trading days immediately preceding the day the holder notices the Company of its intent to convert. The conversion price is subject to standard anti-dilutive provisions. The Company has reserved up to 991,961 shares of its common stock in the event of conversion pursuant to the terms of the note. In the event the note is not paid when due, the interest rate is increased to twenty-two percent until the note is paid in full.

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During the three months ended July 31, 2012, the Company sold to one accredited investor a 36 month, 15%, \$30,000 amortizing note. In case of default, the interest rate is increased to 20%. Each monthly payment of principal and interest is \$1,039.96. At the holder's option, the outstanding balance of the note may be converted to common stock at the conversion price of \$1.00 per share.

During the three months ended July 31, 2012, the Company sold to thirteen accredited investors 181,889 shares of common stock for \$136,000 of which 94,637 shares were classified as to be issued at July 31, 2012

During the three months ended July 31, 2012, three note holders converted \$112,064 of notes and accrued interest thereon into 184,960 shares of common stock of which 100,480 shares were classified as to be issued at July 31, 2012.

During the three months ended July 31, 2012, the Company issued 155,300 shares pursuant to consulting agreements.

During the three months ended July 31, 2012, the Company's subsidiary, Specialty Reports, Inc, sold 11 shares of its Series C Convertible Preferred Stock to four accredited investor for \$55,000. Each Series C share is convertible at the holder's option at any time into either 1,000 shares of Specialty Reports, Inc. common stock, or 2,000 shares of Sparta Commercial Services, Inc. common stock.

ITEM 3. DEFAULTS UPON SENIOR SECURITIES

None.

ITEM 4. MINE SAFETY DISCLOSURES

None.

ITEM 5. OTHER INFORMATION

Not applicable.

ITEM 6. EXHIBITS

The following exhibits are filed with this report:

| Exhibit No. | Description  |
|-------------|--|
| 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. |
| 31.1*       | <u>Certification of Chief Executive Officer pursuant to Securities Exchange Act Rule 13a-14(a)/15d-14(a)</u>   |
| 31.2*       | <u>Certification of Principal Financial Officer pursuant to Securities Exchange Act Rule 13a-14(a)/15d-14(a)</u>   |
| 32.1*       | <u>Certification of Chief Executive Officer pursuant to 18 U.S.C. Section 1350</u>   |
| 32.2*       | <u>Certification of Principal Financial Officer pursuant to 18 U.S.C. Section 1350</u>   |
| 101.INS**   | XBRL Instance Document   |
| 101.SCH**   | XBRL Taxonomy Extension Schema   |

101.CAL\*\*

XBRL Taxonomy Extension Calculation Linkbase

101.DEF\*\*

XBRL Taxonomy Extension Definition Linkbase

101.LAB\*\*

XBRL Taxonomy Extension Label Linkbase

101.PRE\*\*

XBRL Taxonomy Extension Presentation Linkbase

\*Filed herewith

\*\*Pursuant to Rule 405(a)(2) of Regulation S-T, the Company will furnish the XBRL Interactive Data Files with detailed footnote tagging as Exhibit 101 in an amendment to this Form 10-Q within the permitted 30-day grace period granted for the first quarterly period in which detailed footnote tagging is required.



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SIGNATURES

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

SPARTA COMMERCIAL SERVICES, INC.

Date: September 19, 2012

By: /s/ Anthony L. Havens  
Anthony L. Havens  
Chief Executive Officer

Date: September 19, 2012

By: /s/ Anthony W. Adler  
Anthony W. Adler  
Principal Financial Officer

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