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SPARTA COMMERCIAL SERVICES, INC.  
Form 10QSB  
September 19, 2006

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

FORM 10-QSB

(Mark One)

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

For the quarterly period ended July 31, 2006

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

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

Commission file number: 0-9483

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

NEVADA  
(State or other jurisdiction of  
incorporation or organization)

30-0298178  
(IRS Employer  
Identification No.)

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

(212) 239-2666  
(Issuer's telephone number)

Check whether the issuer (1) has filed all reports required to be filed by  
Section 13 or 15(d) of the Exchange Act during the past 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 is a shell company (as defined in  
Rule 12b-2 of the Exchange Act) Yes  No

As of August 30, 2006, we had 121,285,680 shares of common stock issued and  
outstanding.

Transitional Small Business Disclosure Format (check one): Yes  No

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SPARTA COMMERCIAL SERVICES, INC.

FORM 10-QSB  
FOR THE QUARTER ENDED JULY 31, 2006

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PART I. FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

SPARTA COMMERCIAL SERVICES, INC.  
CONDENSED CONSOLIDATED BALANCE SHEETS

	July 31, 2006
	----- (Unaudited)
ASSETS	
Current assets:	
Cash and cash equivalents	\$ 12,369
Lease payments receivable, current, net of reserve of \$10,961 and \$5,090, respectively	445,736
Loan proceeds receivable	56,571
Prepaid expenses	34,231
Other current assets	7,150
	-----
Total current assets	556,057
Motorcycles and other vehicles under operating leases, net of accumulated depreciation of \$139,421 and \$75,873, respectively, and loss reserve of \$29,546 and \$16,409, respectively	1,062,129
Property and equipment, net of accumulated depreciation and	

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amortization of \$63,838 and \$53,249, respectively	125,530
Lease and Retail installment sale contract receivables, net of current portion and loss reserve of \$36,418 and \$14,654, respectively	1,481,001
Restricted cash	172,258
Deposits	50,817
	-----
Total assets	\$ 3,447,792
	=====
LIABILITIES AND STOCKHOLDERS' EQUITY	
Current liabilities:	
Accounts payable and accrued expenses	\$ 555,480
Accrued equity based compensation	--
Accrued equity based penalties	2,973
Notes payable, current portion	326,971
Deferred revenue	6,600
	-----
Total current liabilities	892,024
Deferred revenue	542,876
Notes payable, long term portion	947,755
Warrant liability	233,190
	-----
Total liabilities	2,615,845
	-----
Stockholders' equity:	
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, 19,795 and 19,795 shares issued and outstanding, respectively	1,979,500
Common stock, \$0.001 par value; 340,000,000 shares authorized, 121,215,180 and 114,180,301 shares issued and outstanding, respectively	121,215
Common stock to be issued, 320,513 and 5,838,302 shares, respectively	320
Common stock subscribed	330,000
Additional paid-in capital	13,183,794
Deferred compensation	(168,137)
Accumulated deficit	(14,614,745)
	-----
Total stockholders' equity	831,947
	-----
Total liabilities and stockholders' equity	\$ 3,447,792
	=====

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

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CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS  
FOR THE THREE MONTHS ENDED JULY 31, 2006 AND 2005  
(UNAUDITED)

	Three Months Ended July 31,	
	2006	2005
Revenue	\$ 191,642	\$ 17,326
Operating expenses:		
General and administrative	1,166,781	586,732
Depreciation and amortization	74,297	12,233
Total operating expenses	1,241,078	598,965
Loss from operations	(1,049,436)	(581,639)
Other income (expense):		
Interest expense and financing cost, net	13,323	(657,253)
Change in value of warrant and penalty share liability	601,734	--
Loss on sale of asset	--	(6,500)
Income (taxes) benefit	--	--
Net loss	(434,379)	(1,245,392)
Preferred dividend	29,937	1,803,275
Net loss attributed to common stockholders	\$ (464,316)	\$ (3,048,667)
Basic and diluted loss per share	\$ (0.00)	\$ (0.01)
Basic and diluted loss per share attributed to common stockholders	\$ (0.00)	\$ (0.04)
Weighted average shares outstanding	120,752,745	86,071,260

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

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July 31

	2006
	-----
CASH FLOWS FROM OPERATING ACTIVITIES:	
Net loss	\$ (434,379)
Adjustments to reconcile net loss to net cash used in operating activities:	
Depreciation and amortization	74,297
Allowance for loss reserve	40,773
Amortization of deferred revenue	(3,300)
Amortization of deferred compensation	125,363
Equity based compensation	98,542
Stock based finance cost	--
Change in warrant and penalty share liability	(601,734)
Loss on sale of assets	--
Changes in operating assets and liabilities:	
(Increase) decrease in:	
Lease payments receivable	(1,151,492)
Prepaid expenses	17,708
Loan proceeds receivable	333,427
Other current assets	(2,900)
Restricted cash	(59,755)
Deposits	(1,850)
Increase (decrease) in:	
Accounts payable and accrued expenses	237,635
Deferred revenue	366,531
Accrued registration penalty	(44,495)
	-----
Net cash used in operating activities	(1,005,629)
	-----
CASH FLOWS FROM INVESTING ACTIVITIES:	
Proceeds from sale of asset	--
Cost of asset sold	--
Payments for motorcycles and other vehicles under leases and retail installment sale contracts	(471,528)
Purchases of property and equipment	(14,734)
	-----
Net cash used by investing activities	(486,262)
	-----
CASH FLOWS FROM FINANCING ACTIVITIES:	
Proceeds from sale of preferred stock, net	--
Proceeds from notes	667,238
Payments on notes	(81,860)
Proceeds from exercise of warrants	62,500
Cash Overdraft	--
	-----
Net cash provided by financing activities	647,878
	-----
Net increase in cash	(844,013)
	-----
Cash and cash equivalents, beginning of period	\$ 856,382
	-----
Cash and cash equivalents, end of period	\$ 12,369
	=====
Cash paid for:	

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Interest	\$ 24,093
	=====
Income taxes	\$ --
	=====

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

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SPARTA COMMERCIAL SERVICES, INC.  
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS  
JULY 31, 2006  
(UNAUDITED)

## NOTE A - SUMMARY OF ACCOUNTING POLICIES

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

### Basis of Presentation

The accompanying unaudited consolidated financial statements as of July 31, 2006 and for the three month periods ended July 31, 2006 and 2005 have been prepared by the Company pursuant to the rules and regulations of the Securities and Exchange Commission, including Form 10-QSB and Regulation S-B. The information furnished herein reflects all adjustments (consisting of normal recurring accruals and adjustments), which are, in the opinion of management, necessary to fairly present the operating results for the respective periods. Certain information and footnote disclosures normally present in annual financial statements prepared in accordance with accounting principles generally accepted in the United States of America have been omitted pursuant to such rules and regulations. The company believes that the disclosures provided are adequate to make the information presented not misleading. These financial statements should be read in conjunction with the audited financial statements and explanatory notes for the year ended April 30, 2006 as disclosed in the company's 10-KSB for that year as filed with the SEC, as it may be amended.

The results of the three months ended July 31, 2006 are not necessarily indicative of the results to be expected for the full year ending April 30, 2007.

The unaudited condensed consolidated financial statements include the accounts of the Company and its wholly owned subsidiary, Sparta Commercial Services, LLC. All significant intercompany transactions and balances have been eliminated in the consolidated financial statements.

### Estimates

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

### Revenue Recognition

The Company originates leases on new and used motorcycles and other powersports vehicles from motorcycle dealers throughout the United States. The Company's leases are accounted for as either operating leases or direct financing leases.

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At the inception of operating leases, no lease revenue is recognized and the leased motorcycles, together with the initial direct costs of originating the lease, which are capitalized, appear on the balance sheet as "motorcycles under operating leases-net". The capitalized cost of each motorcycle is depreciated over the lease term, on a straight-line basis, down to the Company's original estimate of the projected value of the motorcycle at the end of the scheduled lease term (the "Residual"). Monthly lease payments are recognized as rental income. Direct financing leases are recorded at the gross amount of the lease receivable, and unearned income at lease inception is amortized over the lease term.

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

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

The Company charges fees to manufacturers and other customers related to creating a private label version of the Company's financing program including web access, processing credit applications, consumer contracts and other related documents and processes. Fees received are amortized and booked as income over the length of the contract. At July 31, 2006, the Company had recorded deferred revenue related to these contracts of \$6,600.

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

### Stock Based Compensation

Prior to the adoption of FASB No. 123R, during the third quarter of Fiscal 2006, the Company recorded employee stock based compensation pursuant to APB No. 25.

Had compensation costs for the Company's stock options been determined based on the fair value at the grant dates for the awards, the Company's net loss and losses per share for the period prior to the adoption of FAS 123R would have been as follows:

Three Months

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	Ended July 31, 2005 -----
Net loss - as reported	\$ (1,245,392)
Add: Total stock based employee compensation expense as reported under intrinsic value method (APB. No. 25)	--
Deduct: Total stock based employee compensation expense as reported under fair value based method (SFAS No. 123)	(12,355) -----
Net loss - Pro Forma	\$ (1,257,747) =====
Net loss attributable to common stockholders - Pro forma	\$ (3,061,022) =====
Basic (and assuming dilution) loss per share - as reported	\$ (0.04) =====
Basic (and assuming dilution) loss per share - Pro forma	\$ (0.04) =====

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SPARTA COMMERCIAL SERVICES, INC.  
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS  
JULY 31, 2006  
(UNAUDITED)

Net Loss Per Share

The Company uses SFAS No. 128, "Earnings Per Share" for calculating the basic and diluted loss per share. We compute basic loss per share by dividing net loss and net loss attributable to common shareholders by the weighted average number of common shares outstanding. Diluted loss per share is computed similar to basic loss per share except that the denominator is increased to include the number of additional common shares that would have been outstanding if the potential shares had been issued and if the additional shares were dilutive. 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 \$0.004 and \$0.04 for the quarters ended July 31, 2006 and 2005, respectively. At July 31, 2006 and 2005, 27,069,527 and 37,468,324 potential shares, respectively, were excluded from the shares used to calculate diluted earnings per share as their inclusion would reduce net loss per share.

New Accounting Pronouncements

In March 2006, the FASB issued FASB Statement No. 156, Accounting for Servicing of Financial Assets - an amendment to FASB Statement No. 140. Statement 156 requires that an entity recognize a servicing asset or servicing liability each time it undertakes an obligation to service a financial asset by entering into a service contract under certain situations. The new standard is effective for fiscal years beginning after September 15, 2006. The adoption of SFAS No.156 did not have a material impact on the Company's financial position and results of operations.

In February 2006, the FASB issued SFAS 155, which applies to certain "hybrid financial instruments," which are instruments that contain embedded derivatives. The new standard establishes a requirement to evaluate beneficial interests in



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securitized financial assets to determine if the interests represent freestanding derivatives or are hybrid financial instruments containing embedded derivatives requiring bifurcation. This new standard also permits an election for fair value remeasurement of any hybrid financial instrument containing an embedded derivative that otherwise would require bifurcation under SFAS 133. The fair value election can be applied on an instrument-by-instrument basis to existing instruments at the date of adoption and can be applied to new instruments on a prospective basis. The adoption of SFAS No.155 did not have a material impact on the Company's financial position and results of operations.

In May 2005 the FASB issued Statement of Financial Accounting Standards (SFAS) No. 154, "Accounting Changes and Error Corrections, a replacement of APB Opinion No. 20 and FASB Statement No. 3." SFAS 154 requires retrospective application to prior periods' financial statements for changes in accounting principle, unless it is impracticable to determine either the period-specific effects or the cumulative effect of the change. SFAS 154 also requires that retrospective application of a change in accounting principle be limited to the direct effects of the change. Indirect effects of a change in accounting principle, such as a change in non-discretionary profit-sharing payments resulting from an accounting change, should be recognized in the period of the accounting change. SFAS 154 also requires that a change in depreciation, amortization, or depletion method for long-lived, non-financial assets be accounted for as a change in accounting estimate effected by a change in accounting principle. SFAS 154 is effective for accounting changes and corrections of errors made in fiscal years beginning after December 15, 2005. Early adoption is permitted for accounting changes and corrections of errors made in fiscal years beginning after the date this Statement is issued. The adoption of SFAS No.154 did not have a material impact on the Company's financial position and results of operations.

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SPARTA COMMERCIAL SERVICES, INC.  
 NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS  
 JULY 31, 2006  
 (UNAUDITED)

NOTE B - MOTORCYCLES AND OTHER VEHICLES UNDER OPERATING LEASES

Motorcycles and other vehicles under operating leases at July 31, 2006 and April 30, 2006 consist of the following:

	July 31, 2006	April 30, 2006
	-----	-----
Motorcycles and other vehicles	\$ 1,231,096	\$ 759,568
Less: accumulated depreciation	(139,421)	(75,873)
	-----	-----
Motorcycles and other vehicles, net of accumulated depreciation	1,091,675	683,695
Less: estimated reserve for residual values	(29,546)	(16,409)
	-----	-----
Motorcycles and other vehicles under operating leases, net	\$ 1,062,129	\$ 667,286
	=====	=====

Depreciation expense for the three months ended July 31, 2006 and 2005 was \$63,548 and \$9,468, respectively.

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### NOTE C - NOTES PAYABLE

The company finances certain of its leases through a third party. The repayment terms are generally one year to five years and the notes are secured by the underlying assets. The weighted average interest rate at July 31, 2006 is 8.82%.

At July 31, 2006, the notes payable mature as follows:

12 months Ended July 31	Amount
2007	\$ 326,971
2008	245,355
2009	252,465
2010	263,097
2011	186,838
	-----
	\$ 1,274,726
	=====

### NOTE D - EQUITY TRANSACTIONS

The Company is authorized to issue 10,000,000 shares of preferred stock with \$0.001 par value per share and \$100 stated value per share, of which 35,850 shares have been designated as Series A convertible preferred stock, and 340,000,000 shares of common stock with \$0.001 par value per share. As of July 31, 2006 and April 30, 2006, the Company has issued and outstanding 19,795 shares of preferred stock issued and outstanding each period. The Company has 121,215,180 and 114,180,301 shares of common stock issued and outstanding as of July 31, 2006 and April 30, 2006, respectively.

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SPARTA COMMERCIAL SERVICES, INC.  
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS  
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#### Common Stock

During May 2006, the Company issued 550,000 shares of common stock, valued at \$286,000, for accrued expenses recorded during the year end April 30, 2006.

During July 2006, the Company issued 320,000 shares of common stock, valued at \$132,600, for accrued expenses recorded during the year end April 30, 2006.

During June 2006, the Company issued an aggregate of 139,000 shares of common stock, pursuant to a consulting agreement. The shares have been valued at \$59,075.

During July 2006, the Company issued an aggregate of 69,500 shares of common stock, pursuant to a consulting agreement. The shares have been valued at \$15,290.

During July 2006, the Company issued 70,000 shares of common stock, valued at \$38,500, for accrued costs related to loans received by the Company during the year end April 30, 2006.

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During July 2006, the Company issued 48,077 shares of common stock, valued at \$13,285, related to penalty provision accrued during the year end April 30, 2006.

During July 2006, the Company issued 5,839,302 shares of common stock for shares subscribed for in March 2006.

During July 2006, the Company received \$62,500 upon the exercised of 320,513 warrants. The shares will be issued in the quarter ending October 31, 2006.

During the three months ended July 31, 2005, the Company issued 288,464 shares of common stock, valued at \$118,270, as additional costs related to loans received by the Company. This amount was charged to financing cost during the quarter.

### Preferred Stock Series A

During the three months ended July 31, 2005, the Company issued 17,750 preferred shares at a stated value of \$100 per share and warrants to purchase 5,689,108 shares of common stock, exercisable for three years at \$0.195 per share, for aggregate gross proceeds of \$1,775,000 received from investors. In connection with the private placement, during the three months ended July 31, 2005, the Company issued as compensation to the placement agent warrants to purchase 1,137,822 shares of common stock, exercisable for five years at \$0.172 per share. The warrants, which were valued at \$406,665 using the Black-Scholes option pricing model, were recognized as an expense during the quarter.

In accordance with EITF 00-27, a portion of the proceeds were allocated to the class `C' warrants based on their relative fair value, which totaled \$931,800 using the Black Scholes option pricing model. Further, we attributed a beneficial conversion feature of \$843,200 to the series `A' preferred shares based upon the difference between the conversion price of those shares and the closing price of our common shares on the date of issuance. The assumptions used in the Black Scholes model are as follows: (1) dividend yield of 0%; (2) expected volatility of 188%, (3) weighted average risk-free interest rate of 3.65%, and (4) expected life of 2 years as the conversion feature and warrants are immediately exercisable. Both the fair value of the class `C' warrants and the beneficial conversion feature were recorded as a dividend and are included in the accompanying financial statements.

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SPARTA COMMERCIAL SERVICES, INC.  
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS  
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### NOTE E - NON-CASH FINANCIAL INFORMATION

During the three months ended July 31, 2006, the Company:

- o Issued 1,078,500 shares of common stock for accrued expense and consultant fees. The shares have been valued at \$492,965. Of this amount, \$418,600 for 870,000 shares had been charged to consulting expense during the year ended April 30, 2006 and the remainder of \$74,365 has been charged to expense during the three months ended July 31, 2006.
- o Issued 70,000 shares of common stock, valued at \$38,500, for accrued additional costs related to loans received by the Company during the

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year end April 30, 2006.

- o Issued 48,077 shares of common stock, valued at \$13,285, related to penalty provision accrued during the year end April 30, 2006.

### NOTE F - SUBSEQUENT EVENTS.

In September 2006, the Company sold to four accredited investors bridge notes in the aggregate amount of \$250,000. The bridge notes mature in 90 days, together with simple interest at the rate of 10%. The notes provide that 40,000 shares of the Company's restricted common stock are to be issued for each \$25,000 of notes purchased.

Also, in September 2006, the Company borrowed \$50,000 from one of its Directors on a demand basis without interest and the Company borrowed \$14,760 from another Director and Officer on a demand basis without interest.

### NOTE G - GOING CONCERN MATTERS

The accompanying financial statements have been prepared on a going concern basis, which contemplates the realization of assets and the satisfaction of liabilities in the normal course of business. As shown in the accompanying financial statements during the period October 1, 2001 (date of inception) through July 31, 2006, the Company incurred loss of \$14,614,745. Of these losses, \$434,379, were incurred in the quarter ending July 31, 2006 and \$1,245,392 in the quarter ending July 31, 2005. 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, the planned principal operations have not commenced and no assurance can be given that management's actions will result in profitable operations or the resolution of its liquidity problems. The accompanying statements do not include any adjustments that might result should the Company be unable to continue as a going concern.

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

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## ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS AND PLAN OF OPERATION

### 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, 2006 as disclosed in our annual report on Form 10-KSB for that year as filed with the SEC.

### "FORWARD-LOOKING" INFORMATION

This report on Form 10-QSB contains certain "forward-looking statements" within the meaning of Section 21E of the Securities Exchange Act of 1934, as amended,

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which represent our expectations and beliefs, including, but not limited to? statements concerning the Company's expected growth. The words "believe," "expect," "anticipate," "estimate," "project," and similar expressions identify forward-looking statements, which speak only as of the date such statement was made. These statements by their nature involve substantial risks and uncertainties, certain of which are beyond our control, and actual results may differ materially depending on a variety of important factors.

### INTRODUCTORY STATEMENT

Unless otherwise stated, the discussion and analysis refers to the business of Sparta Commercial Services, Inc. and does not refer to the operations for our former business which was essentially a non-operating shell company.

The period from inception through January 31, 2005 was a developmental period for us, setting up credit procedures, setting our arrangements with vehicle distributors, obtaining personnel, seeking financing to support our developmental efforts, and seeking credit facilities. Consequently, our operations are subject to all the risks inherent in the establishment of a new business enterprise. In fiscal year 2005, we began to obtain regulatory approval in several states, where required, prior to commencing active operations. In February 2006, we attended our first national motorcycle industry dealer only trade show "Dealer EXPO 2006" and over 200 dealers visited our booth during the show. We are actively signing up dealers to participate in our financing programs, including our private label financing programs. As of August 31, 2006, 1,292 (compared to 710 at August 31, 2005) dealers have logged onto our web site and downloaded dealer applications and of that number, 434 have been approved as Sparta or private label authorized dealers. We believe this trend will continue over the foreseeable future. We have signed up four manufacturers to our private label programs, and are in negotiations with other manufacturers who have indicated an interest in a private label program. Additionally, we have signed three third party marketing arrangements with industry recognized consulting firms who will introduce our programs to their dealer clients and train them how to effectively use them. We have increased our marketing staff from 1 at January 2005 to 4 at the present time. Although the Company obtained a senior credit facility in July 2005 which was renewed in August 2006, which allowed us to commence and continue our operations, we will need to obtain additional credit facilities to fully implement our business plan as this current credit facility only allows for origination across three out of five credit profiles. We need the additional credit facilities so that we have the funding sources to originate leases and finance contracts across all credit profiles of our business model. We are presently seeking additional credit facilities and long term debt and additional equity to support the additional debt.

### RESULTS OF OPERATIONS

#### COMPARISON OF THE THREE MONTHS ENDED JULY 31, 2006 TO THE THREE MONTHS ENDED JULY 31, 2005

For the three months ended July 31, 2006 and 2005, we have generated limited, but increasing, sales revenues, have incurred significant expenses, and have sustained significant losses. We believe we will continue to earn increasing revenues from operations during the remainder of fiscal 2006 and in the upcoming fiscal year.

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### REVENUES

Revenues totaled \$191,642 during the three months ended July 31, 2006 as

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compared to \$17,326 during the three months ended July 31, 2005. Current period revenue was comprised of \$153,092 in lease revenue, \$10,200 in private label fees and \$28,350 in other income. Prior period revenue was comprised primarily of \$10,376 in lease revenue, \$3,275 in dealer fees and \$3,300 in private label fees.

### COSTS AND EXPENSES

General and administrative expenses were \$1,166,781 during the three months ended July 31, 2006, compared to \$586,732 during the three months ended July 31, 2005, an increase of \$580,049, or 99%. Expenses incurred during the current three month period consisted primarily of the following expenses: Compensation and related costs, \$326,852; Accounting, audit and professional fees, \$132,184; Consulting fees, \$222,863; Rent, \$48,087, Travel and entertainment, \$39,590 and stock based compensation \$98,542. Expenses incurred during the comparative three month period in 2005 consisted primarily of the following expenses: Compensation and related costs, \$252,086; Accounting, audit and professional fees, \$59,141; Consulting fees, \$146,058; Rent, \$27,957; and Travel and entertainment, \$17,425.

We incurred a non-cash charge of \$223,905 during the three months ended July 31, 2006 related to shares of common stock issued for consulting fees and services. The comparable expenses during the three months ended July 31, 2005, the Company had expensed non-cash costs of \$406,665 related to warrants granted to the private placement agent. The Company also incurred a non-cash charge of \$243,270 during the three months ended July 31, 2005 related to shares of common stock issued or to be issued in connection with debt financing. During three months ending July 31, 2006 we have also recorded non-cash income of \$632,944 related to the decrease in value of warrants issued with registration rights. The fair value of these warrants is classified a liability on the balance sheet.

### NET LOSS

We incurred a net loss before preferred dividends of \$434,379 for our three months ended July 31, 2006 as compared to \$1,245,392 for the corresponding interim period in 2005. The \$811,013 or 65% decrease in our net loss before preferred dividends for our three month interim period ended July 31, 2006 was attributable primarily to non-cash financing costs, which did not incur in current period and a partial recovery in the amount of \$632,944 of prior years charges for warrant liability.

We also incurred non-cash preferred dividend expense of \$29,937 for our three month period ended July 31, 2006 with an expense of \$1,803,275 in the corresponding interim period of 2005. The decrease in preferred dividend expense was attributable to the beneficial conversion feature expense of \$1,775,000 in the corresponding interim period in 2005, related to warrants issued with the convertible preferred stock and a beneficial conversion feature associated with the preferred stock, with no comparable expense in the current period.

Our net loss attributable to common stockholders decreased to \$464,316 for our three month period ended July 31, 2006 as compared to \$3,048,667 for the corresponding period in 2005. The \$2,584,351 decrease in net loss attributable to common stockholders for our three month period ended July 31, 2006 was due to the a charge of \$1,775,000 in corresponding interim period in 2005, related to warrants issued with the convertible preferred stock and a beneficial conversion feature associated with the preferred stock.

### LIQUIDITY AND CAPITAL RESOURCES

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As of July 31, 2006, the Company had a working capital deficit of \$335,967. The Company generated a deficit in cash flow from operations of \$1,005,629 for the three months ended July 31, 2006. This deficit is primarily attributable to the Company's net loss from operations of \$434,379, an increase in lease receivables of \$1,151,492, a charge for stock based compensation of \$98,542 and a change in warrant liability of \$601,734 partially offset by depreciation and amortization of \$74,297, and to changes in the balances of current assets and liabilities. Accounts payable and accrued expenses increased by \$237,635, deferred revenue increased by \$366,531 and prepaid expenses decreased by \$21,164 and loan proceeds receivable decreased by \$333,427.

Cash flows used in investing activities for the three months ended July 31, 2006 was \$486,262, primarily due to the purchase of property and equipment of \$14,734 and payments for motorcycles and vehicles of \$471,528.

The Company met its cash requirements during the three month period through net proceeds for equity of \$62,500, debt financing of \$667,238 offset with payments of \$81,860. Additionally, the Company has received limited revenues from leasing and financing motorcycles and other vehicles, its recently launched private label programs and from dealer sign-up fees.

While we have raised capital to meet our working capital and financing needs in the past, additional financing is required in order to meet our current and projected cash flow deficits from operations and development. We are seeking financing, which may take the form of debt, convertible debt or equity, in order to provide the necessary working capital. There is no guarantee that we will be successful in raising the funds required.

We estimate that we will need approximately \$1,800,000 in additional funds to fully implement our business plan during the next twelve months for a credit line reserve and for our general operating expenses. As of the date of this filing, we have more than sufficient operating capital to continue our planned business operations for the next twelve months and for our general operating expenses. Although the Company obtained a senior credit facility in July 2005, which allowed us to commence our initial active operations, this facility finances only three of our five credit tiers, thus we will need to obtain additional credit facilities to fully implement our business plan. We are presently seeking those additional credit facilities and long term debt. This additional, debt financing, if available, will require payment of interest and may involve restrictive covenants that could impose limitations on the operating flexibility of the Company. If we are not successful in generating sufficient liquidity from operations or in raising sufficient capital resources to finance our growth, 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.

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

The independent auditors report on our April 30, 2006 and 2005 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.

PLAN OF OPERATIONS

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### ADDRESSING THE GOING CONCERN ISSUES

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

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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:

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

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

### PRODUCT RESEARCH AND DEVELOPMENT

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

### ACQUISITION OR DISPOSITION OF PLANT AND EQUIPMENT

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

### NUMBER OF EMPLOYEES

At July 31, 2006 we have 22 full time employees. If we fully implement our business plan, we anticipate our employment base may increase by approximately 50% during the next twelve months. As we continue to expand, we will incur additional cost for personnel. This projected increase in personnel is dependent upon our generating revenues and obtaining sources of financing. There is no guarantee that we will be successful in raising the funds required or generating revenues sufficient to fund the projected increase in the number of employees.

### INFLATION

The impact of inflation on 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.



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### CRITICAL ACCOUNTING POLICIES

The preparation of our consolidated 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 consolidated financial statements; we believe the following critical accounting policy involves the most complex, difficult and subjective estimates and judgments.

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### REVENUE RECOGNITION

We originate leases on new and used motorcycles and other powersports vehicles from motorcycle dealers throughout the United States. Our leases are accounted for as either operating leases or direct financing leases. At the inception of operating leases, no lease revenue is recognized and the leased motorcycles, together with the initial direct costs of originating the lease, which are capitalized, appear on the balance sheet as "motorcycles under operating leases-net". The capitalized cost of each motorcycle is depreciated over the lease term, on a straight-line basis, down to the original estimate of the projected value of the motorcycle at the end of the scheduled lease term (the "Residual"). Monthly lease payments are recognized as rental income. An acquisition fee classified as fee income on the financial statements is received and recognized in income at the inception of the lease. Direct financing leases are recorded at the gross amount of the lease receivable, and unearned income at lease inception is amortized over the lease term.

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

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

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

### STOCK-BASED COMPENSATION

On December 16, 2004, the Financial Accounting Standards Board (FASB) issued FASB Statement No. 123R (revised 2004), "Share-Based Payment" which is a

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

### RECENT ACCOUNTING PRONOUNCEMENT

In February 2006, the FASB issued SFAS 155, which applies to certain "hybrid financial instruments," which are instruments that contain embedded derivatives. The new standard establishes a requirement to evaluate beneficial interests in securitized financial assets to determine if the interests represent freestanding derivatives or are hybrid financial instruments containing embedded derivatives requiring bifurcation. This new standard also permits an election for fair value remeasurement of any hybrid financial instrument containing an embedded derivative that otherwise would require bifurcation under SFAS 133. The fair value election can be applied on an instrument-by-instrument basis to existing instruments at the date of adoption and can be applied to new instruments on a prospective basis. The adoption of SFAS No.155 did not have a material impact on the Company's financial position and results of operations.

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In February 2006, the FASB issued FASB Staff Position ("FSP") No. FAS 123(R)-4, "Classification of Options and Similar Instruments Issued as Employee Compensation That Allow for Cash Settlement upon the Occurrence of a Contingent Event," which amends SFAS No. 123(R) to require that options issued with a cash settlement feature that can be exercised upon the occurrence of a contingent event that is outside the employee's control should not be classified as liabilities until it becomes probable that the event will occur. For companies that adopted SFAS No. 123(R) prior to the issuance of the FSP, application is required in the first reporting period beginning after February 3, 2006. Currently, the Company has no stock options outstanding with contingent cash settlement features, and as a result, the FSP will not impact the Company's consolidated financial statements.

### WEBSITE DEVELOPMENT COSTS

We have incurred costs to develop a proprietary web-based private label financing program for processing including web access, processing credit applications, consumer contracts and other related documents and processes. The Company has elected to recognize the costs of developing its website and related intellectual property the website development costs in accordance with Emerging Issue Task Force ("EITF") No. 00-02, "Accounting for Website Development Costs." As such, the Company expenses all costs incurred that relate to the planning and post implementation phases of development of its website. Direct costs incurred in the development phase are capitalized and recognized over the estimated useful life. Costs associated with repair or maintenance for the website are included in cost of net revenues in the current period expenses.

### 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.

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### 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. Investors should carefully consider all of such risk factors before making an investment decision with respect to our Common Stock.

### CAUTIONARY FACTORS THAT MAY AFFECT FUTURE RESULTS

We have sought to identify what we believe are 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.

### POTENTIAL FLUCTUATIONS IN ANNUAL OPERATING RESULTS

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

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

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### DEPENDENCE UPON MANAGEMENT

Our future performance and success is dependant 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.

### CONTINUED CONTROL OF CURRENT OFFICERS AND DIRECTORS

The present officers and directors own approximately 62% of the outstanding shares of common stock, without giving effect to shares underlying convertible securities, and therefore are in a position to elect all of our Directors and

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otherwise control the Company, including, without limitation, authorizing the sale of equity or debt securities of Sparta, the appointment of officers, and the determination of officers' salaries. Shareholders have no cumulative voting rights.

### MANAGEMENT OF GROWTH

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.

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### ITEM 3. CONTROLS AND PROCEDURES

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

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

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## PART II. OTHER INFORMATION

### Item 2. Unregistered Sales of Equity Securities and Use of Proceeds.

In September 2006, in transactions deemed to be exempt from registration under the Securities Act in reliance on Section 4(2) of the Securities Act, the Company sold to four accredited investors bridge notes in the aggregate amount

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of \$250,000. The bridge notes mature in 90 days, together with simple interest at the rate of 10%. The notes provide that 40,000 shares of the Company's restricted common stock are to be issued for each \$25,000 of notes purchased.

Item 6. Exhibits.

The following exhibits are filed with this report:

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

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\* Filed herewith.

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SIGNATURES

In accordance with the requirements of the Exchange Act, the registrant caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

SPARTA COMMERCIAL SERVICES, INC.

Date: September 19, 2006

By: /s/ Anthony L. Havens

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Anthony L. Havens  
Chief Executive Officer

Date: September 19, 2006

By: /s/ Anthony W. Adler

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Anthony W. Adler  
Principal Financial Officer

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