

SPARTA COMMERCIAL SERVICES, INC.
Form 10-Q
September 22, 2014

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, 2014

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.)

370 Lexington Ave., Suite 1901, New York, NY 10017
(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 15, 2014, we had 22,868,968 shares of common stock issued and outstanding.

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SPARTA COMMERCIAL SERVICES, INC.

FORM 10-Q
FOR THE QUARTER ENDED JULY 31, 2014

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PART I. FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

SPARTA COMMERCIAL SERVICES, INC.
CONDENSED CONSOLIDATED BALANCE SHEETS

| | July 31, 2014 (unaudited) | April 30, 2014 |
|---|---------------------------------|-------------------|
| ASSETS | | |
| Cash and cash equivalents | \$54,186 | \$70,456 |
| Accounts receivable | 280,756 | 182,343 |
| Property and equipment, net of accumulated depreciation and amortization of \$200,263 and \$199,367, respectively (NOTE B) | 9,078 | 9,974 |
| Goodwill | 10,000 | 10,000 |
| Other assets | 59,848 | 60,992 |
| Deposits | 40,568 | 40,568 |
| Total assets from continuing operations | 454,436 | 374,333 |
| ASSETS FROM DISCONTINUED OPERATIONS (NOTE C) | 57,733 | 90,024 |
| Total assets | \$512,169 | \$464,357 |
| LIABILITIES AND DEFICIT | | |
| Liabilities: | | |
| Accounts payable and accrued expenses | \$1,398,273 | \$1,259,368 |
| Notes payable net of beneficial conversion feature of \$279,965 and \$296,384, respectively (NOTE D) | 2,177,798 | 2,019,879 |
| Loans payable-related parties (NOTE E) | 385,853 | 385,853 |
| Derivative liabilities | 464,845 | 601,000 |
| Total liabilities from continuing operations | 4,426,769 | 4,266,100 |
| LIABILITIES FROM DISCONTINUED OPERATIONS (NOTE C) | 111,110 | 130,420 |
| Total liabilities | 4,537,879 | 4,396,520 |
| Deficit: | | |
| Preferred stock, \$0.001 par value; 10,000,000 shares authorized of which 35,850 shares have been designated as Series A convertible preferred stock, with a stated value of \$100 per share, 125 and 125 shares issued and outstanding, respectively | 12,500 | 12,500 |
| Preferred stock B, 1,000 shares have been designated as Series B redeemable preferred stock, \$0.001 par value, with a liquidation and redemption value of \$10,000 per share, 157 and 157 shares issued and outstanding, respectively | 1,570 | 1,570 |
| Preferred stock C, 200,000 shares have been designated as Series C redeemable, convertible preferred, \$0.001 par value, with a liquidation and redemption value of \$10 per share, 0 and 0 shares issued and outstanding, respectively | - | - |
| Common stock, \$0.001 par value; 750,000,000 shares authorized, 22,188,740 and 20,987,353 shares issued and outstanding, respectively | 22,189 | 20,987 |
| Common stock to be issued, 236,069 and 283,777, respectively | 236 | 284 |
| Preferred stock B to be issued, 72.48 and 72.48 shares, respectively | 72 | 72 |
| Additional paid-in-capital | 42,214,653 | 41,738,613 |

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| | | |
|--|---------------|---------------|
| Subscriptions receivable | (2,118,309) | (2,118,309) |
| Accumulated deficit | (44,816,254) | (44,257,306) |
| Total deficiency in stockholders' equity | (4,683,343) | (4,601,588) |
| Noncontrolling interest | 657,633 | 669,424 |
| Total Deficit | (4,025,710) | (3,932,164) |
| Total Liabilities and Deficit | \$512,169 | \$464,357 |

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, 2014 AND 2013
(UNAUDITED)

| | Three Months Ended July 31 | |
|--|-------------------------------|--------------|
| | 2014 | 2013 |
| Revenue | | |
| Information technology | \$ 132,807 | \$ 136,116 |
| Cost of goods sold | 43,250 | 37,577 |
| Gross profit | 89,557 | 98,539 |
| Operating expenses: | | |
| General and administrative | 564,809 | 470,986 |
| Depreciation and amortization | 896 | 2,421 |
| Total operating expenses | 565,705 | 473,407 |
| Loss from continuing operations | (476,148) | (374,868) |
| Other (income) expense: | | |
| Other income | (10,768) | (20,505) |
| Interest expense and financing cost | 7,131 | 5,585 |
| Non-cash interest and financing costs | 79,711 | 98,027 |
| Amortization of debt discount | 124,741 | 75,491 |
| (Gain) loss in changes in fair value of derivative liability | (200,779) | 60,248 |
| Total other (income) expense | 36 | 218,846 |
| Net loss from continuing operations | \$(476,184) | \$(593,714) |
| Net loss from discontinued operations | (94,364) | (10,620) |
| Net Loss | (570,548) | (604,334) |
| Net loss attributed to non-controlling interest | 11,791 | 9,664 |
| Preferred dividend | (191) | (39,334) |
| Net loss attributed to common stockholders | \$(558,948) | \$(634,004) |
| Basic and diluted loss per share from continuing operations | \$(0.02) | \$(0.04) |
| Basic and diluted loss per share attributed to common stockholders | \$(0.03) | \$(0.04) |
| Weighted average shares outstanding | 21,449,770 | 15,241,713 |

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, 2014
 (UNAUDITED)

| | Series A | | Series B | | Series B Preferred Stock Shares to be issued | | Common Stock | | Common Stock to be issued | | Subscriptions Receivable | Additional Paid in Capital | Accumulated Deficit |
|---|----------|----------|----------|---------|--|--------|--------------|----------|---------------------------|--------|--------------------------|----------------------------|---------------------|
| | Shares | Amount | Shares | Amount | Shares | Amount | Shares | Amount | Shares | Amount | | | |
| Balance April 30, 2014 | 125 | \$12,500 | 157 | \$1,570 | 72 | \$- | 20,987,353 | \$20,987 | 283,777 | \$284 | \$(2,118,309) | \$41,738,613 | \$(1,000,000) |
| Correcting Preferred dividend to be issued | | | | | | | | | (430) | (1) | | 15 | |
| Derivative liability reclassification | | | | | | | | | | | | 27,310 | |
| Sale of common stock Shares issued for financing cost | | | | | | | 823,152 | 824 | 61,029 | 61 | | 261,786 | |
| Shares issued for conversion of notes and interest | | | | | | | 33,806 | 34 | (28,998) | (28) | | 11,008 | |
| Stock compensation | | | | | | | 216,349 | 216 | (79,309) | (80) | | 93,258 | |
| Employee stock & options expense | | | | | | | 96,300 | 96 | | | | 68,394 | |
| Net loss | | | | | | | 31,780 | 32 | | | | 14,269 | |
| Balance July 31, 2014 | 125 | \$12,500 | 157 | \$1,570 | 72 | \$- | 22,188,740 | \$22,188 | 236,069 | \$236 | \$(2,118,309) | \$42,214,653 | \$(1,000,000) |

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, 2014 AND 2013
(UNAUDITED)

| | Three Months Ended July 31 | |
|---|-------------------------------|--------------|
| | 2014 | 2013 |
| CASH FLOWS FROM OPERATING ACTIVITIES | | |
| Net Loss | \$(558,948) | \$(634,004) |
| Adjustments to reconcile net loss to net cash used in operating activities: | | |
| Adjustments | 14 | - |
| Dividend on preferred stock | 191 | 39,344 |
| Loss allocable to non-controlling interest | (11,791) | (9,664) |
| Depreciation and amortization | 896 | 2,421 |
| Amortization of debt discount | 124,741 | 75,491 |
| Change in fair value of derivative liabilities | (200,779) | 60,248 |
| Shares issued for finance cost | 11,014 | 12,333 |
| Equity based compensation | 82,791 | 61,007 |
| (Increase) decrease in operating assets: | | |
| Accounts receivable | (98,606) | (79,339) |
| Prepaid expenses and other assets | 1,142 | 15,651 |
| Increase (decrease) in operating liabilities: | | |
| Accounts payable and accrued expenses | 193,413 | 57,052 |
| Net cash used in operating activities | (455,922) | (399,460) |
| CASH FLOWS FROM INVESTING ACTIVITIES: | | |
| Net cash provided by investing activities | - | - |
| CASH FLOWS FROM FINANCING ACTIVITIES | | |
| Net proceeds from sale of common stock | 262,671 | 299,664 |
| Net proceeds from convertible notes | 191,500 | 164,500 |
| Net payments on notes payable | (27,500) | (112,500) |
| Net proceeds from other notes | - | 25,000 |
| Net (payment of) loan proceeds from other related parties | - | (1,238) |
| Net cash provided by financing activities | 426,671 | 375,426 |
| Cash flows from discontinued operations: | | |
| Cash provided by operating activities of discontinued operations | 12,981 | 5,969 |
| Cash provided by investing activities of discontinued operations | - | - |
| Cash (used in) financing activities of discontinued operations | - | - |
| Net Cash flow from discontinued operation | 12,981 | 5,969 |
| Net decrease in cash | \$(16,270) | \$(18,065) |
| Unrestricted cash and cash equivalents, beginning of period | \$70,456 | \$38,213 |
| Unrestricted cash and cash equivalents , end of period | \$54,186 | \$20,148 |
| Cash paid for: | | |

| | | |
|--------------|---------|---------|
| Interest | \$7,131 | \$5,585 |
| Income taxes | \$944 | \$3,214 |

See Note I 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 UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
JULY 31, 2014

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, 2014 and for the three month periods ended July 31, 2014 and 2013 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, 2014 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 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") is a Nevada corporation. We are a technology company that provides a wide range of mobile app tools, products and services. We also provide vehicle history reports and a municipal leasing program.

Our roots are in the Powersports industry and our original focus was providing consumer and municipal financing to the powersports, recreational vehicle, and automobile industries (see Discontinued Operations). Presently, through our subsidiary, Specialty Reports, Inc. (SRI), we offer Mobile App development, sales, marketing and support, and Vehicle History Reports.

Our mobile application (mobile app) offerings have broadened our base beyond vehicle dealers to a wide range of businesses including, but not limited to, restaurants, hotels, and grocery stores. We also private label our mobile app framework to enable other businesses to offer custom apps to their customers.

Our vehicle history reports include Cyclechex (Motorcycle History Reports at www.cyclechex.com); RVchex (Recreational Vehicle History Reports at www.rvchex.com); CarVINreport (Automobile at www.carvinreport.com) and Truckchex (Heavy Duty Truck History Reports at www.truckchex.com). Our Vehicle History Reports are designed for consumers, retail dealers, auction houses, insurance companies and banks/finance companies.

Sparta also administers a Municipal Leasing Program for local and/or state agencies throughout the country who are seeking a better and more economical way to finance their essential equipment needs, including police motorcycles, cruisers, buses, and EMS equipment. We are continuing to expand our roster of equipment manufacturers and the

types of equipment we lease.

The results of operations for the three months ended July 31, 2014 are not necessarily indicative of the results to be expected for any other interim period or the full year ending April 30, 2015.

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.

Discontinued Operations

As discussed in NOTE C, in the second quarter of fiscal 2013, the Company's Board of Directors approved management's recommendation to discontinue the Company's consumer lease and loan lines of business and the sale of all of the Company's portfolio of RISCs, and a portion of its portfolio of leases. The sale was consummated in that quarter. The assets and liabilities have been accounted for as discontinued operations in the Company's consolidated balance sheets for all periods presented. The operating results related to these lines of business have been included in discontinued operations in the Company's consolidated statements of loss for all periods presented.

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SPARTA COMMERCIAL SERVICES, INC.
NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
JULY 31, 2014

Revenue Recognition

Revenues from history report and mobile app products are recognized on a cash basis.

The Company's leases, which are included in Discontinued Operations, 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's Retail Installment Sales Contracts ("RISC"), which are included in Discontinued Operations, are secured by liens on the titles to the vehicles. The RISCs are accounted for as loans. Upon purchase, the RISCs appear on the Company's balance sheet as RISC loan receivable current and long term. Interest income on these loans is recognized when it is earned.

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

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

Inventories

Inventories, which are included in Discontinued Operations, 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" ("ASC 740-10"). 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.

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SPARTA COMMERCIAL SERVICES, INC.
NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
JULY 31, 2014

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, 2014 or the three months ended July 31, 2014.

Fair Value Measurements

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

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

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

Impairment of Long-Lived Assets

In accordance ASC 360-10, "Impairment or Disposal of Long-Lived Assets," ("ASC 360-10") 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," ("ASC 220-10") 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, 2014 and April 30, 2014, 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 ("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.

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SPARTA COMMERCIAL SERVICES, INC.
NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
JULY 31, 2014

In the second quarter of fiscal 2013, the Company's Board of Directors approved management's recommendation to discontinue the Company's consumer lease and loan lines of business and the sale of all of the Company's portfolio of RISCs and a portion of its portfolio of leases. The sale was consummated in that quarter. The assets and liabilities have been accounted for as discontinued operations in the Company's consolidated balance sheets for all periods presented. The operating results related to these lines of business have been included in discontinued operations in the Company's consolidated statements of loss for all periods presented. As these lines of business were discontinued during the fiscal year ending April 30, 2013, the Company has discontinued segment reporting.

Stock Based Compensation

The Company adopted ASC 718-10 "Compensation-Stock Compensation Overall" ("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.

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.

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, 2014 and 2013, the Company incurred \$14,550 and \$8,084 in advertising and marketing 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 \$0.03 and \$0.04 for the three months ended July 31, 2014 and 2013, respectively. At July 31, 2014 and 2013, 6,032,273 and 5,076,396 potential shares, respectively, were excluded from the shares used to calculate diluted earnings per share as their inclusion would reduce net loss per share.

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SPARTA COMMERCIAL SERVICES, INC.
 NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
 JULY 31, 2014

Liquidity

As shown in the accompanying unaudited condensed consolidated financial statements, the Company has incurred a net loss attributable to common stockholders of \$558,948 and \$634,004 during the three months ended July 31, 2014 and 2013, respectively. The Company had a negative net worth of \$4,025,710 at July 31, 2014.

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 – PROPERTY AND EQUIPMENT

Major classes of property and equipment at July 31, 2014 and April 30, 2014 consist of the followings:

| | July 31, 2014 | April 30, 2014 |
|--|------------------|-------------------|
| Computer equipment, software and furniture | \$ 209,341 | \$ 209,341 |
| Less: accumulated depreciation | (200,263) | (199,367) |
| Net property and equipment | \$ 9,078 | \$ 9,974 |

Depreciation expense for property and equipment was \$896 and \$2,421, respectively for the three months ended July 31, 2014 and 2013, and \$4,572 for the year ended April 30, 2014.

NOTE C – DISCONTINUED OPERATIONS

In the second quarter of fiscal 2013, the Company's Board of Directors approved management's recommendation to discontinue the Company's consumer lease and loan lines of business and the sale of all of the Company's portfolio of RISCs and a portion of its portfolio of leases. The sale was consummated in that quarter. The assets and liabilities have been accounted for as discontinued operations in the Company's consolidated balance sheets for all periods presented.

The operating results related to these lines of business have been included in discontinued operations in the Company's consolidated statements of loss for all periods presented. The following table presents summarized operating results for those discontinued operations.

| | Three Months Ended |
|--|--|
| | July 31, July 31, |

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| | 2014 | 2013 |
|------------|-------------|-------------|
| Revenues | \$ 11,866 | \$ 21,011 |
| Net (loss) | \$ (94,364) | \$ (10,620) |

As the Company sold all of its portfolio of RISCs, and a portion of its portfolio of leases with the remaining leases in final run-off mode, therefore there no portfolio performance measures were calculated for the year ending April 30, 2014.

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ASSETS INCLUDED IN DISCONTINUED OPERATIONS

MOTORCYCLES AND OTHER VEHICLES UNDER OPERATING LEASES

Motorcycles and other vehicles under operating leases at July 31, 2014 and April 30, 2014:

| | July 31, 2014 | April 30, 2014 |
|--|------------------|-------------------|
| Motorcycles and other vehicles | \$ 46,295 | \$ 60,686 |
| Less: accumulated depreciation | (5,144) | (5,016) |
| Motorcycles and other vehicles, net of accumulated depreciation | 41,151 | 55,670 |
| Less: estimated reserve for residual values | (4,196) | (4,253) |
| Motorcycles and other vehicles under operating leases, net | \$ 36,955 | \$ 51,417 |

At April 30, 2014, motorcycles and other vehicles are being depreciated to their estimated residual values over the lives of their lease contracts. Depreciation expense for vehicles for the three months ended July 31, 2014 was \$5,686 and for the year ended April 30, 2014 it was \$29,411. All of the assets are pledged as collateral for the note described in SECURED NOTES PAYABLE in this Note C. These remaining leases are in a run-off mode.

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, 2014 and at April 30, 2014, the Company had no repossessed vehicles which are held for resale.

RETAIL (RISC) LOAN RECEIVABLES

All of the Company's RISC performing loan receivables were sold in August 2013. As of July 31, 2014 and April 30, 2014, the Company had RISC loans of \$19,148 and \$37,919 (representing Company refinancing of two loans which had previously been sold), respectively, and deficiency receivables of \$876 and \$0, respectively. At July 31, 2014 and at April 30, 2014, the reserve for doubtful RISC loan receivables was \$1,067 and \$1,124, respectively.

As the Company sold all of its portfolio of RISCs, and a portion of its portfolio of leases with the remaining leases in final run-off mode, therefore there no portfolio performance measures were calculated for the quarter ending July 31, 2014 or the year ending April 30, 2014.

LIABILITIES INCLUDED IN DISCONTINUED OPERATIONS

SECURED NOTES PAYABLE

| July 31, 2014 | April 30, 2014 |
|------------------|-------------------|
|------------------|-------------------|

| | | | |
|---|----|---------|------------|
| Secured, subordinated individual lender | | | |
| (a) | \$ | 98,198 | \$ 117,508 |
| Secured, subordinated individual lender | | | |
| (b) | | 12,912 | 12,912 |
| Total | \$ | 111,110 | \$ 130,420 |

- (a) The Company had financed certain of its leases and RISCs through two third parties. 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, 2014 is 15.29%.
- (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. As of April 30, 2014, no such documents have been received. 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 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 holder. 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 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 holder. The Company was obligated to pay any remainder of the Senior Secured Note by November 1, 2009 which was extended to May 1, 2014, and has granted the note holder a security interest in the Purchased Portfolio. On January 31, 2014, the holder converted \$50,000 of the outstanding balance of the Note into 60,606 shares of the Company’s restricted common stock. The note, which had an outstanding balance of \$12,912 at July 31, 2014, has been extended to August 31, 2015.

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At July 31, 2014, the notes payable mature as follows:

| Year ended July 31, | Amount |
|---------------------|-------------------|
| 2015 | \$ 98,198 |
| 2016 | 12,912 |
| Total Due | \$ 111,110 |

NOTE D – NOTES PAYABLE

| | July 31, 2014 | April 30, 2014 |
|---|---------------------|---------------------|
| Notes Payable | | |
| Notes convertible at holder's option (a) | \$ 2,042,763 | \$ 1,901,263 |
| Notes with interest only convertible at Company's option (b) | 390,000 | 390,000 |
| Non-convertible notes payable (c) | 25,000 | 25,000 |
| Subtotal | 2,457,763 | 2,316,263 |
| Less, Debt discount | (279,965) | (296,384) |
| Total | \$ 2,177,798 | \$ 2,019,879 |

(a) Notes convertible at holder's option consists of:

- (i) a \$1,258,368, 8% note originally due April 30, 2013, but subsequently amended to such time as the law suit filed by the Company (see: PART II, ITEM 1 LEGAL PROCEEDINGS) is fully adjudicated, convertible at the holder's option at \$0.495 per share. In fiscal 2012, the Company had recorded a \$663,403 beneficial conversion discount for this note which was fully amortized during fiscal 2013;
- (ii) a \$27,500, 8% note due November 20, 2014. The Company has recorded beneficial conversion discounts totaling \$27,211 for the note. The discount is being fully amortized over the terms of the note. The note is convertible at the note holder's option at a variable conversion prices such that during the period during which the notes are outstanding, with all 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 had reserved up to 242,000 shares of its common stock for conversion pursuant to the terms of the note. In the event the note is not paid when due, the interest rate is increased to twenty-two percent until the note is paid in full;
- (iii) a \$25,000, 12% convertible note due May 27, 2014. The note is convertible at \$0.59 per share. If the Company has not redeemed the outstanding principal and accrued interest of this Debenture in cash by the Maturity Date and the original Debenture between the Holder and the Company dated September 19, 2007 is no longer outstanding for every 30 day period past the Maturity Date of which the principal balance and any accrued interest of this Debenture remain outstanding, the Company shall issue the Holder the greater of (i) 1,333 shares of the Company's restricted common stock or (ii) the number of shares of the Company's restricted common stock equal to \$2,000 determined on the basis of the volume weighted average closing price "VWACP" of the Company's common stock for the five consecutive trading days immediately prior to the 19th of each month (for a day to be included in the calculation, there must have been at least 100 shares traded on that day). As long as the Company remains current on the payment of the shares under this Paragraph 12, the Debenture shall be considered past due but not in default. The Company issued the holder 5,000 shares of its restricted common stock as inducement for the loan and a \$50,000, 12% note, due March 20, 2015, convertible at the holder's option at \$0.59 per share), the Company issued the holder 10,000 shares of its restricted common stock as inducement for the loan. In fiscal 2012, the Company has recorded a

\$50,000 beneficial conversion discount for this note. The discount is being fully amortized over the term of the note;

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- (iv) seven notes aggregating \$118,250, all due August 15, 2015 with interest ranging from 15% to 20%, with accrued interest compounding monthly at 8%, 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 \$0.25 per share. In fiscal 2012, the Company has recorded a \$5,340 beneficial conversion discount for these notes. The discount is being fully amortized over the term of the notes;
- (v) three notes aggregating \$106,250, all due August 15, 2015 with interest ranging from 20% to 25% with accrued interest compounding monthly at 8%, all of the notes are convertible at the holder's option at \$0.25 per share. In fiscal 2012, the Company has recorded a \$6,120 beneficial conversion discount for these notes. The discount is being fully amortized over the term of the notes;
- (vi) a \$55,000, 5% convertible note due February 20, 2015 and a \$59,000, 5% convertible note due April 16, 2015. This lender has committed to lend up to \$330,000 (three hundred thousand) in the form of two \$165,000 notes. The Lender initially advanced \$110,000 against one \$165,000 note of which amount \$55,000 was repaid via conversion. The Lender advanced an additional \$55,000 against the other \$165,000 note. The lender may lend additional consideration to the Company in such amounts and at such dates as Lender may choose in its sole discretion. The principal sum due to lender shall be prorated based on the consideration actually paid by lender (plus an approximate 10% original issue discount that is prorated based on the consideration actually paid by the lender as well as any other interest or fees) such that the borrower is only required to repay the amount funded and the Company is not required to repay any unfunded portion of this note. The second note has been amended to include a 3% closing fee on the amount of each sum advanced plus a 5% due diligence fee on the amount of each sum advanced. The combined fees shall be added to the sum advanced for all purposes under the Note, including when calculating the amount of the interest charge. The maturity date is one year from the effective date of each payment and is the date upon which the Principal Sum of this Note, as well as any unpaid interest and other fees, shall be due and payable. The Conversion Price 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 Company (In the case that conversion shares are not deliverable by DWAC an additional 5% discount will apply; and if the shares are chilled for deposit into the DTC system and only eligible for Xclearing deposit an additional 7.5% discount shall apply). Unless otherwise agreed in writing by both parties, at no time will the lender convert any amount of this note into common stock that would result in the lender owning more than 4.99% of the common stock outstanding. In fiscal 2014, the Company has recorded a \$63,356 beneficial conversion discount for the two outstanding notes. The discount is being fully amortized over the initial term of the notes;
- (vii) a \$27,500, 5% convertible note due October 21, 2014, a \$27,500, 5% convertible note due January 28, 2015 and a \$27,500, 5% convertible note due April 29, 2015. This lender has committed to lend up to \$165,000. The lender may lend additional consideration to the Company in such amounts and at such dates as Lender may choose in its sole discretion. The principal sum due to lender shall be prorated based on the consideration actually paid by lender (plus an approximate 10% original issue discount that is prorated based on the consideration actually paid by the lender as well as any other interest or fees) such that the borrower is only required to repay the amount funded and the Company is not required to repay any unfunded portion of this note. The maturity date of each note is one year from the effective date of each payment and is the date upon which the Principal Sum of this Note, as well as any unpaid interest and other fees, shall be due and payable. The Conversion Price for the notes is the lesser of \$0.60 or 70% of the lowest closing prices during the 20 trading days immediately previous to the day the conversion notice is delivered to the Company. (In the case that conversion shares are not deliverable by DWAC, the principal amount of the note shall be increased by \$10,000, and the conversion price shall be redefined to equal the lesser of (a) \$0.60 or (b) 50% of the lowest closing prices during the 20 trading days immediately previous to the day the conversion notice is delivered to the Company). Unless otherwise agreed in writing by both parties, at no time will the lender convert any amount of this note into common stock that would result in the lender owning more than

4.99% of the common stock outstanding. In fiscal 2014, the Company has recorded a \$49,085 beneficial conversion discount for the notes. The discounts are being fully amortized over the terms of the notes; \$500 outstanding balance on a \$13,900, and 10% convertible note due June 1, 2014. The Conversion Price for this note is the lesser of \$0.50 or 70% of the lowest closing prices during the 20 trading days immediately previous to the day the conversion notice is delivered to the Company. (In the case that conversion shares are not deliverable by DWAC, the principal amount of the note shall be increased by \$15,000, and the conversion price shall be redefined to equal the lesser of (a) \$0.005 or (b) 50% of the lowest closing prices during the 20 trading days immediately previous to the day the conversion notice is delivered to the Company). In fiscal 2014, the Company has recorded an \$11,158 beneficial conversion discount for the note. The discount is being fully amortized over the term of the note; and \$625 outstanding balance on a \$60,000, 12% convertible note due March 20, 2015. The Conversion Price for this note is 65% of the lowest closing prices during the 20 trading days immediately previous to the day the conversion notice is delivered to the Company. (In the case that conversion shares are not deliverable by DWAC, the principal amount of the note shall be increased by \$15,000, and the conversion price shall be redefined to equal the lesser of (a) \$0.005 or (b) 50% of the lowest closing prices during the 20 trading days immediately previous to the day the conversion notice is delivered to the Company). In fiscal 2014, the Company has recorded a \$32,309 beneficial conversion discount for the note. The discount is being fully amortized over the term of the note;

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- (viii) \$5,000 5% convertible note due August 31, 2014. The Conversion Price is \$0.3595. In fiscal 2014, the Company has recorded a \$5,000 beneficial conversion discount for this note. The discount is being fully amortized over the initial term of the note;
- (ix) \$42,500, 8% note due January 11, 2015, a \$42,500, 8% note due February 2, 2015, and a \$35,000, 8% note due April 27, 2015. The Company has recorded a beneficial conversion discount of \$89,383 for the notes. The discount is being fully amortized over the term of the notes. The notes are convertible at the note holder's option at a variable conversion prices such that during the period during which the notes are outstanding, with all 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 had reserved up to 1,350,000 shares of its common stock for conversion pursuant to the terms of the note. In the event the note is not paid when due, the interest rate is increased to twenty-two percent until the note is paid in full;
- (x) a \$40,000, 6% note due April 3, 2015. In fiscal 2014, the Company has recorded a beneficial conversion discount of \$20,085 for the note. The discount is being fully amortized over the term of the note. The note is convertible at the note holder's option at the lesser of \$1.20 or a variable conversion of 65% multiplied by the lowest VWAP in the five 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 had reserved up to 310,000 shares of its common stock for conversion pursuant to the terms of the note. In the event the note is not paid when due, the interest rate is increased to twenty-two percent until the note is paid in full; and
- (xi) a \$44,770, 5% note due April 15, 2016. In fiscal 2014, the Company has recorded a beneficial conversion discount of \$35,816 for the note. The discount is being fully amortized over the term of the note. The note is convertible at the note holder's option at the rate of 1.5 shares of common stock for each dollar converted. In the event the note is not paid when due, the interest rate is increased to eighteen percent until the note is paid in full; and
- (xii) a \$50,000, 8% note due December 20, 2014. The Company has recorded a beneficial conversion discount of \$36,207 for the note. The discount is being fully amortized over the term of the note. The note is convertible at the note holder's option at a variable conversion of 58% multiplied by the average of the three lowest trades in 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 had reserved up to 340,000 shares of its common stock for conversion pursuant to the terms of the note.
- (b) Notes with interest only convertible at Company's option consist of: (i) a 22% note in the amount of \$10,000 due May 31, 2015; (ii) a \$25,000 note due May 1, 2011, which was extended to October 31, 2013. The Company is paying the note holder 3,333 shares per month until the note is paid or renegotiated. So long as the Company pays the monthly shares this note is not in default. Interest is payable on the \$10,000 note at the Company's option and on the \$25,000 note at the holder's option in cash or in shares at the rate of \$1.50 per share; (iii) a \$315,000, 12.462% note due April 30, 2014, but subsequently amended to such time as the law suit filed by the Company (see: PART II, ITEM 1 LEGAL PROCEEDINGS) is fully adjudicated. Interest is payable quarterly with a minimum of \$600 in cash with the balance payable in cash or stock at the Company's options 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; (iv) a \$25,000 8% note due May 31, 2015, the Company issued the note holder 5,000 shares of its common stock in connection with this loan Pursuant to the terms of this note, the Company is required to issue to the note holder 5,000 shares of its common stock for each month or portion thereof that the note remains unpaid. Interest is payable on all this note at the Company's option in cash or in shares at the rate of \$0.35 per share; and (v) \$15,000 5% note due May 31, 2015, the Company agreed to issue the note holder 5,000 shares of its common stock in

connection with this loan.

(c) Non-convertible notes consist of a \$25,000 note due May 31, 2015 which bears no interest. Pursuant to the terms of this note, the Company is required to issue to the note holder 1,000 shares of its common stock for each month or portion thereof that the note remains unpaid

Amortization of Beneficial Conversion Feature for the three months ended July 31, 2014 and 2013 was \$124,741 and \$75,491, respectively and was \$417,219 for the fiscal year ended April 30, 2014.

The Company's derivative financial instruments consist of embedded derivatives related to the outstanding 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.

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The change in fair value of the derivative liabilities of warrants outstanding at July 31, 2014 was calculated with the following average assumptions, using a Black-Scholes option pricing model are as follows:

| | |
|---------------------------------|--------------------------------------|
| Significant Assumptions: | |
| Risk free interest rate | Ranging from 0.28% to 1.21% |
| Expected stock price volatility | 117% |
| Expected dividend payout | 0 |
| Expected options life in years | Ranging from 1.34 years to 3.4 years |

The change in fair value of the derivative liabilities of convertible notes outstanding at July 31, 2014 was calculated with the following average assumptions, using a Black-Scholes option pricing model are as follows:

| | |
|---------------------------------|--------------------------------------|
| Significant Assumptions: | |
| Risk free interest rate | Ranging from 0.045% to 0.24% |
| Expected stock price volatility | 117% |
| Expected dividend payout | 0 |
| Expected options life in years | Ranging from 0.31 years to .68 years |

The value of the derivative liability was re-assessed as of July 31, 2014 resulting in a gain to the consolidated statement of operations of \$200,779 for the three months ended July 31, 2014.

| | |
|--|------------------|
| | July 31, 2014 |
| Opening balance | \$ 601,000 |
| Derivative liability reclassified to additional paid in capital | (27,310) |
| Derivative financial liability arising on the issue of convertible notes | 111,048 |
| Fair value adjustments | (219,893) |
| Closing balance | \$ 464,845 |

NOTE E – LOANS PAYABLE TO RELATED PARTIES

As of July 31, 2014 and April 30, 2014, aggregated loans payable, without demand and with no interest, to officers and directors were \$385,853 and \$385,853, respectively.

NOTE F – EQUITY TRANSACTIONS

The Company is authorized to issue 10,000,000 shares of preferred stock with \$0.001 par value per share, of which 35,850 shares have been designated as Series A convertible preferred stock with a \$100 stated value per share, 1,000 shares have been designated as Series B Preferred Stock with a \$10,000 per share liquidation value, and 200,000 shares have been designated as Series C Preferred Stock with a \$10 per share liquidation value, and 750,000,000 shares of common stock with \$0.001 par value per share. The Company had 125 shares of Series A preferred stock issued and outstanding as of July 31, 2014 and April 30, 2014. The Company had 157 shares of Series B preferred stock issued and outstanding as of July 31, 2014 and April 30, 2014. The Company had nil shares of Series C preferred stock issued and outstanding as of July 31, 2014 and April 30, 2014. The Company has 22,188,740 and 20,987,353 shares of common stock issued and outstanding as of July 31, 2014 and April 30, 2014, respectively.

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Preferred Stock, Series A

During the quarter ended July 31, 2014, there were no transactions in Series A Preferred, however, at July 31, 2014, there were \$6,816 of accrued dividends payable on the Series A Preferred, compared to the accrual of \$6,625 at April 30, 2014. 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, 2014, there were no transactions in Series B Preferred Stock, however, at July 31, 2014 and at April 30, 2014, there were 72.44 and 72.44 shares, respectively, of Series B Preferred payable representing a total of \$724,416 in accrued dividends. It is the Company's intention to redeem all of the outstanding Series B Preferred shares during the second and third quarters of the current fiscal year.

Preferred Stock Series C

There were no shares of Series C Preferred Stock issued and outstanding at July 31, 2014 and at April 30, 2014.

Common Stock

During the three months ended July 31, 2014, the Company expensed \$82,791 for non-cash charges related to stock and option compensation expense.

During the three months ended July 31, 2014, the Company:

issued 260,992 shares of common stock which had been classified as to be issued at April 30, 2014, sold 884,181 shares of common stock to eleven accredited investors for \$262,671, of which 162,906 shares remained to be issued at July 31, 2014, issued 51,400 shares of common stock upon the conversion of \$27,500 principal amount of convertible notes and accrued 63,140 shares for the conversion of \$34,470 of accrued interest, issued 17,140 shares of common stock valued at \$9,987 pursuant to terms of various notes and accrued 2,666 shares to be issued valued at \$1,027, issued 96,300 shares of common stock valued at \$68,490 pursuant to consulting agreements, issued 22,500 shares of common stock in payment of \$19,952 in accounts payable, and issued 31,780 shares of common stock valued at \$14,301 to three employees in exchange for their outstanding stock purchase options.

NOTE G – NONCONTROLLING INTEREST

For the three months ended July 31, 2014, the non-controlling interest is summarized as follows:

| | Amount |
|---|------------|
| Balance at April 30, 2014 | \$ 669,424 |
| Noncontrolling interest's share of losses | (11,791) |
| Balance at July 31, 2014 | \$ 657,633 |

NOTE H – 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.

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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, 2014:

| | Fair Value at July 31, 2014 | Fair Value Measurement Using | | |
|------------------------|-----------------------------------|------------------------------|---------|------------|
| | | Level 1 | Level 2 | Level 3 |
| Derivative liabilities | \$ 464,845 | - | - | \$ 464,845 |

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.

Changes in Derivative liability during the three months ended July 31, 2014 were:

| | April 30, 2014 | Increased During Period | Decrease in Fair Value | July 31, 2014 |
|----------------------|-------------------|-------------------------------|------------------------------|------------------|
| Derivative liability | \$ 601,000 | \$ 111,048 | \$ 247,203 | \$ 464,845 |
| Total | \$ 601,000 | \$ 111,048 | \$ 247,203 | \$ 464,845 |

NOTE I – NON-CASH FINANCIAL AND INVESTING INFORMATION

During the three months ended July 31, 2014, the Company:

- issued 17,140 shares of common stock valued at \$9,987 pursuant to the terms of the notes, and accrued 2,666 additional shares valued at \$1,027
- issued 22,500 shares of common stock in settlement of \$19,952 in accounts payable
- issued 51,400 shares of common stock upon conversion of \$27,500 of notes payable
- issued 31,780 shares of common stock valued at \$14,301 to three employees
- issued 96,300 shares of common stock valued at \$68,490 to two consultants.

NOTE J – SUBSEQUENT EVENTS

During August and September 2014, the Company:

- Issued 113,109 shares of common stock upon the conversion of \$28,872 of notes.
- Sold 479,070 shares of common stock to seven accredited investors for \$103,492 of which 241,938 shares were issued as of September 15, 2014.
- Issued 5,141 shares valued at \$2,000 pursuant to the terms of notes.
- Issued 94,000 shares of common stock valued at \$39,050 to three consultants.
- Issued 226,040 shares listed as to be issued at July 31, 2014.
- Borrowed pursuant to a \$50,000, 8% note due February 19, 2015. The note is convertible at the note holder's option at a variable conversion of 58% multiplied by the average of the three lowest trades in 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 had reserved up to 325,000 shares of its common stock for conversion pursuant to the terms of the note.

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JULY 31, 2014

- Borrowed pursuant to a \$32,500, 8% note due June 3, 2015. The note is convertible at the note holder's option at a variable conversion price of 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 had reserved up to 800,000 shares of its common stock for conversion pursuant to the terms of the note. In the event the note is not paid when due, the interest rate is increased to twenty-two percent until the note is paid in full.
- Borrowed \$55,000 pursuant to a \$110,000, 8% note due February 22, 2016. The note holder has the right but not the obligation to advance the remaining \$55,000 balance of the note on or before October 22, 2014. The note is convertible at the note holder's option at the lesser of \$0.60 or a variable conversion price of 60% multiplied by the lowest closing price for the common stock during the twenty 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 had reserved up to 459,000 shares of its common stock for conversion pursuant to the terms of the note.

NOTE K- 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, 2004 (date of inception) through July 31, 2014, the Company incurred loss of \$44,816,254. Of these losses, \$558,948 was incurred in the three months ending July 31, 2014. 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, 2014 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

Discontinued Operations

As discussed in NOTE C to the consolidated financial statements, in August 2012, the Company’s Board of Directors approved management’s recommendation to discontinue the Company’s consumer lease and loan lines of business and the sale of all of the Company’s portfolio of RISCs, and a portion of its portfolio of leases. The sale was consummated in that quarter. The assets and liabilities have been accounted for as discontinued operations in the Company’s consolidated balance sheets for all periods presented.

The operating results related to these lines of business have been included in discontinued operations in the Company’s consolidated statements of loss for all periods presented. The following table presents summarized operating results for those discontinued operations.

| | Quarter Ended | |
|------------|------------------|------------------|
| | July 31, 2014 | July 31, 2013 |
| Revenues | \$ 11,866 | \$ 21,011 |
| Net (loss) | \$ (94,364) | \$ (10,620) |

RESULTS OF CONTINUING OPERATIONS

Comparison of the Three Months Ended July 31, 2014 to the Three Months Ended July 31, 2013

For the three months ended July 31, 2014 and 2013, we have generated limited sales revenues, have incurred significant expenses, and have sustained significant losses

Revenues

Revenues totaled \$132,807 during the three months ended July 31, 2014 as compared to \$136,116 during the three months ended July 31, 2013. This \$3,309 (2.43%) decrease in revenues was due to decreases sales of history reports.

Costs and Expenses

Cost of goods sold increased 15.10% from \$37,577 to \$43,250 in a decrease in our gross profit margin to 67% in the current quarter from 72% in the quarter ended July 31, 2013. General and administrative expenses were \$564,809 during the three months ended July 31, 2014, compared to \$470,986 during the three months ended July 31, 2013. The \$93,823 (19.92%) increase was primarily due to increases in employee compensation and health insurance due to an increase in sales staff.

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Net Loss from continuing operations

We incurred a net loss from continuing operations and before preferred dividends and non-controlling interest of \$476,185 for our three months ended July 31, 2014 as compared to a net loss of \$593,714 for the corresponding interim period in 2013, a \$117,529 (19.80%) decrease. The decrease in our net loss before preferred dividends for our three month interim period ended July 31, 2014 was attributable primarily to a \$49,250 (65.24%) increase in amortization of debt discount, off-set by a \$18,316 (18.68%) decrease in non-cash finance costs, and a \$261,027 (433.25%) decrease in the change in the non-cash charge for fair value of derivative liabilities, aided by the \$8,982 (9.12%) decrease in gross profit.

Net loss from discontinued operations

Our net loss from discontinued operations for the quarter ended July 31, 2014 was \$94,364, as compared to a net loss of \$10,620 for the three months ended July 31, 2013, a \$83,742 (788.52%) increase due to decreased revenues.

Our net loss attributable to common stockholders

We incurred non-cash preferred dividend expense of \$191 and \$39,334, respectively for our three month periods ended July 31, 2014 and 2013.

Our net loss attributable to common stockholders decreased to \$588,948 for our three month period ended July 31, 2014 as compared to a net loss of \$634,004 for the corresponding period in 2013. The \$75,056 (11.84%) decrease in net loss attributable to common stockholders for our three month period ended July 31, 2014 was due primarily to the factors described above.

LIQUIDITY AND CAPITAL RESOURCES OF CONTINUING OPERATIONS

As of July 31, 2014, we had a negative net worth of \$4,683,343. We generated a deficit in cash flow from operating activities of \$455,922 for the three months ended July 31, 2014. This deficit is primarily attributable to our net loss attributed to common stockholders of \$558,948, partially offset by, other non-cash charges including: amortization of debt discount of \$124,741, equity based compensation of \$82,791, stock based finance cost of \$11,014 and changes in the value of derivative liabilities of \$200,779, and to changes in the balances of current assets and liabilities. Accounts payable and accrued expenses increased by \$193,413, receivables increased \$98,606, and other assets decreased by \$1,142.

We met our cash requirements during the three month period through net proceeds from the sale of common in the amount of \$262,671 and net proceeds from convertible notes of \$191,500. We repaid \$27,500 in notes. Additionally, we have received limited revenues from our discontinued leasing and financing activities, and have received fees from our municipal lease program, as well as from our continuing operations. 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, 2014, we had 12 full time employees. If we are able to fully implement our business plan, we anticipate our employment base may increase by at least 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 at the current staffing level 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, 2014 and 2013 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 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; price competition or pricing changes in the market; technical difficulties or system downtime; general economic conditions and economic conditions specific to the consumer financing sector.

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

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

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

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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

Revenues from our history report and mobile apps products are recognized on a cash basis.

Our Retail Installment Sales Contracts (“RISCs”), which are included in Discontinued Operations, 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, which are included in Discontinued Operations, 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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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

Included in our Discontinued Operations, the Company maintains 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

The Company is subject to legal proceedings and claims which arise in the ordinary course of its business. Although occasional adverse decisions or settlements may occur, the Company believes that the final disposition of such matters should not have a material adverse effect on its financial position, results of operations or liquidity.

On December 18, 2012, a suit was filed by the Company, as plaintiff, asserting claims against a former credit provider seeking substantial damages for the credit provider's alleged breaches of fiduciary duties it owed to the Company, among other causes of action the Company has alleged in a Complaint filed in the United States District Court for the Southern District of New York. There can be no assurance that the Company will prevail on any of its claims in this action. This action is currently in the discovery phase.

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, 2014, filed August 13, 2014, 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 quarter ended July 31, 2014, the Company:

Borrowed a \$50,000, 8% note due December 20, 2014. The note is convertible at the note holder's option at a variable conversion of 58% multiplied by the average of the three lowest trades in 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 had reserved up to 340,000 shares of its common stock for conversion pursuant to the terms of the note;

Borrowed a \$42,500, 8% note due February 2, 2015, and a \$35,000, 8% note due April 27, 2015. The notes are convertible at the note holder's option at a variable conversion prices such that during the period during which the notes are outstanding, with all 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 had reserved up to 1,135,000 shares of its common stock for conversion pursuant to the terms of these notes and a prior note. In the event the notes are not paid when due, the interest rate is increased to twenty-two percent until the notes are paid in full;

Borrowed \$60,000, 8% convertible note, convertible at \$0.495 per share which amount has been added to an existing note originally due April 30, 2014, but subsequently amended to such time as the law suit filed by the Company (see: PART II, ITEM 1 LEGAL PROCEEDINGS) is fully adjudicated;

Issued to a note holder 51,400 shares of common stock upon the conversion of \$27,500 of notes;

Issued 96,300 shares, valued at \$68,490, pursuant to consulting agreements;

Issued 17,140 shares of common stock, valued at \$9,983 pursuant to terms of notes payable;

Sold 884,181 shares of common stock to eleven accredited investors for \$262,671, of which 162,906 shares remained to be issued at July 31, 2014;

Issued 22,500 shares of common stock in payment of \$19,952 in accounts payable; and

Issued 31,740 shares of common stock valued at \$14,301 to three employees in exchange for their outstanding stock purchase options.

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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

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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 22, 2014

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

Date: September 22, 2014

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

