SPARTA COMMERCIAL SERVICES, INC.
Form 10QSB
March 19, 2007

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

FORM 10-QSB

(Mark One)

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

For the quarterly period ended January 31, 2007

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

For the transition period from ________ to ___________.

Commission file number: 0-9483

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

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

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

(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 x No o

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

As of March 17, 2007, we had 123,216,157 shares of common stock issued and outstanding.

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

SPARTA COMMERCIAL SERVICES, INC.
FORM 10-QSB
FOR THE QUARTER ENDED JANUARY 31, 2007

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PART I. FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

SPARTA COMMERCIAL SERVICES, INC.
CONDENSED CONSOLIDATED BALANCE SHEETS

ASSETS	**January 31, 2007** (Unaudited)	**April 30, 2006**
Current assets:		
Cash and cash equivalents	$ 24,135	$ 856,382
Lease payments receivable, current, net of reserve of $18,042 and $5,090, respectively. (Note D)	588,231	206,986
Loan proceeds receivable	-	389,998
Prepaid expenses and other current assets	12,228	56,189
Inventory (Note C)	71,819	-
Total current assets	696,413	1,509,555
Motorcycles and other vehicles under operating leases, net of accumulated depreciation of $292,146 and $75,873, respectively and loss reserve of $46,963 and $16,409, respectively. (Note B)	1,266,221	667,286
Property and equipment, net of accumulated depreciation and amortization of $85,837 and $53,249, respectively	103,690	121,544
Lease and Retail installment sale contract receivables, net of current portion and loss reserve of $57,623 and 14,653, respectively. (Note D)	1,879,852	595,895
Restricted cash	235,377	112,503
Deposits	50,817	48,967
Total assets	$ 4,232,370	$ 3,055,750
LIABILITIES AND (DEFICIENCY IN) STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable and accrued expenses	$ 1,037,343	$ 424,692
Accrued equity based compensation	25,020	333,600
Accrued equity based penalties	2,375	47,468
Notes payable - Senior lender (Note E)	661,280	358,549
Notes payable - Other (Note F)	800,259	-
Loans payable - related parties (Note G)	157,260	-
Deferred revenue	733	-
Total current liabilities	2,684,270	1,164,309
Deferred revenue	686,685	186,245
Notes payable - Senior lender, long term portion (Note E)	1,506,038	330,799
Warrant liability	-	834,924
Total liabilities	4,876,993	2,516,277
(Deficiency in) Stockholders' equity: (Note H)		

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, as of January 31, 2007 and April 30, 2006, respectively		1,979,500		1,979,500
Common stock, $0.001 par value; 340,000,000 shares authorized, 123,216,157 and 114,180,301 shares issued and outstanding, as of January 31, 2007 and April 30, 2006, respectively		123,216		114,180
Common stock to be issued, 0 and 5,838,302 shares, as of January 31, 2007 and April 30, 2006, respectively.		-		5,838
Common stock subscribed		-		330,000
Additional paid-in capital		14,530,832		12,553,884
Deferred compensation		(48,000)		(293,500)
Accumulated deficit		(17,230,171)		(14,150,429)
Total (Deficiency in) Stockholders' equity		(644,623)		539,473
Total liabilities and (deficiency in) stockholders' equity	$	4,232,370	$	3,055,750

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 OPERATIONS
FOR THE THREE AND NINE MONTHS ENDED JANUARY 31, 2007 AND 2006
(UNAUDITED)

	For The Three Months Ended January 31,		For The Nine Months Ended January 31,	
	2007	**2006**	**2007**	**2006**
Revenue	$ 214,642	$ 43,008	$ 625,839	$ 90,629
Operating expenses:				
General and administrative	913,876	2,322,057	3,405,213	3,819,526
Depreciation and amortization	93,693	22,157	250,303	58,044
Total operating expenses	1,007,569	2,344,214	3,655,516	3,877,570
Loss from operations	(792,927)	(2,301,206)	(3,029,677)	(3,786,941)
Other expense:				
Interest expense and financing cost, net	(139,649)	(1,483,522)	(259,917)	(3,066,736)
Change in value of warrant liabilities	189	126,177	299,663	126,177
Loss on sale of asset	-	-	-	(6,500)
Net loss	(932,387)	(3,658,551)	(2,989,931)	(6,734,000)
Preferred dividend	29,937	29,191	89,810	1,886,683
Net loss attributed to common stockholders	$ (962,324)	$ (3,687,742)	$ (3,079,741)	$ (8,620,683)
Basic and diluted loss per share	$ (0.01)	$ (0.04)	$ (0.02)	$ (0.08)
Basic and diluted loss per share attributed to common stockholders	$ (0.01)	$ (0.04)	$ (0.03)	$ (0.10)
Weighted average shares outstanding	123,213,646	95,648,989	121,971,228	89,586,901

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

SPARTA COMMERCIAL SERVICES, INC.
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE NINE MONTHS ENDED JANUARY 31, 2007 AND 2006
(UNAUDITED)

	Nine Months Ended January 31, 2007	2006
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net loss	$ (2,989,931)	$ (6,734,000)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation and amortization	250,303	58,045
Allowance for loss reserve	86,861	-
Amortization of deferred revenue	(9,167)	(9,900)
Amortization of deferred compensation	301,500	240,252
Equity based compensation	376,744	85,228
Stock based finance cost	54,948	973,607
Change in fair value of penalty warrant and warrant liability	(299,663)	(126,177)
Loss on sale of assets	-	6,500
Changes in operating assets and liabilities:		
(Increase) decrease in:		
Lease payments receivable	(1,792,942)	(31,499)
Prepaid expenses and other assets	43,961	(73,424)
Loan proceeds receivable	389,998	-
Restricted cash	(122,874)	-
Deposits	(1,850)	(110,585)
Increase (decrease) in:		
Accounts payable and accrued expenses	684,645	1,418,030
Accrued equity penalties	-	2,040,000
Deferred revenue	510,340	91,860
Accrued registration penalty	(13,285)	—
Net cash used in operating activities	(2,530,412)	(2,172,063)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Proceeds from sale of asset	-	25,000
Cost of asset sold	-	(31,500)
Payments for motorcycles and other vehicles	(847,590)	(200,524)
Investment in leases	-	(353,562)
Purchases of property and equipment	(14,734)	(32,390)
Net cash used by investing activities	(862,324)	(592,976)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Proceeds from sale of preferred stock, net	-	1,592,517
Proceeds from sale of common stock, net	-	1,726,980
Common stock subscription	-	330,000
Repayment of affiliate advances	-	(25,000)
Proceeds from notes from banks	1,918,605	372,675
Payments on notes from banks	(440,635)	(357,244)
Proceeds from other notes	800,259	-
Loan proceeds from other related parties	157,260	-
Exercise of warrants	125,000	-

Payments for fractional shares		-		(16)
Net cash provided in financing activities		2,560,489		3,639,912
Net (decrease) increase in cash		(832,247)		874,873
Cash and cash equivalents, beginning of period	$	856,382	$	108,365
Cash and cash equivalents, end of period	$	24,135	$	983,238
Cash paid for:				
Interest	$	129,487	$	15,788

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

SPARTA COMMERCIAL SERVICES, INC.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
JANUARY 31, 2007
(UNAUDITED)

NOTE A - SUMMARY OF ACCOUNTING POLICIES

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

Basis of Presentation

The accompanying unaudited condensed consolidated financial statements as of January 31, 2007 and for the three and nine month periods ended January 31, 2007 and 2006 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.

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

Estimates

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

Revenue Recognition

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

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 elated documents and processes. Fees received are amortized and booked as income over the length of the contract. At January 31, 2007, the Company had recorded deferred revenue related to these contracts of $733.

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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 Ended		Nine Months Ended	
	January 31, 2006			
Net Loss - as reported	$	(3,658,551)	$	(6,734,000)
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)		--		(24,710)
	$	(3,658,551)	$	(6,758,710)
Net loss attributable to common stockholders- Pro forma	$	(3,687,742)	$	(8,620,683)
Basic(and assuming dilution) loss per share-as reported	$	(0.04)	$	(0.08)
Basic(and assuming dilution) loss per share - Pro forma	$	(0.04)	$	(0.08)

The fair value for stock awards was estimated at the date of grant using the Black-Scholes option valuation model with the following weighted average assumptions for the nine months ended January 31, 2006:

	2006
Significant assumptions (weighted-average):	
Risk-free interest rate at grant date	3%
Expected stock price volatility	60%
Expected dividend payout	-
Expected option life (in years)	5

The expected term of the options represents the estimated period of time until exercise and is based on historical experience of similar awards, giving consideration to the contractual terms, vesting schedules and expectations of future employee behavior. For 2006 and prior years, expected stock price volatility is based on the historical volatility of the Company's stock for the related vesting periods. Prior to the adoption of SFAS 123R, expected stock price volatility was estimated using only historical volatility. The risk-free interest rate is based on the implied yield available on U.S. Treasury constant maturity securities with an equivalent remaining term. The Company has not paid dividends in the past and does not plan to pay any dividends in the near future.

The Black-Scholes option valuation model was developed for use in estimating the fair value of traded options, which have no vesting restrictions and are fully transferable. In addition, option valuation models require the input of highly subjective assumptions, particularly for the expected term and expected stock price volatility. The Company's

employee stock options have characteristics significantly different from those of traded options, and changes in the subjective input assumptions can materially affect the fair value estimate. Because Company stock options do not trade on a secondary exchange, employees do not derive a benefit from holding stock options unless there is an increase, above the grant price, in the market price of the Company’s stock. Such an increase in stock price would benefit all shareholders commensurately.

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Net Loss Per Share

The Company uses Statement of Financial Accounting Standards (SFAS) No. 128, "Earnings Per Share" for calculating the basic and diluted loss per share. The Company computes basic loss per share by dividing net loss and net loss attributable to common shareholders by the weighted average number of common shares outstanding. 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 $0.01 and $0.04 for the three months ended January 31, 2007 and 2006, respectively, and $0.03 and $0.10 for the nine months ended January 31, 2007 and 2006, respectively. At January 31, 2007 and 2006, 31,028,051 and 29,685,131 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 February 2007, the FASB issued SFAS No. 159, “The Fair Value Option for Financial Assets and Financial Liabilities - Including an amendment of FASB Statement No. 115,” which permits entities to measure many financial instruments and certain other items at fair value. The objective is to improve financial reporting by providing entities with the opportunity to mitigate volatility in reporting earnings caused by measuring related assets and liabilities differently without having to apply complex hedge accounting provisions. This Statement is expected to expand the use of fair value measurement, which is consistent with the Board’s long-term measurement objectives for accounting for financial instruments. This Statement is effective as of the beginning of the Company’s first fiscal year that begins after November 15, 2007.

In September 2006, the FAS issued SFAS No. 158, Employers’ Accounting for Defined Benefit Pension and Other Postretirement Plans, which requires employers to recognize the over-funded or under-funded status of a defined benefit postretirement plan (other than a multiemployer plan) as an asset or liability in its statement of financial position and to recognize changes in that funded status in the year in which the changes occur through comprehensive income of a business entity. The Company does not believe that the pronouncement will have a material affect on its financial statements as it does not participate in defined benefit pension plans.

In September 2006, the Financial Accounting Standards Board (FASB) issued SFAS 157 `Fair Value Measurements'. This Statement defines fair value, establishes a framework for measuring fair value in generally accepted accounting principles ("GAAP"), and expands disclosures about fair value measurements. This Statement applies under other accounting pronouncements that require or permit fair value measurements, the Board having previously concluded in those accounting pronouncements that fair value is the relevant measurement attribute. Accordingly, this Statement does not require any new fair value measurements. However, for some entities, the application of this Statement will change current practice. This Statement is effective for financial statements issued for fiscal years beginning after November 15, 2007, and interim periods within those fiscal years. Adoption of SFAS 157 will not have a significant impact on our results of operations or financial condition.

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.

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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.

In May 2005 the FASB issued 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 affected 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.

In June 2006, the FASB issued FASB Interpretation No. 48, “Accounting for Uncertainty in Income Taxes - an interpretation of FASB Statement No. 109” (FIN 48). FIN 48 prescribes a recognition threshold and measurement attribute for financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return, and also provides guidance on de-recognition, classification, interest and penalties, accounting in interim periods, disclosure, and transition. FIN 48 is effective for fiscal years beginning after December 15, 2006. The Company does not expect that the adoption of FIN 48 will have an impact on the Company’s financial position and results of operations.

In September 2006, the SEC staff issued Staff Accounting Bulletin (SAB) No. 108, “Considering the Effects of Prior Year Misstatements when Quantifying Misstatements in Current Year Financial Statements” (SAB 108). SAB 108 was issued in order to eliminate the diversity of practice in how public companies quantify misstatements of financial statements, including misstatements that were not material to prior years’ financial statements. The Company will initially apply the provisions of SAB 108 in connection with the preparation of its annual financial statements for the year ending April 30, 2007. The Company has evaluated the potential impact SAB 108 may have on our financial position and results of operations and do not believe the impact of the application of this guidance will be material.

On December 21, 2006, the Financial Accounting Standards Board ("FASB") issued FASB Staff Position (FSP) Emerging Issues Task Force ("EITF") 00-19-2, "Accounting for Registration Payment Arrangements," which requires an issuer to account for a contingent obligation to transfer consideration under a registration payment arrangement in accordance with FASB Statement No. 5, Accounting for Contingencies and FASB Interpretation 14, Reasonable Estimation of the Amount of Loss. Registration payment arrangements are frequently entered into in connection with issuance of unregistered financial instruments, such as equity shares or warrants. A registration payment arrangement contingently obligates the issuer to make future payments or otherwise transfer consideration to another party if the

issuer fails to file a registration statement with the SEC for the resale of specified financial instruments or fails to have the registration statement declared effective within a specific period. The FSP requires issuers to make certain disclosures for each registration payment arrangement or group of similar arrangements. The FSP is effective immediately for registration payment arrangements and financial instruments entered into or modified after the FSP's issuance date. For previously issued registration payment arrangements and financial instruments subject to those arrangements, the FSP is effective for financial statements issued for fiscal years beginning after December 15, 2006. We do not expect the adoption of this FSP to have a significant impact on our financial condition or results of operations.

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SPARTA COMMERCIAL SERVICES, INC.
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NOTE B - MOTORCYCLES AND OTHER VEHICLES UNDER OPERATING LEASES

Motorcycles and other vehicles under operating leases at January 31, 2007 and April 30, 2006 consist of the following:

	January 31, 2007	April 30, 2006
Motorcycles and other vehicles	$ 1,605,330	$ 759,568
Less: accumulated depreciation	(292,146)	(75,873)
Motorcycles and other vehicles, net of accumulated depreciation	1,313,184	683,695
Less: estimated reserve for residual values	(46,963)	(16,409)
Motorcycles and other vehicles under operating leases, net	$ 1,266,221	$ 667,286

Depreciation expense for vehicles for the three and nine months ended January 31, 2007 was $82,693 and $217,715, respectively, depreciation expense for property and equipment for the three and nine months ended January 31, 2007 was $10,999 and 32,588, respectively. Depreciation expense for vehicles for the three and nine months ended January 31, 2006 was $14,836 and $32,436, respectively, depreciation expense for property and equipment for the three and nine months ended January 31, 2006 was $9,550 and $25,608, respectively.

NOTE C - INVENTORY

Inventory is comprised of repossessed vehicles and vehicles which have been returned at the end of their lease. Inventory is carried at the lower of depreciated cost or market, applied on a specific identification basis. At January 31, 2007, the Company had repossessed Vehicles of value $71,819, which will be resold.

NOTE D - RETAIL INSTALLMENT RECEIVABLES

Retail installment sale receivables, which are carried at cost, were $2,468,083 and $802,881 at January 31, 2007 and April 30, 2006, respectively. The following is a schedule by years of future payments related to these receivables. Future payments include amortization of cost as well as a profit margin. Certain of the assets are pledged as collateral for the note described in Note E.

12 Months Ended January 31,	Amount
2008	$ 771,142
2009	761,467
2010	722,037
2011	670,082
2012	305,705
	3,230,433
Less: interest portion	(686,685)
	2,543,748
Less: allowance for doubtful receivables	(75,665)
	2,468,083
Less: current receivables	(588,231)

	$	1,879,852

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SPARTA COMMERCIAL SERVICES, INC.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
JANUARY 31, 2007
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NOTE E - NOTES PAYABLE TO SENIOR LENDER

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 January 31, 2007 is 10.293%.

At January 31, 2007, the notes payable mature as follows:

12 Months Ended January 31,		Amount
2008	$	661,280
2009		564,027
2010		335,543
2011		354,228
2012		252,240
		2,167,318
Less: current payable		(661,280)
	$	1,506,038

NOTE F - NOTES PAYABLE OTHERS

a. In September and October 2006, the Company sold to four accredited investors' bridge notes in the aggregate amount of $275,000. Three 45-day bridge notes aggregating $175,000 and one 90-day note in the amount of $100,000 were originally scheduled to expire on various dates through November 30, 2006, together with simple interest at the rate of 10%. The notes provide that 100,000 shares of the Company's restricted common stock are to be issued as "Equity Kicker" for each $100,000 of notes purchased, or any pro rated portion thereof. The Company had the right to extend the maturity date of notes for 30 to 45 days. The notes provided that in the event of extension, the lenders will be entitled for "additional equity" equal to 60% of the "Equity Kicker" shares. In the event of default on repayment by the Company, the "Equity Kicker" and the "Additional Equity" to be issued to the lender shall be increased by 50% for each month or portion thereof, as penalty, that such default has not been cured. During default period interest will be at the rate of 20%. The repayments, in the event of default, of the notes are to be collateralized by certain security interest as per the terms of the agreement.

The maturity dates of the notes were subsequently extended to various dates between December 5, 2006 to December 30, 2006, with simple interest rate of 10%, and Additional Equity in the aggregate amount of 165,000 restricted shares of common stock to be issued. Thereafter, the Company is in default on repayment of these notes and is now subject to 20% interest rate and the "Additional Equity" equal to 50% increased shares for each month or portion thereof, as penalty, until such default has not been cured. As of January 31, 2007, the Company is obliged to issue 517,742 kicker, additional kicker and default shares valued at $73,446 to such creditors.

b. During three months ended January 31, 2007, the Company sold to eight accredited investors six months unsecured notes in the aggregate amount of $525,259. All notes bears 6% simple interest, payable in cash or shares, at the Company's option, with principal and accrued interest payable at maturity. Should the Company opt to convert these notes at maturity, these notes will be convertible into shares of common stock at a price equal to a 40% discount from the lowest closing price of the Company's common stock for the five trading days immediately preceding the receipt of funds by the Company from the purchaser of note. All notes will mature in six months on various dates

through July 30, 2007.

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NOTE G - LOANS PAYABLE TO RELATED PARTIES

During nine months ended January 31, 2007, the Company borrowed from a Director and officer $135,000 and $8,500, respectively on a demand basis without interest. The Company also owes $13,760 to another Director and Officer an interest free demand loan received on August 24, 2006. As of January 31, 2007, aggregated loans payable to officers were $157,260. These loans are classified as current on the Company’s balance sheet.

At January 31, 2007, included in accounts payable, is $9,460 due to American motorcycle Leasing Corp., a company controlled by the Company's Chief Executive Officer and a director, for the purchase of motorcycles.

NOTE H - 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 January 31, 2007 and April 30, 2006, the Company has 19,795 shares of preferred stock issued and outstanding for each period. The Company has 123,216,157 and 114,180,301 shares of common stock issued and outstanding as of January 31, 2007 and April 30, 2006, respectively.

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 and July 2006, the Company issued an aggregate of 208,500 shares of common stock, pursuant to a consulting agreement. The shares have been valued at $74,365.

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.

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 5,838,302 shares of common stock for shares subscribed for in March 2006.

During July 2006, the Company received $62,500 upon the exercise of 320,513 warrants. The shares were issued September, 2006.

During the nine months ended January 31, 2007, the Company issued 250,000 shares of common stock, valued at $48,500, as additional costs related to loans received by the Company. This amount was charged to financing cost during the nine months ended January 31, 2007.

During August 2006, the Company issued an aggregate of 139,000 shares of common stock, pursuant to a consulting agreement. The shares have been valued at $26,410.

During September 2006, the Company issued 350,000 shares of common stock, pursuant to a consulting agreement. The shares have been valued at $56,000.

During October 2006, the Company issued 550,001 shares of common stock for shares subscribed for in November 2005.

During October 2006, the Company issued 320,963 shares of common stock for warrants exercised for $62,500.

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During November 2006, the Company issued 69,500 shares of common stock, pursuant to a consulting agreement. The shares have been valued at $6,745.

During December 2006, the Company granted 100,000 common stock purchase warrants to a placement agent for future investments services. The warrants were exercisable immediately, have an exercise price per share equal to 110% per share of the closing bid price of the closing bid price of a share of the Company's common stock on the date of this warrant and expire in three years. The warrants were valued at $6,448 using the Black-Sholes pricing model and expensed. The assumption ranges used in the Black-Scholes model are as follows: (1) dividend yield of 0%; (2) expected volatility of 149%, (3) risk-free interest rate of 4.62%, and (4) expected life of 3 years.

During nine months ended January 31, 2007, the Company granted options to purchase an aggregate of 4,500,000 shares of common stock to one employee and one Director. At grant date, 1,000,000 options vested immediately. The vested and unvested options have been valued at $636,433 using the Black-Sholes option pricing model with the following assumptions: (1) dividend yield of 0%; (2) expected volatility of 131%; (3) risk-free interest rate of 5.04% and 5.24%, vest over a 36 month period and expire if unexercised in five years.

During the three and nine months periods ended January 31, 2007, the Company expensed $176,814 and $703,264, respectively, in non-cash charges related to stock and option compensation expense.

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 warrants based on their relative fair value, which totaled $931,800 using the Black Scholes option pricing model. Further, the Company 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 were included in the financial statements of that period.

In connection with the private placement described above, the Company granted 1,755,537 common stock purchase warrants to the placement agent. The warrants were exercisable immediately, have an exercise price of $0.215 per share and expire in five years. The warrants were valued at $1,033,100 using the Black-Sholes pricing model. The assumption ranges used in the Black-Scholes model are as follows: (1) dividend yield of 0%; (2) expected volatility of 174% - 177%, (3) risk-free interest rate of 3.65% - 4.7%, and (4) expected life of 2 years.

Since the warrants contain registration rights for the underlying shares and since the delivery of such registered shares was not deemed controllable by the Company, we recorded the net value of the warrants at the date of issuance as a warrant liability on the balance sheet at April 30, 2006 of $834,924. A Registration Statement under Form SB-2,

including the shares underlying the warrants, was declared effective by the Securities and Exchange Commission on May 31, 2006. Therefore, the change in the fair value from April 30, 2006 to May 31, 2006 was included in other income (expense) for three months ended January 31, 2007, in accordance with EITF 00-19, *"Accounting for Derivative Financial Instruments Indexed to, and Potentially Settled in, a Company's Own Stock"*. The fair value of the warrants was $567,069 and $834,924 at May 31, 2006 and April 30, 2006, respectively. Additionally, as the Registration Statement covering the underlying shares was declared effective, the accrued warrant liability at May 31, 2006 was credited to additional-paid in capital. The amount credited to additional-paid-in capital was $567,069.

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NOTE I - NON-CASH FINANCIAL INFORMATION

During the nine months ended January 31, 2007, the Company:

§ Issued 870,000 shares of common stock for expense accrued during the year ended April 30, 2006. The shares have been valued at $418,600.

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

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

§ Issued 550,001 shares of common stock for subscription $330,000 received during the year end April 30, 2006.

NOTE J - STOCK OPTIONS AND WARRANTS

Share-Based Compensation

The Company adopted SFAS No. 123(R) during third quarter of Fiscal year 2006, which no longer permits the use of the intrinsic value method under APB No. 25. The Company uses the modified prospective method to adopt SFAS No. 123(R), which requires compensation expense to be recorded for all stock-based compensation granted on or after January 1, 2006, as well the unvested portion of previously granted options. The Company is recording the compensation expense on a straight-line basis, generally over the explicit service period of three years. The Company made no stock-based compensation grants prior to the adoption of Statement 123(R) and therefore has no unrecognized stock compensation related liabilities or expense unvested or vested prior to 2006.

The following tables illustrates the effect that adoption of SFAS No. 123(R) had on the Company's nine months ending January 31, 2007 results and cash flows as well as the parameters used in the valuation of options granted in the first nine months of 2007.

	Under Pre-SFAS No.123 (R) Accounting	SFAS No. 123(R) Impact	Actual Nine Months Ended January 31, 2007
Loss before taxes	$ (2,758,331)	$ (231,600)	$ (2,989,931)
Net Loss	(2,758,331)	$ (231,600)	$ (2,989,931)
Net Earnings			
Basic EPS	$ (0.02)	$ -	$ (0.02)
Diluted EPS	(0.02)	-	(0.02)
Cash Flows			
Operating Activities	$ (2,530,412)	$ -	$ (2,530,412)
Financing Activities	$ 2,560,489	-	2,560,489

NOTE K - SUBSEQUENT EVENTS.

In February 2007, the Company received from two accredited investors' subscriptions totaling $40,000 for six month convertible notes of the Company bearing interest at the rate of 6% per year and maturing on August 22 and August 27, 2007.

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NOTE L - 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 January 31, 2007, the Company incurred losses of $17,230,171. Of these losses, $2,989,931 was incurred during the nine months ending January 31, 2007 and $6,734,000 in the nine months ending January 31, 2006. As of January 31, 2007, the Company also had a working capital deficit of $1,987,857. 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. While, the planned principal operations have commenced, no assurance can be given that management's actions will result in profitable operations or the resolution of its liquidity problems. The accompanying statements do not include any adjustments that might result should the Company be unable to continue as a going concern.

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

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS 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, 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

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. During the 2007 Dealer EXPO, over 400 dealers visited our booth. We are continuously signing up dealers to participate in our financing programs, including our private label financing programs. As of January 31, 2007, 1,498 (compared to 898 at January 31, 2006) dealers have logged onto our web site and downloaded dealer applications and of that number, 605 (compared to 245 at January 31, 2006) 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 2 at January 2006 to 7 at the present time. The Company obtained a senior credit facility in July 2005 which was renewed for one year in August 2006, which allowed us to commence and continue our operations. This facility was further amended in November 2006 to allow us to extend credit to individuals with lower FICO scores than prior to the amendment. Additionally, the facility was amended to allow us to extend credit to municipalities. Despite these amendments, we will need to obtain additional credit facilities so that we have the funding sources which allow us to originate leases and finance contracts across all credit profiles and asset classes of our business model. We are presently seeking additional credit facilities and long term debt and additional equity to support the additional debt.

In May 2006, we entered into an agreement with netLoan Funding, LLC (“netLoan”), a provider of lender management services through its operation of a multi-asset finance portal linked to internet auction and sale websites. That agreement allows users who successfully bid on or purchase specified powersports vehicles, and who wish to lease or finance those vehicles, to apply for financing via a link between the auction web site and the netLoan site. Once the users “click” on the netLoan link they land on the netLoan site where they then “click” on a button (which has a “picture” of the type of vehicle they wish to finance) and in the case of motorcycles, ATVs and scooters are routed by netLoan Funding to a dedicated portal on the Sparta web site where they will be able to complete online credit applications

and, subject to credit approval, conclude the process within minutes. We will pay netLoan a fee for each funded transaction. To ensure a rapid and smooth implementation of this agreement, netLoan and Sparta commenced the program on a limited basis in October with Sparta providing secured financing options for ATVs, select motorcycles, and scooters only. This program was completely rolled out to fifty states by November 2006.

In July 2006, we announced an agreement for routing of motorcycle loan applications from a Fortune 500 global diversified financial provider. In October 2006, this agreement was extended for a minimum of one year. The agreement calls for that company to electronically transmit to Sparta loan applications submitted to them and which meet Sparta's lending/leasing criteria. ***iPLUS***™ will immediately approve or decline the application, and, if approved, notify the applicant through the internet within minutes. This agreement will allow consumers to be pre-approved before they even start shopping. We will pay that company a fee for each funded transaction. In January 2007, this application went "live" in 12 states with plans to roll out to 38 additional states over a mutually agreed schedule.

RESULTS OF OPERATIONS

COMPARISON OF THE THREE MONTHS ENDED JANUARY 31, 2007 TO THE THREE MONTHS ENDED JANUARY 31, 2006

For the three months ended January 31, 2007 and 2006, 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 2007 and in the upcoming fiscal year.

REVENUES

Revenues totaled $214,642 during the three months ended January 31, 2007 as compared to $43,008 during the three months ended January 31, 2006. Current period revenue was comprised of $197,826 in lease revenue, $817 in Private Label and Preferred Provider Program fees and $10,001 in other income. Prior period revenue was comprised primarily of $38,460 in lease revenue and $3,300 in private label fees.

COSTS AND EXPENSES

General and administrative expenses were $913,876 during the three months ended January 31, 2007, compared to $2,322,057 during the three months ended January 31, 2006, a decrease of $1,408,181, or 61%. Expenses incurred during the current three month period consisted primarily of the following expenses: Compensation and related costs, $453,095; Accounting, audit and professional fees, $49,982; Consulting fees, $70,979; Rent and utilities, $66,849, Travel and entertainment, $46,146 and stock based compensation $169,169. Expenses incurred during the comparative three month period in 2006 consisted primarily of the following expenses: Compensation and related costs, $291,147; Accounting, audit and professional fees, $46,636; Consulting fees, $1,780,890; Rent, $41,590; and Travel and entertainment, $23,126.

We incurred non-cash charges of $224,813 during the three months ended January 31, 2007, of which $169,169 is related to options and shares of common stock issued for consulting fees and services and $55,644 is related to shares and warrants for financing cost. The comparable non-cash charges for the three months ended January 31, 2006 were a non-cash expense of $38,500 related to shares of common stock issued in connection with debt financing. Additionally, during the three month period ended January 31, 2006, we recorded an expense of $1,440,000 related to the failure to have an effective registration statement covering the underlying shares of common stock issuable upon conversion of the preferred stock and the related warrants.

NET LOSS

We incurred a net loss before preferred dividends of $932,387 for our three months ended January 31, 2007 as compared to $3,658,551 for the corresponding interim period in 2006. The $2,726,164 or 75% decrease in our net loss before preferred dividends for our three month interim period ended January 31, 2007 was attributable primarily to an increase in revenue and a decrease in non-cash financing costs and operating expenses.

We also incurred non-cash preferred dividend expense of $29,937 for our three month period ended January 31, 2007, with an expense of $29,191 in the corresponding interim period of 2006.

Our net loss attributable to common stockholders decreased to $962,324 for our three month period ended January 31, 2007 as compared to $3,687,742 for the corresponding period in 2006. The $2,725,418 decrease in net loss attributable to common stockholders for our three month period ended January 31, 2007 was due to the decrease in net loss of $2,726,164 and the increase in preferred dividends of $746.

COMPARISON OF THE NINE MONTHS ENDED JANUARY 31, 2007 TO THE NINE MONTHS ENDED JANUARY 31, 2006

For the nine months ended January 31, 2007 and 2006, 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 2007 and in the upcoming fiscal year.

REVENUES

Revenues totaled $625,839 during the nine months ended January 31, 2007 as compared to $90,629 during the nine months ended January 31, 2006. Current period revenue was comprised primarily of $530,400 in lease revenue, $61,317 in private label fees and Preferred Provider Program and $28,126 in other income. Prior period revenue was comprised primarily of $62,806 in lease revenue, $6,747 in dealer fees and $9,900 in private label fees.

COSTS AND EXPENSES

General and administrative expenses were $3,405,213 during the nine months ended January 31, 2007, compared to $3,819,526 during the nine months ended January 31, 2006, a decrease of $414,313, or 11%. Expenses incurred during the current nine month period consisted primarily of the following expenses: Compensation and related costs, $1,306,994; Accounting, audit and professional fees,$380,407; Consulting fees, $231,421; Rent and utilities, $227,827, Travel and entertainment, $108,184 and stock based compensation $703,264. Expenses incurred during the comparative nine month period in 2006 consisted primarily of the following expenses: Compensation and related costs, $947,440; Accounting, audit and professional fees, $219,785; Consulting fees, $2,142,477; Rent, $114,404; and Travel and entertainment, $58,457.

During nine months ending January 31, 2007, we recorded non-cash income of $299,663 related to the decrease in value of warrants issued with registration rights and other expenses. We incurred a non-cash charge of $831,658 during the nine months ended January 31, 2007 related to options and shares of common stock issued for consulting fees, services and financing cost. For the nine months ended January 31, 2006, we had expensed non-cash costs of $406,665 related to warrants granted to a private placement agent. Additionally, we incurred a non-cash charge of $605,442 during the nine months ended January 31, 2006 related to shares of common stock issued in connection with debt financing and has recorded an expense of $2,040,000 related to the failure to have an effective registration statement covering the underlying shares of common stock issuable upon conversion of it preferred stock and the related warrants.

NET LOSS

We incurred a net loss before preferred dividends of $2,989,931 for our nine months ended January 31, 2007 as compared to $6,734,000 for the corresponding interim period in 2005. The $3,744,069 or 56% decrease in our net loss before preferred dividends for our nine month interim period ended January 31, 2007 was attributable to an increase in revenue, a decrease in operating expenses and non-cash financing costs, and a partial recovery, in the amount of $299,663, of prior years charges for warrant liability and other expense.

We also incurred non-cash preferred dividend expense of $89,810 for our nine month period ended January 31, 2007 as compared with a non-cash expense of $1,886,683 in the corresponding interim period of 2006. The decrease in preferred dividend expense was primarily attributable to the beneficial conversion feature expense of $1,775,000 in the corresponding interim period in 2006 (related to warrants issued with the convertible preferred stock and a beneficial conversion feature associated with the preferred stock) with no such comparable expense in the current period. Preferred dividends in the current period also decreased as a result of preferred stock conversions to common stock.

Our net loss attributable to common stockholders decreased to $3,079,741 for our nine month period ended January 31, 2007 as compared to $8,620,683 for the corresponding period in 2006. The $5,540,942 decrease in net loss attributable to common stockholders for our nine month period ended January 31, 2007 was due to the decrease in net loss and the decrease in preferred dividends.

LIQUIDITY AND CAPITAL RESOURCES

As of January 31, 2007, we had a working capital deficit of $1,987,857. We generated a deficit in cash flow from operations of $2,530,412 for the nine months ended January 31, 2007. This deficit is primarily attributable to our net loss from operations of $2,989,931, an increase in lease receivables of $1,792,942 and a change in warrant liability of $299,663, partially offset by depreciation and amortization of $250,303 and to changes in the balances of current assets and liabilities. Accounts payable and accrued expenses increased by $684,645, deferred revenue increased by $510,340, prepaid expenses decreased by $43,961 and loan proceeds receivable decreased by $389,998.

Cash flows used in investing activities for the nine months ended January 31, 2007 was $862,324, primarily due to the purchase of property and equipment of $14,734 and payments for motorcycles and vehicles of $847,590.

We met our cash requirements during the nine month period through net proceeds for equity of $125,000, proceeds of notes payable $800,259 and loans payable to officers $157,260 and debt financing of $1,918,605, offset with payments of $440,635. Additionally, we have received limited revenues from leasing and financing motorcycles and other vehicles, our 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. Although we obtained a senior credit facility in July 2005, which allowed us to commence our initial active operations, this facility does not allow us to finance individuals with lower FICO scores nor does it provide financing for other markets we wish to enter. 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 our operating flexibility. 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 our Annual Report states that our historical losses and the lack of revenues raise substantial doubts about our ability to continue as a going concern, due to the losses incurred and 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 our common stock. We can make no assurances that our business operations will develop and provide us with significant cash to continue operations.

PLAN OF OPERATIONS

ADDRESSING THE GOING CONCERN ISSUES

In order to improve our liquidity, our management is actively pursing additional financing through discussions with investment bankers, financial institutions and private investors. There can be no assurance that we 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.

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

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

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

PRODUCT RESEARCH AND DEVELOPMENT

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

ACQUISITION OR DISPOSITION OF PLANT AND EQUIPMENT

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

NUMBER OF EMPLOYEES

At January 31, 2007, we had 21 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 our costs, and the ability to pass on cost increases to our customers over time is dependent upon market conditions. We are not aware of any inflationary pressures that have had any significant impact on our operations over the past quarter, and we do not anticipate that inflationary factors will have a significant impact on future operations.

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.

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.

SHARE-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 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 2007, the FASB issued SFAS No. 159, “The Fair Value Option for Financial Assets and Financial Liabilities - Including an amendment of FASB Statement No. 115,” which permits entities to measure many financial instruments and certain other items at fair value. The objective is to improve financial reporting by providing entities with the opportunity to mitigate volatility in reporting earnings caused by measuring related assets and liabilities differently without having to apply complex hedge accounting provisions. This Statement is expected to expand the use of fair value measurement, which is consistent with the Board’s long-term measurement objectives for accounting for financial instruments. This Statement is effective as of the beginning of the Company’s first fiscal year that begins after November 15, 2007.

In September 2006, the FAS issued SFAS No. 158, Employers’ Accounting for Defined Benefit Pension and Other Postretirement Plans, which requires employers to recognize the over-funded or under-funded status of a defined benefit postretirement plan (other than a multiemployer plan) as an asset or liability in its statement of financial position and to recognize changes in that funded status in the year in which the changes occur through comprehensive income of a business entity. The Company does not believe that the pronouncement will have a material affect on its financial statements as it does not participate in defined benefit pension plans.

In September 2006, the FASB issued SFAS 157 `Fair Value Measurements'. This Statement defines fair value, establishes a framework for measuring fair value in generally accepted accounting principles ("GAAP"), and expands disclosures about fair value measurements. This Statement applies under other accounting pronouncements that require or permit fair value measurements, the Board having previously concluded in those accounting pronouncements that fair value is the relevant measurement attribute. Accordingly, this Statement does not require any

new fair value measurements. However, for some entities, the application of this Statement will change current practice. This Statement is effective for financial statements issued for fiscal years beginning after November 15, 2007, and interim periods within those fiscal years. Adoption of SFAS 157 will not have a significant impact on our results of operations or financial condition.

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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 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 affected 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.

In June 2006, the Financial Accounting Standards Board (FASB) issued FASB Interpretation No. 48, “Accounting for Uncertainty in Income Taxes - an interpretation of FASB Statement No. 109” (FIN 48). FIN 48 prescribes a recognition threshold and measurement attribute for financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return, and also provides guidance on de-recognition, classification, interest and penalties, accounting in interim periods, disclosure, and transition. FIN 48 is effective for fiscal years beginning after December 15, 2006. The Company does not expect that the adoption of FIN 48 will have an impact on the Company’s financial position and results of operations.

In September 2006, the SEC staff issued Staff Accounting Bulletin (SAB) No. 108, “Considering the Effects of Prior Year Misstatements when Quantifying Misstatements in Current Year Financial Statements” (SAB 108). SAB 108 was issued in order to eliminate the diversity of practice in how public companies quantify misstatements of financial statements, including misstatements that were not material to prior years’ financial statements. We will initially apply the provisions of SAB 108 in connection with the preparation of our annual financial statements for the year ending April 30, 2007. We have evaluated the potential impact SAB 108 may have on our financial position and results of operations and do not believe the impact of the application of this guidance will be material.

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. 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.

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, and Mr. Richard Trotter, our Chief Operating Officer. If we lost the services of Mr. Havens, Mr. Trotter, 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 54.44% of the outstanding shares of common stock, without giving effect to shares underlying convertible securities, and therefore are in a position to elect all of our Directors and otherwise control the Company, including, without limitation, authorizing the sale of equity or debt securities of Sparta, the appointment of officers, and the determination of officers' salaries. Shareholders have no cumulative voting rights.

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 the Securities Exchange Act of 1934, as amended (the "Exchange Act"), and must be current in their reports under the Exchange Act, 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.

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.

PART II. OTHER INFORMATION

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

In September and October 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 of $275,000. Three 45-day bridge notes aggregating $175,000 and one 90-day $100,000 note were originally scheduled to expire on various dates through November 30, 2006, together with simple interest at the rate of 10%. The notes provide that 100,000 shares of the Company's restricted common stock are to be issued for each $100,000 of notes purchased, or any pro rated portion thereof. The Company had the right to extend the maturity date of notes for 30 to 45 days, and, in the event of extension, the lender would be entitled to an additional equity equal to 60% of the equity kicker shares. The maturity dates of the notes were subsequently extended to various dates between December 5, 2006 to December 30, 2006, with simple interest rate of 10%, and additional equity of in the aggregate amount of 165,000 restricted shares of common stock to be issued. In the event of default on repayment, for each uncured month, as penalty, the equity kicker and the additional equity to be issued to the lenders are to be increased by 50%, on a pro rata basis, and during default period, interest is to be at the rate of 20%. The repayment, in the event of default, of the notes are to be collateralized by certain security interest as per the terms of the agreement. As of January 31, 2007, the notes remain unpaid, and the shares of common stock to be issued as equity kicker on the original note, as additional equity kicker shares for the extension, and as additional shares during the unpaid period, remain to be issued.

From November 2006 through January 2007, in transactions deemed to be exempt from registration under the Securities Act in reliance on Section 4(2) of the Securities Act, the Company received from eight accredited investors subscriptions for six month convertible notes of the Company in the aggregate principal amount of $525,259. The notes bear interest at the rate of 6% per year and mature from June 1, 2007 to August 1, 2007. At the Company’s option, the notes are convertible into shares of common stock at the rate of ranging from $.048 to $.054 per share.

In December 2006, in a transaction deemed to be exempt from registration under the Securities Act in reliance on Section 4(2) of the Securities Act, the Company granted 100,000 common stock purchase warrants to a placement agent for future investments services. The warrants are exercisable at $.088 per share until December 15, 2009.

In February 2007, in transactions deemed to be exempt from registration under the Securities Act in reliance on Section 4(2) of the Securities Act, the Company received from two accredited investors subscriptions for six month convertible notes of the Company in the aggregate principal amount of $40,000. The notes bear interest at the rate of 6% per year and mature in August 2007.

ITEM 6. EXHIBITS.

The following exhibits are filed with this report:

Exhibit Number	Description of Exhibit
Exhibit 10.1	Form of Promissory Note issued September and October 2006 (Incorporated by reference to Exhibit 10.3 of Form 10-QSB filed on December 18, 2006)
Exhibit 10.2	Form of Promissory Note issued November 2006 through January 2007 (Incorporated by reference to Exhibit 10.4 of Form 10-QSB filed on December 18, 2006)
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.

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: March 19, 2007

By: /s/ Anthony L. Havens

Anthony L. Havens
Chief Executive Officer

Date: March 19, 2007

By: /s/ Anthony W. Adler

Anthony W. Adler
Principal Financial Officer