

SPARTA COMMERCIAL SERVICES, INC.  
Form 10KSB  
August 22, 2006

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

**FORM 10-KSB**

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

**For the fiscal year ended April 30, 2006**

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

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

Commission file number: **0-9483**

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

**NEVADA**  
(State or other jurisdiction of  
incorporation or organization)

**30-0298178**  
(IRS Employer Identification No.)

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

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

Securities registered under Section 12(b) of the Exchange Act: None

Securities registered under Section 12(g) of the Exchange Act:

Common Stock, par value \$0.001  
(Title of class)

Check whether the issuer (1) 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

Check if there is no disclosure of delinquent filers in response to Item 405 of Regulation S-B contained in this form, and no disclosure will be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-KSB or any amendment to this Form 10-KSB.

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

The issuer's revenues for its most recent fiscal year: \$169,106.

The aggregate market value of voting and non-voting stock of the issuer held by non-affiliates on July 31, 2006 was \$9,099,623.83

As of July 31,, 2006, we had 121,216,180 shares of common stock issued and outstanding.

**DOCUMENTS INCORPORATED BY REFERENCE**

None.

Transitional Small Business Disclosure Format (check one): YES [ ] NO [X]

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**PART I**

**ITEM 1. DESCRIPTION OF BUSINESS**

**General Overview**

Sparta Commercial Services, Inc. (“Sparta” “we,” “us,” or the “Company”) is a Nevada corporation.

Our business plan is to provide dealers of powersports vehicles with an alternative source of financing for new and used motorcycles. We developed proprietary web-based solutions for processing, financing and leasing of new and used powersports vehicles. Currently, we offer a private label program, lease and retail installment sales finance contracts to numerous dealerships in powersports industry. Our business model focuses on select motorcycles (i.e., 550cc and higher), 4-stroke all-terrain vehicles (ATVs), and select scooters. Our management believes that the emphasis on these products eliminates a number of vehicles that often under-perform due to the demographics of the purchaser and/or excessive depreciation in the market value of certain vehicle models.

Our offices are located at 462 Seventh Avenue, 20<sup>th</sup> Floor, New York, NY 10018, telephone number: (212) 239-2666. We maintain a website at: [www.spartacommercial.com](http://www.spartacommercial.com).

**Our Organization History**

Our company was incorporated under the laws of the State of Nevada on May 13, 1980 under the name Tomahawk Oil and Minerals, Inc. and engaged in oil and gas exploration activities.

On November 6, 1983, the company changed its corporate name to Tomahawk Industries, Inc.

In 1984, Tomahawk entered the business of installing energy recovery and energy saving devices.

In July 1987, Tomahawk filed for protection under Chapter 11 of the U. S. Bankruptcy Code and operated as a debtor-in-possession. The petition for bankruptcy protection was denied. Tomahawk ceased all business operations, liquidated its former subsidiary and abandoned all net assets remaining by April 30, 1988. Tomahawk effectively had no operations, assets or liabilities since its fiscal year ended April 30, 1988 through February 27, 2004.

On February 27, 2004, pursuant to an Agreement and Plan of Reorganization, we acquired Sparta Commercial Services, LLC, in a transaction viewed as a reverse acquisition. Under the terms of the agreement, we acquired all of the outstanding membership interests in Sparta Commercial Services, LLC in exchange for the agreement to issue such number of shares of our common stock as would represent approximately 91.75% percent of our outstanding shares. Sparta Commercial Services, LLC also entered into a consulting agreement for business and financial services with Glenn A. Little, the former principal of Tomahawk. The agreement is for a term of one year. Mr. Little received a fee of \$100,000 pursuant to the consulting agreement.

As a result of the acquisition, a change in control occurred in the ownership and management of Tomahawk. In connection with the acquisition, the managing member of Sparta, Anthony Havens, was appointed President and Chairman of Tomahawk. The former directors and officers of Tomahawk resigned as of the acquisition date.

On August 25, 2004, we changed our corporate name from “Tomahawk Industries, Inc.” to “Sparta Commercial Services, Inc.”

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On September 13, 2004, we filed a Certificate of Amendment to the Articles of Incorporation with the Secretary of State of the State of Nevada increasing the authorized capital from 200,000,000 to 700,000,000 shares, of which 690,000,000 shares are common stock, par value \$0.001 and 10,000,000 shares are preferred stock, par value \$0.001.

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Effective December 27, 2004, pursuant to a Certificate of Amendment to the Articles of Incorporation with the Secretary of State of the State of Nevada, our authorized capital was reduced from 700,000,000 shares, of which 690,000,000 shares were common stock and 10,000,000 shares are preferred stock, to 350,000,000 shares, of which 340,000,000 shares are common stock and 10,000,000 shares are preferred stock. In connection with the decrease in authorized capital, we effected a 1:200 reverse stock split, with fractional shares paid in cash, followed immediately by a 25:1 forward stock split.

On December 28, 2004, we filed a Certificate of Designation with the Secretary of State of the State of Nevada in connection with its 10,000,000 shares are preferred stock, designating 35,850 shares as Series A Redeemable Preferred Stock.

**Our Business**

We are a specialized consumer finance company engaged primarily in the origination of leases and the purchase of retail installment sales contracts of new and used motorcycles, scooters, and ATVs. We believe that the market for consumer finance programs for motorcycles and ATVs is underserved by traditional lenders.

We are developing relationships with vehicle dealers and manufacturers to provide our financing programs to their customers. We also seek to provide motorcycle, scooter, and all-terrain vehicle manufacturers a private label version of our financing programs for their customers.

**Business Overview**

Sparta's business model has been designed to generate revenue from several sources:

- Retail installment sales contracts and leases;
- Private label programs for manufacturers and distributors;
- Ancillary products and services, such as private label gap coverage and private label service contracts; and
- Remarketing of off-lease and repossessed vehicles.

Sparta's management believes that by offering dealers (and their customers) the option of either financing or leasing, Sparta will be able to capture a greater share of the dealer's business. Additionally, by offering both alternatives, once profitability is achieved, Sparta believes that it will be in a position to achieve greater cash-flow than it could by offering only one of these alternatives because depreciation generated by Sparta's leasing activities will reduce income tax due on income resulting from Sparta's retail installment sales contracts.

**Retail Installment Sales Contracts and Leases**

Retail Installment Sales - Sparta purchases retail installment sales contracts from both franchised and independent powersports dealers who qualify as Sparta Authorized Dealers and/or as Private Label Authorized Dealers under Sparta's Private Label Programs. Sparta has developed policies and procedures for credit evaluation, collections, insurance follow up, and asset recovery. Sparta imposes strict credit criteria to determine which retail installment sales contract applications to approve. This credit criterion has been developed to be in compliance with the credit criterion required by our lenders. The dealers understand that if they consummate a credit transaction with a buyer on whose application we have given them a conditional approval that Sparta will purchase that contract if it is in full compliance with all terms and conditions of that approval and contained in our dealer agreement.

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To insure that Sparta's Credit Evaluation Process and Collateral Guidelines are consistently applied and that the credit/underwriting decision process provides rapid decisioning to Sparta Authorized Dealers and the Private Label Dealers, Sparta has developed a point of sale credit application and contract decisioning system. This system is named "*iPLUS*" and is structured as an Application Service Provider ("ASP") and has the capability of providing the dealer with conditional approvals in less than sixty seconds, seven days a week, twenty-four hours a day. This technology provides quick, consistent credit decisions for our dealer network and reduces the number of credit analysts required, thereby, reducing Sparta's personnel expense. Depending on Sparta's arrangement with its lending sources, in the case of consumer finance contracts, Sparta may finance its purchase of the contracts by borrowing from a lending source and pledging the retail finance contracts as collateral for the loan.

All of the installment sale contracts will be secured by qualified, titled motorcycles with 550+cc and higher engines, 4-stroke all-terrain vehicles (ATVs), or select scooters. Customer financing needs are projected to range from approximately \$2,000 to \$35,000. Contract terms of 24 to 60 months will be offered.

Leases - Sparta purchases qualified vehicles for lease to customers of its Sparta Authorized Dealers and/or Private Label Dealers. While the steps in the leasing process are almost identical to those in the installment sales contract process, the major difference is that when a lease "approval" is transmitted to a dealer, the "approval" describes the terms and conditions under which Sparta will purchase a specific vehicle from the dealer and lease it to the applicant. Unlike an installment service contract which finances a customer's purchase of a vehicle owned by the customer, the lease contract contains the payment terms and conditions under which Sparta will allow the customer to use (lease) the vehicle, which is owned by Sparta, and also contains a vehicle purchase price option which provides the customer with the right to purchase the vehicle at the lease-end. Depending on Sparta's arrangement with its lending sources, in the case of leases, Sparta may finance its purchase of leased vehicles by borrowing from a lending source and assigning or pledging the lease and leased vehicle as collateral for the loan. Lease terms range from 24 to 60 months, although most lease terms are either 36 or 60 months. Leases generally have lower monthly payments than retail installment sales contracts because they finance only part of the vehicle with the balance being financed by the lessor.

## **Private Label Programs for Manufacturers and Distributors**

To date, we have entered into four "private label" 5-year financing agreements with the U.S. distributors of major manufacturers of scooters and ATVs. Under these agreements, we allow the manufacturer to put its name on our finance and lease products, and offer such financing facilities to its dealers for their customers. We own the retail installment sales contracts and leases generated under these "private label" programs, and derive revenues from sales of the distributor's product line to the dealer's customers. The private label program also expands our dealer base by the number of dealerships in the distributor's chain, thereby generating additional opportunities to sell our own financial services to these dealers for their customers interested in non-"private label" vehicles.

These four distributors have over 1,200 dealers who, in addition to becoming our Private Label dealers, can sign up to become our Authorized Dealers, which will enable them to use us as a source for financing their non-private label vehicles.

## **Revenue From Ancillary Products And Services**

We expect to receive additional revenue related to servicing our portfolio, such as lease acquisition fees, late payment fees, vehicle disposition fees at lease-end, early termination fees, charges for excess wear-and-tear on leased vehicles, and from ancillary products and services.

We are being positioned as a full service organization providing products and services to its dealers that are costly to obtain on an individual dealer basis. Also, we offer a private label GAP (Guaranteed Auto Protection) plan for our

dealers:

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**Gap Coverage** - Sparta markets its private label gap coverage on a fee basis to customers through dealers. This coverage protects the customer should the vehicle be stolen or wrecked and the holder's primary insurance is not adequate to cover their payoff to the creditor that holds the lien on the vehicle.

Sparta intends to continue to evaluate additional ancillary products and services and believes that it can create products and services to meet dealers' needs, creating company brand loyalty in the dealer community and generating other revenue streams.

## **Revenue From Remarketing Off-Lease And Repossessed Vehicles**

**Re-leasing to Original Lessees** - Management commences its re-leasing efforts as early as eleven months prior to the end of the scheduled lease term. Lessees' options are expected to include: extending the lease, returning the vehicle to Sparta or buying the vehicle at the buy-out option price established at the beginning of the lease. Sparta's policy requires lessees who wish to return their vehicles, return the vehicle to the originating dealer. If the lessee has moved, then the vehicle should be returned to the Sparta Authorized Dealer closest to the lessee. If this is impracticable, then Sparta will arrange to have the vehicle transported at the lessee's expense.

**Returned Leased Vehicles** - When a vehicle is returned to a Sparta Authorized Dealer at the end of the scheduled lease term, the dealer will inspect it for excessive wear and mileage over maximum levels specified under the lease agreement and prepare it for resale/lease. All Sparta Authorized Dealers and all Sparta Private Label Dealers are contractually bound to charge no more than cost plus ten-percent for repairs and to provide free storage for all consignment vehicles. Thereafter, Sparta plans to consign the vehicle to the originating dealer for sale or re-lease to a new party. Should the dealer decline to take the vehicle on consignment, it will be electronically marketed on the Classified Pages of the Sparta web site. Sparta believes the market for used vehicles is significant, and the opportunity to remarket the same vehicle numerous times is a key selling point with prospective dealerships. Sparta believes that using its dealer network in such a manner will result in a better overall economic return on its portfolio as well as strengthen dealer relationships.

**Repossessed Vehicles** - All repossessed vehicles are similarly returned to the originating Sparta Authorized Dealer to be reconditioned (if needed) for consignment sale or re-lease in the same manner and conditions as returned vehicles.

**Second Chance Express** - Sparta allows its Authorized Dealers to offer its inventory of returned or repossessed vehicles not only to customers with approved credit applications but, also to customers with less than prime credit. Applicants with low credit scores are evaluated under Sparta's Second Chance Express Program. This unique finance/lease product is designed to offer a financing program tailored to this non-prime customer. The program allows Sparta to serve those customers who can offset their credit risk with higher down payments. A key benefit of this program to Sparta is that the minimum down-payment requirement is 20% in order to bring the amount financed in line with the current wholesale value of the vehicle. Under the Second Chance Express Program, Sparta pays its dealers a commission on any Sparta inventory vehicle, held on consignment on their "floor" or offered on the Sparta Classified Web Page, for which they arrange a sale or finance.

## **Credit and Collections**

### **Policies and Procedures**

Based on management's experience in vehicle financing and leasing, we have developed policies and procedures for credit evaluation, collections, insurance follow up, and asset recovery. We impose strict credit and demographic criteria to determine which retail installment sales contracts and lease applications are approved.

**Credit Evaluation Process and Collateral Guidelines**

To insure that Sparta's Credit Evaluation Process and Collateral Guidelines are consistently applied and that the credit/underwriting decision process provides rapid decisioning to Sparta Authorized Dealers and the Private Label Dealers, Sparta has worked closely with a leading provider of interactive credit accessing and decisioning solutions, to develop the ***iPLUS*** point of sale credit application and contract decisioning system.

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***iPLUS* Internet Purchasing Leasing Underwriting Servicing)**

Sparta's retail installment sales contract and leasing programs are delivered through a proprietary, web-based, credit application processing system. This system is named ***iPLUS*** and is structured as an Application Service Provider ("ASP") and has the capability of providing the dealer with conditional approvals seven days a week, twenty-four hours a day. This system also provides the powersports dealer with system capabilities comparable to those of new car franchises. Sparta believes ***iPLUS*** will provide the Sparta Authorized Dealers and Private Label Dealers with a competitive advantage and will increase Sparta's ability to garner a larger share of the dealer's business. Although we intend to add additional features, ***iPLUS*** is currently being utilized by us.

Major features of ***iPLUS*** include:

- 100% WEB Browser Based ([www.spartacommercial.com](http://www.spartacommercial.com))
- User friendly system
- No costly software required by the users
- Operates on any dial-up connection as slow as 28.8
- Requires Internet Explorer 5.5 or above, Adobe Acrobat Reader 5.0 or above, both available at no charge on the Internet
- Integrated scorecard and decision engine
- Integrated credit bureau retrieval and review (can access any of the 3 major bureaus)
- Once application is submitted; decisions in seconds/7 Days a Week /24 Hours a Day
- Easy to complete customer application
- Dealer application management
- Dealer Desking Tool - Profit Manager (Assists dealer in structuring any approved application.)
- Prints approved customer contract and contract package
- Captures information in electronic format
- Complete underwriting documentation and control system
- Dealer communication
- Allows the dealer to track the entire decisioning, underwriting, and funding process in real time.

Additionally, this technology provides quick, consistent credit decisions for our dealer network and reduces the number of credit analysts required, thereby, reducing Sparta's personnel expense.

Sparta has established program guidelines that are an integral function of the ***iPLUS*** decision process. These program guidelines establish and clarify credit criteria such as credit tiers, maximum amount financed, term and rate, dealer rate participation, deal structure, buyer profile, credit bureau parameters, budget parameters, and eligible collateral, including maximum loan-to-value ratios for each of its retail installment sales contracts and lease contracts, depending on the applicant's credit rating and stability. Sparta has developed its own credit rating system by using an empirical score card and then assigning its own rating based on Sparta's experience. This rating is used as the basis to determine the terms and conditions under which an applicant is approved or declined.

Sparta conducts both applicant credit risk and asset evaluation before approving financing. Sparta's policy is that it will not finance more than 100% of a vehicle's retail value, but Sparta may lend an additional 10% above retail value to cover add-ons, extended warranty and other costs. Should the customer seek financing above this threshold, Sparta intends to ask for a down payment from the borrower or lessee to close the gap between selling price and retail value. The size of the down payment will be a function of the applicant's credit rating, stability, budget, and the value of the underlying asset.

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**Collection Procedures**

Approving retail installment sales contracts and leases that comply with the policies and procedures established by Sparta is just the first step. A principal factor in the success of Sparta's business model is its ability to track contract and lease performance.

A third party provides the software Sparta uses to manage its assets, customer base, collections, insurance, and accounting systems. Using a variety of basic and customized reports generated by this software, Sparta monitors its customers' compliance with their obligations under retail installment sales contracts or lease contracts. These reports are accessed on a real-time basis by employees of Sparta and are distributed to management personnel for review. The reports include delinquency reports, collection tickler (promises) reports, insurance status reports, termination reports, inventory reports, maturing contract reports, etc.

Sparta requires continuous physical damage insurance on all financed vehicles and continuous liability and physical damage insurance coverage on all leased vehicles. In addition, Sparta is required to be listed as Additional Named Insured and Loss Payee. Continuous insurance is critical, and Sparta intends to quickly repossess a vehicle if coverage lapses. Lapsed or cancelled policies will be covered by a "blanket" VSI insurance policy, which Sparta intends to purchase. Any lapse in insurance coverage for any reason will lead to automatic repossession of leased vehicles.

**Using Diversification to Reduce Portfolio Risk**

Management will reduce portfolio risk not only by carefully screening applicants and monitoring covenant compliance, but also by diversifying its financing activities across credit tiers and Sparta's list of motorcycle, ATV and scooter models that it will finance or lease.

**Credit Tiers** - Sparta expects that it will maintain a portfolio dominated by A/B credit applicants over C applicants in the ratio of at least 70/30. Management anticipates that it will be able to rebalance its portfolio by training its sales force to work closely with dealerships in their territories to help Sparta maintain its conservative 70/30 target.

Sparta will also be able to manage this ratio by revising the variables in its various programs (terms and conditions under which Sparta will lease vehicles or purchase retail installment contracts), such as minimum income, debt ratios, payment to income ratios, minimum down payment required, acquisition fees (paid by dealer), discounts (paid by dealer), etc.

**Sparta Approved Vehicle Models** - Advance rates and other credit restrictions will be in effect for certain models and years based on the relevant facts and circumstances.

**Market Information**

As reported in the 2005 Annual Statistical Report of the Motorcycle Industry Council), retail sales of new motorcycles have grown steadily from 1991 through 2005. North American registrations of new 651cc and higher motorcycles reached 517,600 in 2005. This represents a 5% increase over 2004. Registrations have increased for 14 consecutive years. Retail sales of new and used motorcycles reached \$10.7 billion in 2004.

U.S. sales of new ATVs were estimated to be 780,435 units in 2005 with a market value of \$1.6 billion and scooter sales approached 57,000 in 2005 and are growing at a 17% annual rate, as reported in Powersports Business Magazine in the April 3, 2006 issue.

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**Sales and Marketing**

Normally, vehicle finance programs are sold primarily at the dealer level, rather than the consumer level. Our strategy is to utilize a direct sales force that promotes our products and services to qualified dealers, train them, and provide them with point-of-sale marketing materials. Our vehicle financing programs are already gaining market acceptance as evidenced by the four Private Label Contracts. This direct sales force will be comprised of Marketing Group and a Dealer Support Group.

The Marketing Group will continue to work directly with the manufacturers and distributors to obtain additional Private Label affiliations and to monitor our competition. The Private Label partners will assist us directly in training the Private Label Dealers. This will be done at the manufacturers/distributors place of business, at industry shows, or with a group of dealers in a common geographic area.

The Dealer Support Group accepts dealer application packages from dealers that want to be either or both our Authorized Dealers or Private Label Dealers. They then notify the approved dealers that they have been approved and provide them with the required information to process applications and print contracts through iPLUS, including a Dealer Sign Up packet. The Dealer Support Group is available to directly assist dealers by telephone and follow up with dealers on conditional approvals to assist dealers in forwarding the funding packages to us for purchase. This group will also accept all incoming calls from dealers, answering their inquiry or directing them, if necessary, to the appropriate department.

Authorized dealers are able to advertise both new and used vehicles in the Classified Section of our website, at no cost to the dealer. Sparta plans to use this feature of the website to remarket its own inventory (both repossessed and returned end-of-term vehicles) throughout the country. Our exclusive "Second-Chance Express" program for customers with a poor or limited credit history was created to help re-market our inventory. Incentives are in place for authorized dealers who sell or lease either our inventory vehicle at their dealership or one that is at another dealership in our network.

While we do not market or sell directly to consumers, we expect consumers to visit our website. We have provided a consumer oriented PowerPoint presentation for their review. Additionally, visiting consumers will be able to view our advertising, news and find general information about vehicle makes and models, road rallies, and other areas of powersports interest. They will also be able to utilize our Dealer Locator to find the nearest Authorized dealer or Private Label Dealer in their area. Consumers will be able to view the Classified Section of the website and any consumer inquiring about the program will be directed to our nearest authorized dealer.

**Competition**

The consumer finance industry is highly fragmented and highly competitive. Broadly speaking, Sparta competes with commercial banks, savings & loans, industrial thrift and credit unions, and a variety of local, regional and national consumer finance companies. While there are numerous financial service companies that provide consumer credit in the automobile markets, including banks, other consumer finance companies, and finance companies owned by automobile manufacturers and retailers, most financial service companies are reluctant to lend to motorcyclists. Customers who approach these lending sources to take out installment loans are often encouraged to pursue personal loans instead.

There are few companies that provide nationwide dealer-based leasing options in the motorcycle industry segment, and these tend to be private label factory programs supporting their own brands. Because of their narrow focus (such as requiring that the equipment be covered by the brand's warranty); these companies have met with limited success.

Independent consumer financial services companies and large commercial banks that participated in this market have withdrawn substantially from the motorcycle loan niche over the past two years or have toughened their underwriting criteria. Sparta believes that those companies may have suffered as a result of compromising their underwriting criteria for the sake of volume. In addition, management believes that our competitors' practice of financing all makes and models of a particular manufacturer results in lower overall portfolio performance because of the poor demographics associated with some of those product lines. The marketplace also includes small competitors such as local credit unions, local banks and a few regional players.

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Sparta competes for customers with commercial banks, savings and loans, credit unions, consumer financing companies, and manufacturers finance subsidiaries. Additionally, some powersports manufacturers such as Harley-Davidson and BMW have subsidiaries that provide financing.

The more significant competitors of Sparta include: GE Retail Services, Capital One and HSBC/Household Bank. To management's knowledge, none of these firms offer leases for powersports vehicles.

The largest of these firms, GE Retail Services, markets both directly to dealers in Powersports market and through Co Branded private label programs. GE recently has co-branded with Yamaha, Moto Guzzi, Aprillia Brands and other national manufacturers and distributors of Powersports and recreational products such as Coachmen Industries. GE also offers dealer and distributor floor plan financing and private label credit cards.

Capital One markets a product for Capital One Bank, offering consumer direct and dealer indirect consumer contracts to the powersports industry. They offer smaller dealers the ability to have customers apply via the web site affiliate program and larger dealers can go direct to Capital One finance. Capital One recently announced the purchase of Onyx Finance and truly entered the vehicle financing arena with the purchase of Peoples First Finance. Typical terms range from 30 to 60 months with a minimum of individuals approved for a product named "The Blank Check". Capital One Auto Finance, America's largest online vehicle lender, provides vehicle loans to customers directly via the Internet, as well as through a nationwide dealership network.

While some of Sparta's larger competitors have vast sources of capital and may be able to offer lower interest rates due to lower borrowing costs, Sparta believes that the combination of management's experience, expedient service, availability of the lease option and *iPLUS* give Sparta an advantage over its competitors.

## **Regulation**

Our planned financing operations are subject to regulation, supervision and licensing under various federal, state and local statutes and ordinances. Additionally, the procedures that we must follow in connection with the repossession of vehicles securing contracts are regulated by each of the states in which we plan to do business. Accordingly, the laws of such states, as well as applicable federal law, govern our operations. Compliance with existing laws and regulations has not had a material adverse affect on our operations to date. Our management believes that we maintain all requisite licenses and permits and are in material compliance with all applicable local, state and federal laws and regulations. We will periodically review our office practices in an effort to ensure such compliance.

The following constitute certain of the federal, state and local statutes and ordinances with which we must comply:

- Fair Debt Collection Act. The Fair Debt Collection Act and applicable state law counterparts prohibit us from contacting customers during certain times and at certain places, from using certain threatening practices and from making false implications when attempting to collect a debt.
- Truth in Lending Act. The Truth in Lending Act requires us and the dealers we do business with to make certain disclosures to customers, including the terms of repayment, the total finance charge and the annual percentage rate charged on each Contract or direct loan.
- Consumer Leasing Act. The Consumer Leasing Act applies to any lease of consumer goods for more than four months. The law requires the seller to disclose information such as the amount of initial payment, number of monthly payments, total amount for fees, penalties for default, and other information before a lease is signed.
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The Consumer Credit Protection Act of 1968. The Act required creditors to state the cost of borrowing in a common language so that the consumer could figure out what the charges are, compare costs, and shop for the best credit deal.

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- Equal Credit Opportunity Act. The Equal Credit Opportunity Act prohibits creditors from discriminating against loan applicants on the basis of race, color, sex, age or marital status. Pursuant to Regulation B promulgated under the Equal Credit Opportunity Act, creditors are required to make certain disclosures regarding consumer rights and advise consumers whose credit applications are not approved of the reasons for the rejection.
- Fair Credit Reporting Act. The Fair Credit Reporting Act requires us to provide certain information to consumers whose credit applications are not approved on the basis of a report obtained from a consumer reporting agency.
- Gramm-Leach-Bliley Act. The Gramm-Leach-Bliley Act requires us to maintain privacy with respect to certain consumer data in our possession and to periodically communicate with consumers on privacy matters.
- Soldiers' and Sailors' Civil Relief Act. The Soldiers' and Sailor's Civil Relief Act requires us to reduce the interest rate charged on each loan to customers who have subsequently joined, enlisted, been inducted or called to active military duty.
- Electronic Funds Transfer Act. The Electronic Funds Transfer Act prohibits us from requiring our customers to repay a loan or other credit by electronic funds transfer ("EFT"), except in limited situations that do not apply to us. We are also required to provide certain documentation to our customers when an EFT is initiated and to provide certain notifications to our customers with regard to preauthorized payments.
- Telephone Consumer Protection Act. The Telephone Consumer Protection Act prohibits telephone solicitation calls to a customer's home before 8 a.m. or after 9 p.m. In addition, if we make a telephone solicitation call to a customer's home, the representative making the call must provide his or her name, our name, and a telephone number or address at which our representative may be contacted. The Telephone Consumer Protection Act also requires that we maintain a record of any requests by customers not to receive future telephone solicitations, which must be maintained for five years.
- Bankruptcy. Federal bankruptcy and related state laws may interfere with or affect our ability to recover collateral or enforce a deficiency judgment.

**Employees**

As of May 12, 2006, we had 15 full-time employees.

None of our employees are covered by a collective bargaining agreement. We have never experienced a work stoppage and we believe that we have satisfactory working relations with our employees.

**ITEM 2. DESCRIPTION OF PROPERTY**

Our executive offices are located at 462 Seventh Avenue, 20th Floor, New York, NY 10018. We have an agreement for use of office space at this location under a lease expiring on November 30, 2007. The office space contains approximately 7,000 square feet. The annual rate is \$167,280 (annualized) for the first six months of calendar year 2006, \$174,080 (annualized) for the second six months of calendar year 2006, and \$178,432 for the calendar year 2007.

We believe that our existing facilities will be adequate to meet our needs for the foreseeable future. Should we need additional space, management believes it will be able to secure additional space at commercially reasonable rates. Our offices are adequately covered by insurance for claims arising out of such occupancies.



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**ITEM 3. LEGAL PROCEEDINGS**

As at April 30, 2006, we were not a party to any material pending legal proceeding. From time to time, we may become involved in various lawsuits and legal proceedings, which arise in the ordinary course of business.

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

Not applicable.

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[Back to Table of Contents](#)**PART II****ITEM 5. MARKET FOR THE COMPANY'S COMMON EQUITY AND RELATED STOCKHOLDER MATTERS****Market Information**

Our common stock is currently quoted on the OTC Bulletin Board under the symbol "SRCO". The following table sets forth, for the calendar periods indicated, the range of the high and low last reported bid prices of our common stock, as reported by the OTCBB. The quotations represent inter-dealer prices without retail mark-ups, mark-downs or commissions, and may not necessarily represent actual transactions.

	High	Low
<b>Fiscal Year 2005 (May 1, 2004 - April 30, 2005)</b>		
First quarter (May 1, 2004 - July 31, 2004)	\$ 1.60	\$ 0.80
Second quarter (August 1, 2004 - October 31, 2004)	\$ 0.96	\$ 0.48
Third quarter (November 1, 2004 - January 31, 2005)	\$ 0.96	\$ 0.48
Fourth quarter (February 1, 2005 - April 30, 2005)	\$ 1.05	\$ 0.45
<b>Fiscal Year 2006 (May 1, 2005 - April 30, 2006)</b>		
First quarter (May 1, 2005 - July 31, 2005)	\$ 1.01	\$ 0.25
Second quarter (August 1, 2005 - October 31, 2005)	\$ 0.96	\$ 0.59
Third quarter (November 1, 2005 - January 31, 2006)	\$ 0.81	\$ 0.41
Fourth quarter (February 1, 2006 - April 30, 2006)	\$ 0.73	\$ 0.42

**Holdings**

The approximate number of holders of record of our common stock as of April 30, 2006 was 3,004, excluding stockholders holding common stock under nominee security position listings.

**Dividends**

We have never declared any cash dividends on our common stock. Future cash dividends on the common stock, if any, will be at the discretion of our Board of Directors and will depend on our future operations and earnings, capital requirements and surplus, general financial condition, contractual restrictions, and other factors that the Board of Directors may consider important. The Board of Directors does not intend to declare or pay cash dividends in the foreseeable future. It is the current policy to retain all earnings, if any, to support future growth and expansion.

As of April 30, 2006, we had outstanding 19,795 shares of Series A Convertible Preferred Stock, \$.001 par value. The shares pay a 6% annual dividend which may be paid in cash or shares of common stock at the Company's option. We have not as of July 30, 2006 distributed any dividends, in cash or in shares of common stock.

**Transfer Agent**

The transfer agent for our common stock is Executive Registrar & Transfer Inc.

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**Recent Sales of Unregistered Securities**

In July 2005, in a transaction deemed to be exempt from registration under the Securities Act in reliance on Section 4(2) of the Securities Act, we entered into an agreement with an individual for business consulting services for a term of one year pursuant to which we agreed to issue 250,000 shares of common stock as compensation. These shares were issued in July 2006.

In July 2005, in a transaction deemed to be exempt from registration under the Securities Act in reliance on Section 4(2) of the Securities Act, we entered into an agreement with an individual for investor relations consulting services for a term of two years, with services beginning in August 2005, pursuant to which we agreed to issue 600,000 shares of common stock per year as compensation. We issued 300,000 shares in September 2005 and 300,000 shares in October 2005 to the consultant as compensation for the first year of services. We issued 250,000 shares in March 2006, in advance for the second year of the agreement.

In October 2005, in a transaction deemed to be exempt from registration under the Securities Act in reliance on Section 4(2) of the Securities Act, we sold to an accredited investor 300,000 units of our securities at \$0.60 per unit, for gross proceeds of \$180,000. Each unit consists of (i) one share of common stock and (ii) a warrant to purchase one share of common stock, exercisable for three years at \$0.80 per share. These shares have not yet been issued as of April 30, 2006. We used the proceeds for working capital purposes.

In November 2005, in transactions deemed to be exempt from registration under the Securities Act in reliance on Section 4(2) of the Securities Act, we sold to two accredited investors an aggregate of 250,001 units for gross proceeds of \$150,000. Each unit consists of (i) one share of common stock and (ii) a warrant to purchase one share of common stock, exercisable for three years at \$0.80 per share. These shares have not yet been issued as of April 30, 2006. We used the proceeds for working capital purposes.

In December 2005, in transactions deemed to be exempt from registration under the Securities Act in reliance on Section 4(2) of the Securities Act, we entered into agreements with three accredited investors for bridge loans in the aggregate amount of \$175,000. The bridge loans were to mature on March 31, 2006, together with simple interest at the rate of 10% per annum. As part of the loan, we agreed to issue the lenders as an equity kicker an aggregate of 70,000 shares of our common stock. These shares were issued in July 2006. In the event of default on repayment, as penalty, the simple interest rate on the unpaid principal shall be increased to a rate of 20% per annum commencing from the date of default, and the number of shares issuable as an equity kicker shall be increased by 50% for each month that such default has not been cured. The loans were repaid in January 2006.

On December 21, 2005, 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 stock options to purchase an aggregate of 160,000 shares of the Company's common stock, exercisable for a period of up to ten years from the date of grant at \$0.59 per share, subject to vesting criteria through March 2009, to two employees.

On December 22, 2005, 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 entered into an agreement with Maxim Group, a placement agent, pursuant to which Maxim was granted 2,650,000 shares of the Company's common stock as payment for services rendered and to be rendered. These shares were in the quarter ended April 30, 2006.

In March 2006, we concluded a private placement, commenced in December 2005, to raise up to \$3,500,000 through the sale of our common stock in which sold at a price of \$0.195 per share. In transactions with accredited investors exempt from registration pursuant to Section 4(2) of the Securities Act we sold an aggregate of 17,555,369 shares for proceeds of \$3,423,297. The private placement was conducted by a placement agent on a best efforts basis. The

common stock was being offered solely to accredited investors. The placement agent received 10% of the cash proceeds from the private placement and reimbursement for expenses, and warrants to purchase 1,755,537 shares of our common stock, exercisable for five years at \$0.2145 per share from the date of issuance.

In March 2006, in a transaction deemed to be exempt from registration under the Securities Act in reliance on Section 4(2) of the Securities Act, we entered into an agreement with an individual for business consulting services for a term of one year, with services beginning in March 2006, pursuant to which we agreed to issue 70,000 shares of common stock as compensation. We issued the shares in July 2006.

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In April 2006, in a transaction deemed to be exempt from registration under the Securities Act in reliance on Section 4(2) of the Securities Act, we entered into an agreement with American Capital Ventures, Inc. for investor relations consulting services for a term of thirty six months, with services beginning in April 2006. Pursuant to the agreement, we agreed to issue, during the course of the consulting term, unless earlier terminated, up to 3,050,000 shares of common stock as compensation, as follows: 550,000 shares upon the execution of the agreement; and 69,500 shares per month for the first thirty four months, and 68,500 shares per month for the final two months of the consulting term. We issued 550,000 shares in May 2006, 139,000 shares in June 2006, and 69,500 shares in July 2006. We agreed to include in our next registration statement the shares of common stock issued pursuant to the agreement.

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**ITEM 6. MANAGEMENT'S DISCUSSION AND ANALYSIS**

**"FORWARD-LOOKING" INFORMATION**

This report on Form 10-KSB 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.

The following discussion and analysis should be read in conjunction with the information set forth in the audited consolidated financial statements for the years ended April 30, 2006 and April 30, 2005 and footnotes found in the Company's Annual Report on Form 10-KSB.

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.

**INTRODUCTORY STATEMENT**

During the period from inception till January 31, 2005 we were a developmental stage company, setting up credit procedures, setting our arrangements with vehicle distributors, obtaining personnel, seeking financing to support our developmental efforts, and seeking credit facilities. In fiscal year 2005, we began to obtain regulatory approval in several states, where required, prior to commencing active operations. We were actively signing up dealers to participate in our financing programs, including our private label financing programs. In July 2005, we completed a \$3 million private placement of units consisting of 6% Series A convertible, redeemable preferred stock, and three-year common stock warrants. Also in July 2005, we obtained a secured senior credit facility with an institutional lender on an offering basis and subject to the performance of our portfolio. This facility provides us with an open-ended, flexible funding source for the origination of lease and finance receivables. In March 2006, we completed a private placement of \$3.4 million of our common stock.

To date, we have generated limited sales revenues, have incurred expenses and have sustained losses. Consequently, our operations are subject to all the risks inherent in the establishment of a new business enterprise. For the period from October 1, 2001 (date of Sparta's inception) through April 30, 2006, we have accumulated losses of \$14,150,429. Of such losses, \$5,541,248 was attributable to non-cash charges for stock and warrant issuance and \$3,585,000 of these charges were for the intrinsic value of the imbedded beneficial conversion feature for the Preferred Stock holders.

We are now approved to do business in 31 states. In February 2006, we attended, for the first time as an exhibitor, the dealer only trade show, "Dealer EXPO 2006," Over 250 dealer personnel visited our booth and were given individual on-line demonstrations of our *iPLUS* credit decisioning system. As of April 30, 2006, 1,110 dealers have logged onto our web site and downloaded dealer applications and of that number, 273 have been approved as Sparta Authorized Dealers. We have signed 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 third party marketing arrangements with recognized industry leaders, Lemco Management Group/RPM Management, 700Credit, Inc. and Innovative Business Solutions Group. These firms will introduce our finance and lease programs to their combined 1,000+ dealer base and will assist in the training and servicing of our new and existing dealers. As a result of this rapid expansion, we have quadrupled our field marketing staff.





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**RESULTS OF OPERATIONS**

**COMPARISON OF THE YEAR ENDED APRIL 30, 2006 TO THE YEAR ENDED APRIL 30, 2005**

For the year ended April 30, 2006, we have generated limited sales revenues, have incurred significant expenses, and have sustained significant losses. We believe we will begin to earn increasing revenues from operations in fiscal 2007 as we have completed our transition to an operating company.

**Revenues**

Revenues totaled \$169,106 in fiscal 2006 compared to \$65,833 revenues in fiscal 2005. Fiscal 2006 revenue was comprised of 136,700 in income from Operating Leases and Retail Installment Sales Contracts, \$13,200 in private label fees, \$7,347 in dealer fees, \$506 in interest income and \$11,353 in other fees and income.

**Costs and Expenses**

The Company incurred licensing fees of \$67,000 for the year ended April 30, 2006 and \$150,663 for the year ended April 30, 2005, respectively. The costs incurred were for the licensing of certain proprietary software, operating systems and processes for use in connection with the extension of credit and underwriting techniques for the purchase and lease of motor vehicles. The decrease from fiscal 2005 to fiscal 2006 reflects the fact that this process is completed.

The Company incurred organization costs of \$197,507 for the year ended April 30, 2006, and \$294,408 for the year ended April 30, 2005, respectively. Organizational costs consist of establishing business procedures, filing to do business web site development and related activities. The year to year decrease in organization costs is primarily attributed to the wind down of organizational activity.

The Company incurred compensation costs of \$1,228,856 for the year ended April 30, 2006 compared with \$828,298 in fiscal 2005. The increase is related to the costs of the Company increasing its employee base during the year from 8 employees at fiscal year end 2005 to 15 at fiscal year end 2006. Additionally, for the fiscal year ended 2006 we incurred \$93,436 in costs for temporary help versus \$4,317 for fiscal year ended April 30, 2005. As the Company continues to expand, the Company will incur additional costs for personnel. In order for the Company to attract and retain quality personnel, management anticipates it will continue to offer competitive salaries and issue common stock to consultants and employees.

The Company paid \$337,221 and \$233,333 to its Chairman and Chief Executive Officer, in fiscal 2006 and 2005, respectively. These payments were charged to operations, and are included in the compensation costs shown above.

In connection with placement transactions, the Company expensed non-cash costs of \$406,665 for the year ended April 30, 2006 and \$383,284 to issue warrants to the private placement agent for the year ended April 30, 2005. These amounts were charged to financing costs. The Company has expensed non-cash costs of \$1,775,000 and \$1,810,000 respectively for the fiscal years ended April 30, 2006 and 2005. These charges were for the intrinsic value of the imbedded beneficial conversion feature for the Preferred Stock holders. At April 30, 2006 and April 30, 2005, accrued preferred dividends of \$141,255 and \$28,906 respectively were charged to retained earnings. Additionally, for the fiscal year ended April 30, 2006 the Company charged \$652,910 to financing costs representing the value of shares issued to settle debts and shares issuable for the Company's failure to timely file a registration statement in connection with a private placement. .

The Company incurred consulting costs of \$2,552,304 for the year ended April 30, 2006, as compared to \$84,365 for the year ended April 30, 2005. Of the costs incurred in fiscal 2006, \$2,285,604 were non-cash charges representing the

market value of shares of the Company's common stock issued to a private placement agent and to consultants.

The Company incurred legal and accounting fees of \$335,938 for the year ended April 30, 2006, as compared to \$197,384 for the year ended April 30, 2005. The increase in costs is related to legal and accounting expenses associated with finalizing the private placement and complying with various federal and state securities statutes, rules and regulations.

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The Company incurred other operating expenses of \$879,193 for the year ended April 30, 2006. Notable expenses in this category are rent of \$142,584, depreciation and amortization of \$112,904, repairs, maintenance and equipment of \$86,807, travel of \$63,030, filing fees of \$57,561, advertising of \$36,594, loss reserve of 36,152, telephone of \$33,023, meals and entertainment of \$29,084, utilities of \$28,671, insurance of \$23,067, interest of \$22,684, postage of \$19,411, printing of \$15,184 and other normal operating costs totaling \$172,437. In fiscal 2005, other operating costs totaled \$791,647. Notable expenses in this category are the cost of a purchase option for a portfolio of equipment leases of \$250,000, rent of \$125,214, consulting expenses of \$84,365, travel of \$79,547, advertising of \$28,107, telecommunications of \$21,476 and depreciation of \$22,626. The remainder is comprised of expenses for postage, shipping, storage, repairs and other normal operating costs

**Net Loss**

Our net loss attributable to common shareholders for the year ended April 30, 2006 was \$7,872,772 in contrast to a loss attributable to common shareholders of \$4,418,727 for the year ended April 30, 2005. The increase in net loss attributable to common shareholders was primarily due to increased compensation costs associated with an almost 100% increase in the number of employees as well as temporary employees, the fact that the Company incurred expenses related to the private placement transaction, consisting of a non-cash expense of a beneficial conversion discount of \$1,775,000, non-cash expense of \$2,285,604 for shares issued to our placement agent and consultants and non-cash expense of \$406,665 for warrants issued to the placement agent in 2006 and to the fact that the Company has increased its resources and spending in 2006 as it completed the transition from a development stage to an operating entity.

Our net loss per common share (basic and diluted) attributable to common shareholders was \$0.08 for the year ended April 30, 2006 and \$0.05 for the year ended April 30, 2005.

**LIQUIDITY AND CAPITAL RESOURCES**

As of April 30, 2006, the Company had working capital of \$345,246. The Company generated a deficit in cash flow from operations of \$3,132,887 for the year ended April 30, 2006. This deficit is primarily attributable to the Company's net loss from operations of \$5,956,517, adjusted for equity based compensation of \$2,418,134, stock based financing costs of \$973,607, depreciation and amortization of \$112,904 allowance for loss reserve of \$36,152 and a decrease in warrant liability of \$198,176 and to changes in the balances of current assets, primarily an increase in loan proceeds receivable of \$389,998 and pre-paid expenses of \$51,939 and current liabilities, primarily a decrease in accounts payable of \$213,717.

Cash flows used in investing activities for the year ended April 30, 2006 was \$1,533,890, primarily due to investment in vehicle leases of \$815,942, payments for motorcycles and other vehicles of \$658,842, and the purchase of property and equipment of \$52,606

The Company met its cash requirements during the period through net proceeds from the issuance of equity of \$4,570,462 and obtaining net loans of \$539,348 and common stock subscription of \$330,000

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 in the form of equity in order to provide the necessary working capital. We currently have no commitments for financing. There is no guarantee that we will be successful in raising the funds required.

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We estimate that we will need approximately \$1,800,000 in addition to our normal operating cash flow to conduct operations during the next twelve months. Based on capital received from equity financing to date, and certain indications of interest to purchase our equity, we believe that we have a reasonable chance to raise sufficient capital resources to meet projected cash flow deficits through the next twelve months. There can be no assurance that additional private or public financing, including debt or equity financing, will be available as needed, or, if available, on terms favorable to the Company. Any additional equity financing may be dilutive to shareholders and such additional equity securities may have rights, preferences or privileges that are senior to those of the Company's existing common or preferred stock. Furthermore, debt financing, if available, will require payment of interest and may involve restrictive covenants that could impose limitations on the operating flexibility of the Company. However, if we are not successful in generating sufficient liquidity from operations or in raising sufficient capital resources, on terms acceptable to us, this could have a material adverse effect on our business, results of operations, liquidity and financial condition, and we will have to adjust our planned operations and development on a more limited scale.

The effect of inflation on the Company's revenue and operating results was not significant. The Company's operations are located in North America and there are no seasonal aspects that would have a material effect on the Company's financial condition or results of operations.

**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**

**Addressing the Going Concern Issues**

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.

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

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

- seeking additional credit facilities from institutional lenders;
- seeking institutional investors for 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.  
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**Acquisition or Disposition of Plant and Equipment**

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

**Number of Employees**

From our inception through the period ended April 30, 2006, we have relied on the services of outside consultants for services and currently have fifteen full-time employees. In order for us to attract and retain quality personnel, we anticipate we will have to offer competitive salaries to future 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.

**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.

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Early lease terminations also occur because of (i) a default by the lessee, (ii) the physical loss of the motorcycle, or (iii) the exercise of the lessee's early termination. In those instances, the Company receives the proceeds from either the resale or release of the repossessed motorcycle, or the payment by the lessee's insurer. 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 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. On April 14, 2005, the SEC amended the effective date of the provisions of this statement. The effect of this amendment by the SEC is that the Company will have to comply with Statement 123R and use the Fair Value based method of accounting no later than the fourth quarter of 2006. Management has elected to apply Statement 123R in the third quarter of fiscal year 2006.

**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. We 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.

**RECENT 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 Company does not expect its adoption of this new standard to have a material impact on its financial position, results of operations or cash flows.

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. Management is assessing the implications of this standard, which may materially impact the Company's results of operations in the fourth quarter of fiscal year 2006 and thereafter.

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.

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In November 2004, the Financial Accounting Standards Board (FASB) issued SFAS 151, Inventory Costs-- an amendment of ARB No. 43, Chapter 4. This Statement amends the guidance in ARB No. 43, Chapter 4, "Inventory Pricing," to clarify the accounting for abnormal amounts of idle facility expense, freight, handling costs, and wasted material (spoilage). Paragraph 5 of ARB 43, Chapter 4, previously stated that ". . . under some circumstances, items such as idle facility expense, excessive spoilage, double freight, and rehandling costs may be so abnormal as to require treatment as current period charges. . . ." This Statement requires that those items be recognized as current-period charges regardless of whether they meet the criterion of "so abnormal." In addition, this Statement requires that allocation of fixed production overheads to the costs of conversion be based on the normal capacity of the production facilities. This Statement is effective for inventory costs incurred during fiscal years beginning after June 15, 2005. Management does not believe the adoption of this Statement will have any immediate material impact on the Company.

In December 2004, the FASB issued SFAS No.152, "Accounting for Real Estate Time-Sharing Transactions--an amendment of FASB Statements No. 66 and 67" ("SFAS 152) The amendments made by Statement 152 This Statement amends FASB Statement No. 66, Accounting for Sales of Real Estate, to reference the financial accounting and reporting guidance for real estate time-sharing transactions that is provided in AICPA Statement of Position (SOP) 04-2, Accounting for Real Estate Time-Sharing Transactions. This Statement also amends FASB Statement No. 67, Accounting for Costs and Initial Rental Operations of Real Estate Projects, to state that the guidance for (a) incidental operations and (b) costs incurred to sell real estate projects does not apply to real estate time-sharing transactions. The accounting for those operations and costs is subject to the guidance in SOP 04-2. This Statement is effective for financial statements for fiscal years beginning after June 15, 2005. with earlier application encouraged. The Company does not anticipate that the implementation of this standard will have a material impact on its financial position, results of operations or cash flows.

On December 16, 2004, the Financial Accounting Standards Board ("FASB") published Statement of Financial Accounting Standards No. 123 (Revised 2004), Share-Based Payment ("SFAS 123R"). SFAS 123R requires that compensation cost related to share-based payment transactions be recognized in the financial statements. Share-based payment transactions within the scope of SFAS 123R include stock Warrants, restricted stock plans, performance-based awards, stock appreciation rights, and employee share purchase plans. On April 14, 2005, the SEC amended the effective date of the provisions of this statement. Accordingly, the Company will implement the revised standard in the forth quarter of fiscal year 2006. Currently, the Company accounts for its share-based payment transactions under the provisions of APB 25, which does not necessarily require the recognition of compensation cost in the financial statements. Management is assessing the implications of this revised standard, which may materially impact the Company's results of operations in the third quarter of fiscal year 2006 and thereafter.

On December 16, 2004, FASB issued Statement of Financial Accounting Standards No. 153, Exchanges of Nonmonetary Assets, an amendment of APB Opinion No. 29, Accounting for Nonmonetary Transactions (" SFAS 153"). This statement amends APB Opinion 29 to eliminate the exception for nonmonetary exchanges of similar productive assets and replaces it with a general exception for exchanges of nonmonetary assets that do not have commercial substance. Under SFAS 153, if a nonmonetary exchange of similar productive assets meets a commercial-substance criterion and fair value is determinable, the transaction must be accounted for at fair value resulting in recognition of any gain or loss. SFAS 153 is effective for nonmonetary transactions in fiscal periods that begin after June 15, 2005. The Company does not anticipate that the implementation of this standard will have a material impact on its financial position, results of operations or cash flows.

In March 2005, the FASB issued FASB Interpretation (FIN) No. 47, "Accounting for Conditional Asset Retirement Obligations, an interpretation of FASB Statement No. 143," which requires an entity to recognize a liability for the fair value of a conditional asset retirement obligation when incurred if the liability's fair value can be reasonably estimated. The Company is required to adopt the provisions of FIN 47 no later than the end of its fiscal 2006. The Company does

not expect the adoption of this Interpretation to have a material impact on its consolidated financial position, results of operations or cash flows.

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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 Company does not expect the adoption of this SFAS to have a material impact on its consolidated financial position, results of operations or cash flows.

**Off-Balance Sheet Arrangements**

We do not maintain off-balance sheet arrangements nor do we participate in non-exchange traded contracts requiring fair value accounting treatment.

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**ITEM 7 FINANCIAL STATEMENTS**

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RUSSELL BEDFORD STEFANOU MIRCHANDANI LLP  
CERTIFIED PUBLIC ACCOUNTANTS

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REPORT OF REGISTERED INDEPENDENT CERTIFIED PUBLIC ACCOUNTING FIRM

Board of Directors  
Sparta Commercial Services, Inc.  
New York, New York

We have audited the accompanying consolidated balance sheet of Sparta Commercial Services, Inc., as of April 30, 2006 and 2005, and the related consolidated statements of losses, deficiency in stockholders' equity and cash flows for each of the two years in the period ended April 30, 2006. These financial statements are the responsibility of the company's management. Our responsibility is to express an opinion on the financial statements based upon our audits.

We have conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States of America). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of Sparta Commercial Services, Inc. at April 30, 2006 and 2005, and the results of its operations and its cash flows for each of the two years in the period ended April 30, 2006, in conformity with accounting principles generally accepted in the United States of America.

The accompanying financial statements have been prepared assuming the company will continue as a going concern. As discussed in the Note M to the accompanying financial statements, the company has suffered recurring losses from operations that raises substantial doubt about the company's ability to continue as a going concern. Management's plans in regard to these matters are also described in Note M. The financial statements do not include any adjustments that might result from the outcome of this uncertainty.

/s/ RUSSELL BEDFORD STEFANOU MIRCHANDANI LLP

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Russell Bedford Stefanou Mirchandani LLP  
Certified Public Accountants

New York, New York  
July 15, 2006

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**SPARTA COMMERCIAL SERVICES, INC.**  
**CONSOLIDATED BALANCE SHEETS**  
**APRIL 30, 2006 AND 2005**

	2006	2005
<b>ASSETS</b>		
Current assets:		
Cash and cash equivalents	\$ 856,382	\$ 108,365
Lease and Retail installment sale contract receivables-current, net of reserve of \$5,090 and \$0 at April 30, 2006 and April 30, 2005 respectively (Note C)	206,986	14,764
Loan proceeds receivable	389,998	—
Prepaid expenses	51,939	—
Other current assets, net	4,250	6,700
<b>Total current assets</b>	<b>1,509,555</b>	<b>129,829</b>
Motorcycles and other vehicles under operating leases, net of accumulated depreciation of \$75,873 and \$13,392 at April 30, 2006 and April 30, 2005, respectively (Note B) and loss reserve of \$16,409 and \$0 at April 30, 2006 and April 30, 2005, respectively	667,286	99,886
Property and equipment, net of accumulated depreciation and amortization of \$53,249 and \$15,378 at April 30, 2006 and 2005, respectively (Note D)	121,544	106,809
Lease and Retail installment sale contract receivables, net of current portion and loss reserve of \$14,653 and \$0 at April 30, 2006 and April 30, 2005, respectively (Note C)	595,895	21,521
Restricted cash	112,503	—
Deposits	48,967	48,967
<b>Total assets</b>	<b>\$ 3,055,750</b>	<b>\$ 407,012</b>
<b>LIABILITIES AND (DEFICIENCY IN) STOCKHOLDERS' EQUITY</b>		
Current Liabilities:		
Accounts payable and accrued expenses	\$ 424,692	\$ 509,936
Accrued equity based compensation	333,600	—
Accrued equity bases penalties	47,468	—
Note payable, current (Note E)	358,549	300,000
Due to related party (Note F)	—	25,000
<b>Total current liabilities</b>	<b>1,164,309</b>	<b>834,936</b>
Deferred revenue (Note A)	186,245	23,100
Notes payable, long term	330,799	—
Warrant liability	834,924	—
<b>Total liabilities</b>	<b>2,516,277</b>	<b>858,036</b>
(Deficiency in) Stockholders' Equity: (Note G)		
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. 19,795 and 18,100 shares	1,979,500	1,810,000



of convertible preferred stock are issued and outstanding at April 30, 2006 and 2005, respectively.

Common Stock, \$0.001 par value; 340,000,000 shares authorized, 114,180,301 and 86,005,415 shares issued and outstanding at April 30, 2006 and 2005, respectively

	114,180	86,005
Common stock to be issued, 5,838,302	5,838	—
Common stock - subscribed	330,000	—
Additional paid-in-capital	12,553,884	3,930,629
Deferred compensation	(293,500)	—
Accumulated deficit	(14,150,429)	(6,277,658)
Total (deficiency in) stockholders' equity	539,473	(451,024)
Total liabilities and (deficiency in) stockholders' equity	\$ 3,055,750	\$ 407,012

See accompanying notes to consolidated financial statements

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**SPARTA COMMERCIAL SERVICES, INC.**  
**CONSOLIDATED STATEMENT OF LOSSES**

	For the Year Ended April 30,	
	2006	2005
Revenue	\$ 169,106	\$ 65,833
<b>Operating Expenses:</b>		
General and administrative	5,127,040	2,366,914
Payment for option to purchase portfolio from a related party	—	250,000
Depreciation and amortization (Note D)	112,904	28,740
Total Operating Expenses	5,239,944	2,645,654
Loss from Operations	(5,070,838)	(2,579,821)
<b>Other expenses</b>		
Interest expense and financing cost, net	(1,077,355)	—
Change in value of warrant liability	198,176	—
Loss on sale of asset	(6,500)	—
Net Loss	(5,956,517)	(2,579,821)
Preferred dividend payable	141,255	28,906
Preferred dividend-beneficial conversion discount on convertible preferred	1,775,000	1,810,000
Net Loss Available to Common Stockholders	\$ (7,872,772)	\$ (4,418,727)
Basic and diluted loss per share	\$ (0.06)	\$ (0.03)
Basic and diluted loss per share attributed to common stockholders (Note I)	\$ (0.08)	\$ (0.05)
Weighted average common shares outstanding (basic and diluted), as restated for splits	95,479,102	85,812,006

See accompanying notes to consolidated financial statements

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**SPARTA COMMERCIAL SERVICES, INC.**  
**CONSOLIDATED STATEMENT OF (DEFICIENCY IN) STOCKHOLDERS' EQUITY**  
**FOR THE TWO YEARS ENDED APRIL 30, 2006**

	Preferred Shares	Stock	Common Shares	Stock Amount	Common Stock Shares	To be issued Amount	Stock Subscribed	Additional Paid-in Capital	Deferred Compensation	Ac
Balance at April 30, 2004	—	—	7,079,654	\$ 7,080	17,920,346	\$ 17,920	\$	—	\$ 1,754,870	\$
Shares issued to Sparta members in relation to merger with Sparta Commercial Services LLC in February 2004 (Note B)	—	—	17,920,346	17,920	(17,920,346)	(17,920)	—	—	—	—
Balance of shares issued to members	—	—	60,795,625	60,796	—	—	—	(60,796)	—	—
Preferred shares sold for cash	18,100	1,810,000	—	—	—	—	—	—	—	—
Warrants issued to placement agent	—	—	—	—	—	—	—	383,284	—	—
Beneficial conversion feature and warrants deemed preferred dividend	—	—	—	—	—	—	—	1,810,000	—	—
Warrants Issued for services	—	—	—	—	—	—	—	89,980	—	—
Shares Issued For Notes Payable	—	—	96,155	96	—	—	—	(129,000)	—	—
Shares issued to	—	—	113,635	113	—	—	—	82,291	—	—

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employees										
Net Loss	—	—	—	—	—	—	—	—	—	—
Balance at April 30, 2005	18,100	\$ 1,810,000	86,005,415	\$ 86,005	—	\$ —	\$ —	\$ 3,930,629	\$ —	\$ —
Preferred shares sold for cash	17,750	1,775,000	—	—	—	—	—	—	—	—
Cost of preferred shares	—	—	—	—	—	—	—	(182,484)	—	—
Shares issued upon conversion of preferred	(16,055)	(1,605,500)	10,291,666	10,291	—	—	—	1,595,209	—	—
Sale of shares for cash	—	—	11,717,067	11,717	5,838,302	5,838	-	2,960,391	—	—
Common stock subscribed	—	—	—	—	—	—	330,000	—	—	—
Warrants issued for services	—	—	—	—	—	—	—	406,665	—	—
Warrants issued to placement agent	—	—	—	—	—	—	—	(1,033,100)	—	—
Shares issued for financing cost	—	—	464,745	465	—	—	—	242,805	—	—
Shares issued for repayment of notes and accrued interest	—	—	651,124	651	—	—	—	485,802	—	—
Shares issued for severance	—	—	113,637	114	—	—	—	85,114	—	—
Shares issued for services	—	—	3,500,000	3,500	—	—	—	2,235,500	(293,500)	—
Shares issued upon cashless exercise of warrants	—	—	1,436,647	1,437	—	—	—	(1,437)	—	—
	—	—	—	—	—	—	—	53,806	—	—

Employee options expense										
Beneficial conversion feature and warrants deemed preferred dividend	—	—	—	—	—	—	—	1,775,000	—	—
Payments for fractional shares	—	—	—	—	—	—	—	(16)	—	—
Accrued preferred dividend	—	—	—	—	—	—	—	—	—	—
Net Loss	—	—	—	—	—	—	—	—	—	—
Balance at April 30, 2006	19,795	\$ 1,979,500	114,180,301	\$ 114,180	5,838,302	\$ 5,838	\$ 330,000	12,553,884	\$ (293,500)	\$ (1,000,000)

See accompanying notes to consolidated financial statements

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**SPARTA COMMERCIAL SERVICES, INC.**  
**CONSOLIDATED STATEMENT OF CASH FLOWS**  
**FOR THE YEARS ENDED APRIL 30, 2006 AND 2005**

	2006	2005
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>		
Net loss	\$ (5,956,517)	\$ (2,579,821)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation and amortization	112,904	28,740
Allowance for loss reserve	36,152	—
Amortization of deferred revenue	(13,200)	—
Amortization of deferred compensation	362,004	—
Equity based compensation	2,056,130	82,500
Stock based finance cost	973,607	473,264
Change in warrant liability	(198,176)	—
Loss on sale of assets	6,500	—
Changes in operating assets and liabilities:		
(Increase) decrease in:		
Lease payments receivable	29,603	—
Prepaid expenses	(51,939)	—
Loan proceeds receivable	(389,998)	—
Other current assets	2,450	(6,700)
Restricted cash	(112,503)	—
Deposits	—	(48,967)
Increase (decrease) in:		
Accounts payable and accrued expenses	(213,717)	399,309
Deferred revenue	176,345	23,100
Accrued registration penalty	47,468	—
Net cash used in operating activities	(3,132,887)	(1,628,575)
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>		
Proceeds from sale of asset	25,000	—
Cost of asset sold	(31,500)	—
Payments for motorcycles and other vehicles	(658,842)	(113,278)
Investment in leases	(815,942)	(36,285)
Purchases of property and equipment	(52,606)	(120,964)
Net proceeds from marketable securities	—	13,379
Net cash used by investing activities	(1,533,890)	(257,148)
<b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>		
Proceeds from sale of preferred stock, net	1,592,517	1,681,000
Proceeds from sale of common stock, net	2,977,945	—
Advances from affiliate	—	25,000
Repayment of affiliate advances	(25,000)	(23,885)
Proceeds from notes	737,271	300,000
Payments on notes	(197,923)	—
Common stock subscription	330,000	—

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Payments for fractional shares		(16)	—
Net cash provided by financing activities		5,414,794	1,982,115
Net increase in cash		748,017	96,392
Cash and cash equivalents, beginning of year	\$	108,365	\$ 11,973
Cash and cash equivalents, end of year	\$	856,382	\$ 108,365
Cash paid for:			
Interest	\$	15,788	\$ —
Income taxes		—	—

See accompanying notes to consolidated financial statements

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**SPARTA COMMERCIAL SERVICES, INC.  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
APRIL 30, 2006 and 2005**

**NOTE A - SUMMARY OF ACCOUNTING POLICIES**

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

**Business and Basis of Presentation**

Sparta Commercial Services, Inc., formerly known as Tomahawk Industries, Inc. (the "Company" or "Tomahawk") was formed on May 13, 1980 under the laws of the State of Nevada. On February 27, 2004, the Company entered into an Agreement of Plan and Reorganization ("Agreement") with Sparta Commercial Services, LLC ("Sparta"), a limited liability company formed on October 1, 2001 under the laws of the State of Delaware under the name of Sparta Financial Services, LLC. In accordance with SFAS No. 141, Sparta was the acquiring entity. While the transaction is accounted for using the purchase method of accounting, in substance the Agreement is a recapitalization of the Company's capital structure. As a result of the Agreement, there was a change in control of the Company. Also, subsequently, the Company's name was changed from Tomahawk Industries, Inc. to Sparta Commercial Services, Inc. From April 1988 until the date of the Agreement, the Company was an inactive publicly registered shell corporation with no significant assets or operations.

The Company is in the business as an originator and indirect lender for retail installment loan and lease financing for the purchase or lease of new and used motorcycles (specifically 550cc and higher) and utility-oriented 4-stroke all terrain vehicles (ATVs). The Company was in the development stage till January 31, 2005, as defined by Statement of Financial Accounting Standards No. 7 ("SFAS No. 7").

The consolidated financial statements include the accounts of the Company and its wholly owned subsidiary, Sparta Commercial Services, LLC. Sparta Commercial Services, LLC was inactive during the periods presented. 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. 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 CONSOLIDATED FINANCIAL STATEMENTS  
APRIL 30, 2006 and 2005**

**NOTE A - SUMMARY OF ACCOUNTING POLICIES (continued)**

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 April 30, 2006 and 2005, the Company had recorded deferred revenue related to these contracts of \$9,900 and \$23,100, respectively.

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.

**Website Development Costs**

The Company recognizes website development costs in accordance with Emerging Issue Task Force ("EITF") No. 00-02, "Accounting for Website Development Costs." As such, the Company expenses all costs incurred that relate to the planning and post implementation phases of development of its website. Direct costs incurred in the development phase are capitalized and recognized over the estimated useful life. Costs associated with repair or maintenance for the website are included in cost of net revenues in the current period expenses.

**Cash Equivalents**

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

**Income Taxes**

Deferred income taxes are provided using the asset and liability method for financial reporting purposes in accordance with the provisions of Statements of Financial Standards No. 109, "Accounting for Income Taxes". Under this method, deferred tax assets and liabilities are recognized for temporary differences between the tax bases of assets and liabilities and their carrying values for financial reporting purposes and for operating loss and tax credit carry forwards. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be removed or settled. The effect on deferred tax

assets and liabilities of a change in tax rates is recognized in the statements of operations in the period that includes the enactment date. Temporary differences between taxable income reported for financial reporting purposes and income tax purposes are insignificant.

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**SPARTA COMMERCIAL SERVICES, INC.  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
APRIL 30, 2006 and 2005**

**NOTE A - SUMMARY OF ACCOUNTING POLICIES (continued)**

**Impairment of Long-Lived Assets**

The Company has adopted Statement of Financial Accounting Standards No. 121 (SFAS 121). The Statement requires that long-lived assets and certain identifiable intangibles held and used by the Company be reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. SFAS No. 121 also requires assets to be disposed of be reported at the lower of the carrying amount or the fair value less costs to sell.

**Comprehensive Income**

Statement of Financial Accounting Standards No. 130 ("SFAS 130"), Reporting Comprehensive Income," establishes standards for reporting and displaying of comprehensive income, its components and accumulated balances. Comprehensive income is defined to include all changes in equity except those resulting from investments by owners and distributions to owners. Among other disclosures, SFAS 130 requires that all items that are required to be recognized under current accounting standards as components of comprehensive income be reported in a financial statement that is displayed with the same prominence as other financial statements. At April 30, 2006 and 2005, the Company has no items of other comprehensive income.

**Segment Information**

The Company does not have separate, reportable segments under Statement of Financial Accounting Standards No. 131, Disclosures about Segments of an Enterprise and Related Information ("SFAS 131"). SFAS establishes standards for reporting information regarding operating segments in annual financial statements and requires selected information for those segments to be presented in interim financial reports issued to stockholders. SFAS 131 also establishes standards for related disclosures about products and services and geographic areas. Operating segments are identified as components of an enterprise about which separate discrete financial information is available for evaluation by the chief operating decision maker, or decision making group, in making decisions how to allocate resources and assess performance. The information disclosed herein, materially represents all of the financial information related to the Company's principal operating segment.

**Stock Based Compensation**

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. On April 14, 2005, the SEC amended the effective date of the provisions of this statement. The effect of this amendment by the SEC is that the Company will have to comply with Statement 123R and use the Fair Value based method of accounting no later than the fourth quarter of 2006. Management has elected to apply Statement 123R in the third quarter of fiscal year 2006. During the

year ended April 30, 2006, the Company had no employee stock options for the period prior to the adoption of Statement 123R.

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**SPARTA COMMERCIAL SERVICES, INC.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**APRIL 30, 2006 and 2005**

**NOTE A - SUMMARY OF ACCOUNTING POLICIES (continued)**

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 would have been as follows (transactions involving stock options issued to employees and Black-Scholes model assumptions are presented in Note G):

	2006	2005
Net loss - as reported	\$ (5,956,517)	\$ (2,579,821)
Add: Total stock based employee compensation expense as reported under intrinsic value method (APB. No. 25)	—	82,500
Deduct: Total stock based employee compensation expense as reported under fair value based method (SFAS No. 123)	(24,710)	(49,420)
Net loss - Pro Forma	\$ (5,981,227)	\$ (2,546,741)
Net loss attributable to common stockholders - Pro forma	\$ (7,897,482)	\$ (4,385,647)
Basic (and assuming dilution) loss per share - as reported	\$ (0.08)	\$ (0.05)
Basic (and assuming dilution) loss per share - Pro forma	\$ (0.08)	\$ (0.05)

**Concentrations of Credit Risk**

Financial instruments and related items, which potentially subject the Company to concentrations of credit risk, consist primarily of cash, cash equivalents and trade receivables. The Company places its cash and temporary cash investments with high credit quality institutions. At times, such investments may be in excess of the FDIC insurance limit. The Company periodically reviews its trade receivables in determining its allowance for doubtful accounts. At April 30, 2006 and 2005, allowance for doubtful accounts receivables was \$19,743 and \$0, respectively.

**Allowance for Loan Losses**

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

The Company charges-off receivables when an individual account has become more than 120 days contractually delinquent. In the event of repossession, the asset is immediately sent to auction or held for release. If the asset is not disposed of prior to being 120 days contractually delinquent it will be charged-off at that time.

**Derivative Financial Instruments**

In connection with the private placement described above, the Company granted 1,755,537 common stock purchase warrants to the placement agent. The warrants are 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-Scholes 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

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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 (\$1,033,100) and included the change in fair value from the date of issuance to April 30, 2006 in other income (expense), 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 \$834,924 at April 30, 2006.

**Property and Equipment**

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

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

**Advertising Costs**

The Company follows a policy of charging the costs of advertising to expenses incurred. During the years ended April 30, 2006 and 2005, the Company incurred advertising costs of \$36,594 and \$28,107, respectively.



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**SPARTA COMMERCIAL SERVICES, INC.  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
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**NOTE A - SUMMARY OF ACCOUNTING POLICIES (continued)**

**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 \$0.08 and \$0.05 for the years ended April 30, 2006 and 2005, respectively. At April 30, 2006 and 2005, 27,069,527 and 19,263,642 potential shares, respectively, were excluded from the shares used to calculate diluted earnings per share as their inclusion would reduce net loss per share.

**Reclassifications**

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

**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 Company does not expect its adoption of this new standard to have a material impact on its financial position, results of operations or cash flows.

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. Management is assessing the implications of this standard, which may materially impact the Company's results of operations in the fourth quarter of fiscal year 2006 and thereafter.

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 Company does not expect the adoption of this SFAS to have a material impact on its consolidated financial position, results of operations or cash flows.

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**SPARTA COMMERCIAL SERVICES, INC.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
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**NOTE B - MOTORCYCLES AND OTHER VEHICLES UNDER OPERATING LEASES**

Motorcycles and other vehicles under operating leases at April 30, 2006 and 2005 consist of the following:

	2006	2005
Motorcycles and other vehicles	\$ 759,568	\$ 113,278
Less: accumulated depreciation	(75,873)	(13,392)
Motorcycles and other vehicles, net of accumulated depreciation	683,695	99,886
Less: estimated reserve for residual values	(16,409)	—
Motorcycles and other vehicles under operating leases, net	\$ 667,286	\$ 99,886

At April 30, 2006, motorcycles and other vehicles are being depreciated to the estimated residual values of \$395,869 over the lives of their lease contracts. Depreciation expense for the years ended April 30, 2006 and 2005 was \$75,033 and \$13,392, respectively. Certain of the assets are pledged as collateral for the note described in Note E.

The following is a schedule by years of minimum future rentals on non cancelable operating leases as of April 30, 2006:

Year ending April 30,	
2007	\$ 226,915
2008	81,608
2009	52,733
2010	36,437
2011	19,144
Total	\$ 416,837

**NOTE C - RETAIL INSTALLMENT RECEIVABLES**

Retail installment sale receivables, which are carried at cost, were \$822,624 and \$36,285 at April 30, 2006 and 2005, 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.

Year ending April 30,	
2007	\$ 279,839
2008	240,856
2009	200,039
2010	168,986
2011	109,249
	998,969

Less: interest portion	(176,345)
	822,624
Less: allowance for doubtful receivables	(19,743)
	802,881
Less: current receivables	(206,986)
	\$ 595,895

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**SPARTA COMMERCIAL SERVICES, INC.**  
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**NOTE D - PROPERTY AND EQUIPMENT**

Major classes of property and equipment at April 30, 2006 and 2005 consist of the followings:

	2006	2005
Computer equipment , web site and furniture	\$ 174,793	\$ 122,187
Less: accumulated depreciation and amortization	(53,249)	(15,378)
Net property and equipment	\$ 121,544	\$ 106,809

Depreciation and amortization expense was \$37,871 and \$15,348 for the years ended April 30, 2006 and 2005, respectively.

**NOTE E - 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 assets securing the notes have an aggregate book value of \$674,064 at April 30, 2006. The weighted average interest rate at April 30, 2006 is 8.879%.

At April 30, 2006, the notes payable mature as follows:

Year ended April 30	Amount
2007	\$ 358,549
2008	—
2009	18,685
2010	12,529
2011	299,585
	\$ 689,348

Notes payable at April 30, 2005 consisted of the following:

	April 30, 2005
Notes payables; 10% interest, unsecured, originally scheduled to expire on April 30, 2005, the note holders are entitled to an "Equity Kicker" equal to 128,206 restricted shares of common stock for each \$100,000 loaned, in the event of default, as penalty, the repayment after default of promissory note shall be collateralized by certain security interest as per the terms of the agreement Notes were subsequently extended until August 31, 2005 and beyond, with interest increased to 20% in certain instances, and the Equity Kicker equal to 192,308 restricted shares of common stock for each \$100,000 loaned in certain instances	\$ 300,000
	25,000

Note payable to officer of the Company, unsecured, non-interest bearing, payable on demand (Note F)

	325,000
Less: current portion	(325,000)
Notes payable - long term	\$ —

During the year ended April 30, 2006, the Company repaid \$175,000 of the loans in cash. Additionally, during August 2005, the Company issued 651,124 shares of common stock in payment of \$150,000 of principal amount of notes payable and \$12,781 of related accrued interest. The shares were issued at a value below market price and the Company has recorded a financing cost of \$323,672 related to this discount.

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**SPARTA COMMERCIAL SERVICES, INC.  
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**NOTE F - RELATED PARTY TRANSACTIONS**

The Company entered in to a licensing agreement relating to the use of a proprietary operating system, with an entity controlled by the Company's President and Chief Executive Officer. During the years ended April 30, 2006 and 2005, the Company charged to operations \$67,000 and \$150,633, respectively, in connection with the licensing agreement.

The Company entered into a purchase option agreement with American Motorcycle Leasing Corp., an entity controlled by the Company's President and a significant shareholder, on November 2, 2004 at a cost to Sparta Commercial Services of \$250,000. This agreement granted Sparta Commercial Services the right, for a two year period, to purchase portions of a certain portfolio of equipment leases that American Motorcycle Leasing Corp. owns. The portfolio is secured by a first priority security interest in favor of Citibank, N.A. or its assigns. The cost of \$250,000 has been charged to operations in fiscal 2005. As of April 30, 2005, payments against this obligation of \$81,000 were made. The balance of \$169,000 was paid during the year ended April 30, 2006.

During the year ended April 30, 2006, the Company purchased certain of its vehicles from American Motorcycle Leasing Corp. These purchases aggregated \$105,748. At April 30, 2006, the Company had a payable to American Motorcycle Leasing Corp. in the amount of \$20,224 related to such purchases.

Up to November 30, 2004, the Company leased office space from an entity controlled by the Company's President and Chief Executive Officer.

In January 2005, the Company received a loan of \$25,000 from an officer. This loan is non-interest bearing and is payable on demand. The loan was repaid during the year ended April 30, 2006.

**NOTE G - EQUITY INSTRUMENTS**

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 35,840 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 April 30, 2006 and 2005, the Company has issued and outstanding 19,795 and 18,100 shares of preferred stock issued and outstanding, respectively. The Company has 114,180,301 and 86,005,415 shares of common stock issued and outstanding as of April 30, 2006 and 2005, respectively.

On December 27, 2004, the Company effected a one-for-two hundred reverse stock split followed by a forward split of twenty five-for-one of its authorized and outstanding shares of common stock, \$.001 par value. All references in the financial statements and notes to financial statements, numbers of shares and share amounts have been retroactively restated to reflect the reverse split.

**Common Stock**

During the year ended April 30, 2006, the Company issued 464,745 shares of common stock, valued at \$243,270, as additional costs related to loans received by the Company. This amount has been charged to financing cost. Additionally, as consideration for loans received during the third quarter of fiscal 2006, the Company will issue 70,000 shares of common stock. The value of these shares has been recorded at \$38,500 and this amount is included in

accrued expenses at April 30, 2006 and has been charged to financing cost.

During August 2005, the Company issued 651,124 shares of common stock in payment of \$150,000 of principal amount of notes payable and \$12,781 of related accrued interest. The shares were issued at a value below market price and the Company has recorded a financing cost of \$323,672 related to this discount.

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**SPARTA COMMERCIAL SERVICES, INC.**  
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**NOTE G - EQUITY INSTRUMENTS (continued)**

During the year ended April 30, 2006, the Company issued an aggregate of 850,000 shares of common stock, pursuant to a consulting agreement. The shares have been valued at \$649,000 and this amount is being amortized over the term of the agreement, commencing August 1, 2005. During the year ended April 30, 2006 the Company has charged \$355,500 to expense.

During October 2005, the Company issued 113,637 shares of common stock, valued at \$85,228, for services.

During October and November 2005, the Company received \$330,000 pursuant to subscription agreements for units, at \$0.60 per unit, of the Company's securities, with each unit consisting of one share of common stock and one warrant.

The Company will issue 250,000 shares of common stock as payment of consulting fees. These fees have been accrued in the financial statements at a value of \$85,000 as of April 30, 2006 and the shares were issued in July 2006.

During December 2005, the Company entered into an agreement pursuant to which it agreed to issue 2,650,000 shares of common stock for consulting and advisory services rendered and to be rendered. The shares have been valued at \$1,590,000, based on the fair value of the Company's common stock on the date of the agreement. The shares were issued during the fourth quarter.

During the year ended April 30, 2006, the Company sold 17,555,369 shares of common stock through a private placement. The Company received net proceeds of \$2,977,946 from the sale. Costs of \$405,760 were deducted from the gross proceeds and additional costs of \$39,591 were paid by the Company.

In connection with the private placement described above, the Company granted 1,755,537 common stock purchase warrants to the placement agent. The warrants are 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-Scholes 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 (\$1,033,100) and included the change in fair value from the date of issuance to April 30, 2006 in other income (expense), 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 \$834,924 at April 30, 2006.

During December 2005, the Company granted options to purchase an aggregate of 160,000 shares of common stock to two employees. The options have been valued at \$75,795 using the Black-Scholes option pricing model with the following assumptions: (1) dividend yield of 0%; (2) expected volatility of 177%, (3) risk-free interest rate of 4.38%, and (4) expected life of 3 years. The options have an exercise price of \$0.59, vest over a 38 month period and expire if unexercised in ten years.

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During January and February 2006, the Company issued 10,291,666 shares of common stock upon conversion of 16,055 shares of preferred stock.

During February 2006, the Company issued 1,436,647 shares of common stock upon the cashless exercise of 1,923,079 warrants.

During March 2006, the Company entered into an agreement pursuant to which it agreed to issue 70,000 shares of common stock for consulting and advisory services. The shares have been valued at \$47,600, based on the fair value of the Company's common stock on the date of the agreement. The shares were issued in July 2006 and are recorded as an accrued expense at April 30, 2006.

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**SPARTA COMMERCIAL SERVICES, INC.  
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**NOTE G - EQUITY INSTRUMENTS (continued)**

During April 2006, the Company entered into an agreement pursuant to which it agreed to issue a total of 3,050,000 shares of common stock for consulting and advisory services. Of these shares, 550,000 were due upon execution of the agreement, with the remainder payable over a twelve month period. The vested shares have been valued at \$286,000, based on the fair value of the Company's common stock on the date of the agreement. The shares were issued in May 2006 and are recorded as an accrued expense at April 30, 2006.

In January, 2005, 113,635 shares of restricted stock issued to the former Chief Financial Officer, Daniel Lanjewar, were vested and issued.

In April, 2005, 96,155 shares were issued pursuant to an agreement with two individuals who provided short term note payable financing to the Company.

**Preferred Stock Series A**

In December 2004, the Company commenced a private placement to raise up to \$3,000,000 through the sale of up to 30 units of our securities at \$100,000 per unit. Each unit consists of (i) 1,000 shares of series A convertible, redeemable preferred stock and (ii) warrants to purchase 320,513 shares of common stock, exercisable for three years at \$0.195 per share. The preferred stock has a stated value of \$100 per share, carries a 6% annual cumulative dividend, payable semi-annually in arrears, and is convertible into shares of common stock at the rate of one preferred share into 641 shares of common stock.

In December 2004, the Company began a private placement transaction utilizing a designated registered broker-dealer as a placement agent. During the year ended April 30, 2005, the Company issued 12,250 preferred shares at a stated value of \$100 per share and warrants to purchase 3,926,286 shares of common stock, exercisable for three years at \$0.195 per share, for aggregate gross proceeds of \$1,225,000 received from investors. In connection with the private placement, during the year ended April 30, 2005, the Company issued as compensation to the placement agent warrants to 785,257 shares of common stock, exercisable for five years at \$0.172 per share. The warrants, which were valued at approximately \$383,284 using the Black-Scholes option pricing model, were recognized as a cost of issuance of the Series A Preferred shares.

During the year ended April 30, 2005, the Company sold rights to acquire securities of the Company to investors for aggregate gross proceeds of \$585,000. Pursuant to the terms of the rights, as the Company conducted a closing to a private placement transaction in 2004 utilizing a designated registered broker-dealer as a placement agent, on January 1, 2005, the rights have automatically converted into 5,850 preferred shares at a stated value of \$100 per share and warrants to purchase 1,875,001 shares of common stock, exercisable for three years at \$0.195 per share.

In accordance with Emerging Issues Task Force Issue 98-5, Accounting for Convertible Securities with a beneficial Conversion Features or Contingently Adjustable Conversion Ratios ("EITF 98-5"), the Company recognized an imbedded beneficial conversion feature present in the Preferred Stock. The Company recognized and measured an aggregate of \$1,810,000, which equals to the intrinsic value of the imbedded beneficial conversion feature, to additional paid-in capital and a return to the Preferred Stock holders. Since the preferred shares were convertible at the date of issuance, the return to the preferred shareholders attributed to the beneficial conversion feature has been recognized in full at the date the Preferred Stock was issued.

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. Costs of \$182,484 were deducted from the proceeds. 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. 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.

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**NOTE G - EQUITY INSTRUMENTS (continued)**

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, 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 the Company's 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.

In the event that a registration statement covering all of the securities issued pursuant to the private placement of preferred shares is not declared effective by the Securities and Exchange Commission by July 31, 2005, the number of shares issuable upon conversion of the preferred stock and the exercise of the warrants will be increased by 0.75% for each 30 day period during a six month term following July 31, 2005 that a registration statement has not been declared effective. Following this initial six month term, the number of shares issuable upon conversion of the preferred stock and the exercise of the warrants will be increased by 1.50% for each 30 day period during a six month term following January 31, 2006 that a registration statement has not been declared effective. There was not an effective registration statement as of July 31, 2005, nor is there one as of April 30, 2006. Additionally, if a registration statement has not been filed as of October 27, 2005, the number of shares issuable upon conversion of the preferred stock and the exercise of the warrants will be increased by 1% for each 30 day period until a registration statement is filed. A Registration statement was not filed as of October 27, 2005, and was filed on April 28, 2006. On May 31, 2006 the Securities and Exchange Commission declared the Registration Statement effective. The Company has obtained waivers covering a substantial amount of the potential penalty shares and warrants. The Company has accrued an expense of \$47,468 during the year ended April 30, 2006 relative to the penalty provisions for which it did not obtain waivers. This amount will be settled through the issuance of equity securities. As of April 30, 2006, an aggregate of 60,086 penalty shares and 30,048 penalty warrants has been accrued.

During January and February 2006, the Company issued 10,291,666 shares of common stock upon conversion of 16,055 shares of preferred stock.

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**SPARTA COMMERCIAL SERVICES, INC.**  
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**NOTE H - INCOME TAXES**

Financial Accounting Standard No. 109 requires the recognition of deferred tax liabilities and assets for the expected future tax consequences of events that have been included in the financial statement or tax returns. Under this method, deferred tax liabilities and assets are determined based on the difference between financial statements and tax bases of assets and liabilities using enacted tax rates in effect for the year in which the differences are expected to reverse. Temporary differences between taxable income reported for financial reporting purposes and income tax purposes are insignificant.

At April 30, 2006, the Company has available for federal income tax purposes a net operating loss carry forward of approximately \$9,650,000, expiring in the year 2026, that may be used to offset future taxable income. The Company has provided a valuation reserve against the full amount of the net operating loss benefit, since in the opinion of management based upon the earnings history of the Company; it is more likely than not that the benefits will not be realized. Also, due to change in the control after reverse acquisition of Sparta Commercial Services, Inc., the Company's past accumulated losses to be carried forward may be limited.

Components of deferred tax assets as of April 30, 2006 are as follows:

Non current:		
Net operating loss carry forward	\$	3,281,000
Valuation allowance		(3,281,000)
Net deferred tax asset	\$	—

The valuation allowance increased by \$1,751,000 during the year ended April 30, 2006.

**NOTE I - LOSSES PER COMMON SHARE**

The following table presents the computation of basic and diluted loss per share:

	2006	2005
Net loss available for common shareholders	\$ (7,872,772)	\$ (4,418,727)
Basic and diluted loss per share	\$ (0.08)	\$ (0.05)
Weighted average common shares outstanding-basic		
Diluted	95,479,102	85,812,006

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**SPARTA COMMERCIAL SERVICES, INC.**  
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**NOTE J - STOCK OPTIONS AND WARRANTS**

On April 29, 2005, the Company issued to the Chief Operating Officer non qualified stock options to purchase 875,000 shares of the company's common stock at an exercise price of \$0.605 per share. The options have a five year life.

During December 2005, the Company granted options to purchase an aggregate of 160,000 shares of common stock to two employees. The options have been valued at \$75,795 using the Black-Sholes option pricing model with the following assumptions: (1) dividend yield of 0%; (2) expected volatility of 177%, (3) risk-free interest rate of 4.38%, and (4) expected life of 3 years. The options have an exercise price of \$0.59, vest over a 38 month period and expire if unexercised in ten years.

a) The following table summarizes the stock options issued to officers and employees outstanding and the related price.

Stock Options Outstanding			Stock Options Exercisable		
Number Outstanding	Weighted Average Remaining Contractual Life (Years)	Weighted Average Exercise Price	Number Exercisable	Weighted Average Exercise Price	
1,035,000	4.9	\$ 0.60	350,000	\$ 0.60	

Transactions involving stock options issued to employees are summarized as follows:

	Number of Shares	Weighted Average Price Per Share
Outstanding at April 30, 2004	—	\$ —
Granted	875,000	0.61
Exercised	—	—
Outstanding at April 30, 2005	875,000	\$ 0.61
Granted	160,000	\$ 0.59
Exercised	—	—
Canceled or expired	—	—
Outstanding at April 30, 2006	1,035,000	\$ 0.60

The weighted-average fair value of stock options granted during the years ended April 30, 2006 and 2005 was \$0.47 and \$0.28, respectively, and the weighted-average significant assumptions used to determine those fair values, using a Black-Scholes option pricing model are as follows:

Significant Assumptions (weighted average):	2006	2005

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Risk free interest rate at grant date:	4.3%	3%
Expected stock price volatility	177%	60%
Expected dividend payout	0	0
Expected option life in years	3	5

There was no intrinsic value for the options granted during the year ended April 30, 2006. The options granted during the year ended April 30, 2005 had an intrinsic value of \$82,500.

There was no intrinsic value to vested or nonvested options at April 30, 2006.

At April 30, 2006, total compensation expense related to nonvested awards not yet recognized was \$214,960. This amount will be recognized over a weighted-average period of 3 years. Compensation for fixed award with graded vesting is recognized on a straight line basis.

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**SPARTA COMMERCIAL SERVICES, INC.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
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**NOTE J - STOCK OPTIONS AND WARRANTS (continued)**

b) The following table summarizes the changes in warrants outstanding and the related prices for the shares of the Company's common stock issued to non-employees of the Company.

Exercise Prices	Warrants Outstanding			Warrants Exercisable		
	Number Outstanding	Weighted Average Remaining Contractual Life (Years)	Weighted Average Exercise Price	Number Exercisable	Weighted Average Exercise Price	
\$0.195	11,590,395	2.00	\$ 0.195	11,590,395	\$ 0.195	
\$0.215	1,755,537	4.75	\$ 0.215	1,755,537	\$ 0.215	
\$0.195	13,345,932	2.35	\$ 0.198	13,345,932	\$ 0.198	

Transactions involving stock warrants issued to non-employees are summarized as follows:

	Number of Shares	Weighted Average Price Per Share
Outstanding at April 30, 2004	—	—
Granted	6,786,544	\$ 0.194
Exercised	—	—
Outstanding at April 30, 2005	6,786,544	\$ 0.194
Granted	8,582,467	\$ 0.196
Exercised	(1,923,079)	\$ 0.172
Canceled or expired	(100,000)	\$ 0.195
Outstanding at April 30, 2006	13,345,932	\$ 0.198

The weighted-average fair value of stock warrants granted to non-employees during the years ended April 30, 2006 and 2005 was \$0.50 and \$0.49, respectively, and the weighted-average significant assumptions used to determine those fair values, using a Black-Scholes option pricing model are as follows:

	2006	2005
Significant assumptions (weighted-average):		
Risk-free interest rate at grant date	3.9%	3%
Expected stock price volatility	181%	60%
Expected dividend payout	—	—
Expected option life-years	2 yrs	3.11 yrs

The amount of the expense charged to operations for compensatory warrants granted in exchange for services was \$406,665 and \$473,264 for the years ended April 30, 2006 and 2005, respectively.

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**SPARTA COMMERCIAL SERVICES, INC.  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
APRIL 30, 2006 and 2005**

**NOTE K - COMMITMENTS AND CONTINGENCIES**

**Operating Lease Commitments**

In October 2004, the Company entered into a lease agreement with an unrelated party for office space in New York City from December 1, 2004 through November 30, 2007. Total lease rental expense for the years ended April 30, 2006 and 2005, was \$142,584 and \$125,214, respectively.

Commitments for minimum rentals under non-cancelable leases at April 30, 2006 are as follows:

Year ended April 30,	Amount
2007	\$ 177,061
2008	104,973
	\$ 282,034

**Employment and Consulting Agreements**

The Company does not have employment agreements with any of its non-executive employees.

The Company has consulting agreements with outside contractors to provide marketing and financial advisory services. The Agreements are generally for a term of 12 months from inception and renewable automatically from year to year unless either the Company or Consultant terminates such engagement by written notice.

We entered into an employment agreement, dated as of July 12, 2004, with Anthony L. Havens, our Chief Executive Officer. The employment is for a term of five years. The employment term is to be automatically extended for one five-year period, and additional one-year periods, unless written notice is given three months prior to the expiration of any such term that the term will not be extended. He is entitled to six weeks of paid vacation per year, and health insurance, short term and long term disability insurance, retirement benefits, fringe benefits, and other employee benefits on the same basis as is generally made available to other senior executives. He did not receive any equity compensation as part of this agreement.

On November 1, 2004, the Company entered into an employment agreement with Richard P. Trotter, pursuant to which the Company agreed to issue 125,000 shares of common stock during the course of the agreement. The grant of shares is subject to vesting and subject to continued employment. On November 1, 2004, 25,000 shares vested and are yet to be issued, and the remainder of the shares are to vest, subject to proportionate adjustment in the event of employment termination for any incomplete vesting period, as follows: 25,000 shares on November 1, 2005; 25,000 shares on November 1, 2006; 25,000 shares on November 1, 2007; 12,500 shares on November 1, 2008; and 12,500 on November 1, 2009. During the years ended April 30, 2006 and 2005, the Company has recorded \$20,000 as expense for each year as per this employment agreement.

**Litigation**

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

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**SPARTA COMMERCIAL SERVICES, INC.  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
APRIL 30, 2006 and 2005**

**NOTE L - NON-CASH FINANCIAL INFORMATION**

During the year ended April 30, 2006 the Company:

- Recorded a dividend on preferred stock of \$1,775,000 related to the fair value of the class 'C' warrants issued with preferred stock and the related beneficial conversion feature.
- Incurred costs of \$182,483 related to the sale of preferred stock. These costs were deducted from the proceeds.
- Issued 464,745 shares of common stock, valued at \$243,270, as additional costs related to loans received by the Company.
- Issued 651,124 shares of common stock in payment of \$150,000 of principal amount of notes payable and \$12,781 of related accrued interest. The shares were issued at a value below market price and the Company has recorded a financing cost of \$323,672 related to this discount.
- Issued an aggregate of 850,000 shares of common stock, pursuant to a consulting agreement. The shares have been valued at \$649,000 and this amount is being amortized over the term of the agreement, commencing August 1, 2005.
  - Issued 113,637 shares of common stock, valued at \$85,228, for services.
  - Issued 10,291,666 shares of common stock upon conversion of 16,055 shares of preferred stock.
- Incurred costs of \$405,761 related to the sale of common stock. These costs were deducted from the proceeds.
  - Granted an aggregate of 160,000 stock options to employees.

During the year ended April 30, 2005 the Company:

- Recorded a dividend on preferred stock of \$1,810,000 related to the fair value of the class 'C' warrants issued with preferred stock and the related beneficial conversion feature.

**NOTE M - 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 April 30, 2006, the Company incurred loss of \$14,150,429. 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 8. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE**

**None.**

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**ITEM 8A. CONTROLS AND PROCEDURES**

Disclosure controls and procedures are controls and other procedures that are designed to ensure that information required to be disclosed by us in the reports that we file or submit under the Exchange Act is recorded, processed, summarized and reported, within the time periods specified in the Securities and Exchange Commission's rules and forms. Disclosure controls and procedures include, without limitation, controls and procedures designed to ensure that information required to be disclosed by us in the reports that we file under the Exchange Act is accumulated and communicated to our management, including our principal executive and financial officers, as appropriate to allow timely decisions regarding required disclosure.

**Evaluation of Disclosure Controls and Procedures**

Our management, with the participation of our Chief Executive Officer, who is also presently serving as 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 upon that evaluation, the Chief Executive Officer and Principal Financial Officer concluded that the Company's disclosure controls and procedures were effective, as of the date of their evaluation, for the purposes of recording, processing, summarizing and timely reporting material information required to be disclosed in reports filed by the Company under the Securities Exchange Act of 1934.

**Changes in Internal Control over Financial Reporting**

As required by Rule 13a-15(d), the Company's Chairman, Chief Executive Officer and Principal Financial Officer, also conducted an evaluation of the Company's internal controls over financial reporting to determine whether any changes occurred during the fourth fiscal quarter that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting. During the preparation of the Company's financial statements as of and for the year ended April 30, 2005, the Company has concluded that the current system of disclosure controls and procedures was not effective because of the internal control weaknesses identified below. As a result of this conclusion, the Company has initiated the changes in internal control, to the extent possible given limitations in financial and manpower resources, also described below. It should be noted that any system of controls, however well designed and operated, can provide only reasonable, and not absolute, assurance that the objectives of the system will be met. In addition, the design of any control system is based in part upon certain assumptions about the likelihood of future events.

**Lack of Adequate Accounting Staff**

Because of the small size of our staff, the Chief Executive Officer and Principal Financial Officer processed virtually all of our financial activity. As such, there is an inherent lack of segregation of duties. The Company is developing procedures to address this situation which will improve the quality of future period financial reporting. With the exception of this weakness, 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.

**ITEM 8B. OTHER INFORMATION**

Not applicable.

[Back to Table of Contents](#)**PART III****ITEM 9. DIRECTORS, EXECUTIVE OFFICERS, PROMOTERS AND CONTROL PERSONS;  
COMPLIANCE WITH SECTION 16(a) OF THE EXCHANGE ACT****Our Management**

Our executive officers and directors and their respective ages and positions as of May 12, 2006 are as follows:

Name	Age	Position
Anthony L. Havens	52	Chief Executive Officer, President, Principal Financial Officer and Chairman
Kristian Srb	51	Director
Jeffrey Bean	52	Director
Richard P. Trotter	63	Chief Operating Officer
Sandra L. Ahman	43	Vice President, Secretary and Director

**Management Profile****Anthony L. Havens, Chief Executive Officer, President and Chairman.**

On February 27, 2004, Mr. Havens became our Chief Executive Officer, President and Chairman of the Board, and our Principal Financial Officer since July 2005. Mr. Havens has been the Managing Member and Chief Executive Officer of Sparta Commercial Services, LLC since its inception in 2001. He is involved in all aspects of Sparta's operations, including providing strategic direction, and developing sales and marketing strategies. From 1994 to 2004, Mr. Havens has been Chief Executive Officer and a director of American Motorcycle Leasing Corp. He co-founded American Motorcycle Leasing Corp. in 1994, and developed its operating platform and leasing program to include a portfolio which includes both prime and sub-prime customers. Mr. Havens has over 20 years of experience in finance and investment banking.

**Kristian Srb, Director.** Mr. Srb joined our Board of Directors in December 2004. Mr. Srb has been a director of American Motorcycle Leasing Corp. from 1994 to the present. Mr. Srb was President of American Motorcycle Leasing Corp. from 1994 to 1999. Since 1999, Mr. Srb has engaged in private investment activities. He has over 16 years experience in international brand development and management, including for 13 years with Escada A.G.

**Jeffrey Bean, Director.** Mr. Bean joined our Board of Directors in December 2004. Mr. Bean is the founding partner of GoMotorcycle.com. Formed in January 1999, GoMotorcycle.com is currently engaged in the sale of motorcycle parts and accessories over the Internet. Prior to founding GoMotorcycle.com, Mr. Bean was an institutional broker and trader at Refco, Inc. from 1985 to 1997. From 1977 to 1985, Mr. Bean was President of Thomaston Press, Ltd., a sales printing concern. He received a B.A. degree from the University of Virginia.

**Richard P. Trotter, Chief Operating Officer.** Mr. Trotter has been our Chief Operating Officer since November 2004. From 2001 to 2004, Mr. Trotter was President, Chief Credit Officer, of American Finance Company, Inc., purchasing retail automobile installment contracts from independent automobile dealers nationwide. From 1996 to 2001, he was Senior Vice President of Originations for Consumer Portfolio Services, Inc., one of the nation's leading purchasers of non-prime retail automobile installment contracts. From 1994 to 1996, he was Senior Vice President of Marketing for Consumer Portfolio Services, Inc. His experience also includes positions as Chief Operating Officer, Executive Director and President, and Chief Credit Officer for banks and financial institutions in California. Mr. Trotter has over 30 years experience in financial institutions and over 20 years experience specializing in the automobile lending, servicing, and collecting industry.





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**Sandra L. Ahman, Vice President, Secretary and Director.** On March 1, 2004, Sandra Ahman became Vice President of Operations and Secretary of Sparta, and a Director on June 1, 2004. She has been a Vice President of Sparta Commercial Services, LLC since formation. From 1994 to 2004, she was Vice President of Operations of American Motorcycle Leasing Corp. Prior to joining American Motorcycle Leasing Corp., Ms. Ahman was with Chatham Capital Partners, Ltd. Before joining Chatham in 1993, she was Manager, Human Resources for Comart and Aniforms, a sales promotion and marketing agency in New York, where she worked from 1986 to 1993. For the past 12 years, Ms. Ahman has been an active volunteer with The Children's Aid Society in New York City. She is a member of the Advisory Council to the agency's Board of Trustees.

**Board of Directors, Committees and Meetings**

Our directors are elected annually to serve for one year and hold office until the next annual meeting of the shareholders and until their successors are elected and qualified. Our Board of Directors may increase the size of the Board of Directors. Any director who fills a position created by the Board of Directors serves until the next annual meeting of the shareholders. Our officers are elected by the Board of Directors at the first meeting after each annual meeting of our shareholders, and hold office until their death, resignation or removal from office.

There are no family relationships among our executive officers or directors. None of our directors or officers are directors of another reporting company. None of the directors and officers during the past five years have been: involved in a bankruptcy petition or a pending criminal proceeding; convicted in a criminal proceeding (excluding traffic and minor offenses); subject to any order, judgment, or decree, permanently or temporarily enjoining, barring, suspending or otherwise limiting his involvement in any type of business, securities or banking activities; or found by a court, the SEC or the CFTC to have violated a federal or state securities or commodities law.

During the fiscal year that ended on April 30, 2006, the Board of Directors did not hold any formal meetings. Other matters were undertaken by written consent by the Board of Directors.

Our Board does not maintain a separate audit, nominating or compensation committee. Functions customarily performed by such committees are performed by our Board as a whole. We are not required to maintain such committees under the applicable rules of the Over-the-Counter Bulletin Board. None of our independent directors qualify as an "audit committee financial expert."

The Board of Directors has not adopted a specific process with respect to security holder communications, but security holders wishing to communicate with the Board of Directors may do so by mailing such communications to the Board of Directors at our offices.

**Code of Ethics**

We have not yet adopted a "code of ethics", as defined by the SEC, which applies to our Chief Executive Officer, Chief Financial Officer, principal accounting officer or controller and persons performing similar functions. We are in the process of drafting and adopting a Code of Ethics.

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**Conflicts of Interest**

Certain management employees of our company have worked for American Motorcycle Leasing Corp. and will continue to do so on a limited basis for the near future as we transition from a development stage company and commence active operations. While our business plans differ from those of American Motorcycle Leasing Corp., we operate in the same industry as American Motorcycle Leasing Corp. Mr. Havens was an officer, director and significant equity owner of American Motorcycle Leasing Corporation through 2004. Pursuant to a license agreement between Sparta Commercial Services and American Motorcycle Leasing Corp., Sparta Commercial Services issued 330,433 membership interests to American Motorcycle Leasing Corp., which were exchanged for 34,256,941 shares of our common stock. Officers and directors of Sparta who are also shareholders of American Motorcycle Leasing Corp. disclaimed ownership of, and entitled to, any of those shares. Issues could arise with respect to the taking of corporate opportunities of each other. Any competition with American Motorcycle Leasing Corp. could adversely affect our business, operating results and financial condition. Accordingly, we may be subject to legal proceedings and claims, including claims of alleged infringement of the intellectual property, competition, conflict of interest, and other business governance related claims. Such claims, even if not meritorious, could result in the expenditure of significant financial and managerial resources.

**Section 16(a) Beneficial Ownership Reporting Compliance**

Section 16(a) of the Securities Exchange Act of 1934, as amended, requires Sparta's executive officers, directors, and persons who beneficially own more than ten percent of Sparta's common stock to file with the Securities and Exchange Commission initial reports of beneficial ownership and reports of changes in beneficial ownership of Sparta's common stock. Such persons are also required by Securities and Exchange Commission regulations to furnish Sparta with copies of all such Section 16(a) forms filed by such person. Based solely on a review of the copies of such reports furnished to Sparta, Sparta is not aware of any material delinquencies in the filing of such reports, except as follows: on June 1, 2005, Michael J. Mele filed a Form 3 reporting his status as an officer as of April 29, 2005; Mr. Mele did not file a report reporting the discontinuation of his employment with Sparta effective as of July 31, 2005; and on March 22, 2006, Anthony Havens filed a Form 4/A amending a Form 4 originally filed on June 14, 2005, as amended by Form 4/As filed on June 14, 2005 and June 29, 2005, regarding a gift of shares. The Form 4/A dated July 29, 2005 inadvertently reported that the gift was not completed, as the gift transaction authorized on June 13, 2005 remained pending at the time and was completed on July 18, 2005.

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[Back to Table of Contents](#)**ITEM 10. EXECUTIVE COMPENSATION****Summary Compensation Table**

The table below sets forth information concerning the annual and long-term compensation during our last three fiscal years of our Chief Executive Officer and all of our other officers (“Named Executive Officers”).

Prior to February 27, 2004, management spent less than five hours per month on company matters. Accordingly, no officer or director received any compensation other than reimbursement for out-of-pocket expenses incurred on behalf of the Company, and no cash compensation, deferred compensation, employee stock options, or long-term incentive plan awards were issued or granted to our management through February 27, 2004.

Name and Principal Position	Year	Annual Compensation			Long Term Compensation Awards			
		Salary	Bonus	Other Annual Compensation	Restricted Stock Awards	Securities Underlying Options/SARs	All Other Compensation	
Anthony L. Havens (1) Chief Executive Officer,	2006	\$ 280,000	\$ 57,221	\$ 0	0	0	\$ 0	\$ 0
President, and	2005	\$ 233,333	\$ 0	\$ 0	0	0	\$ 0	\$ 0
Director	2004	\$ 46,667	\$ 0	\$ 0	0	0	\$ 0	\$ 0
Richard P. Trotter (2) Chief Operating Officer	2006	\$ 200,000				0	0	\$ 0
	2005	\$ 80,000	\$ 0	\$ 0	125,000	(3)	875,000	\$ (4)
Sandra L. Ahman (5) Vice President and Secretary	2006	\$ 87,948	\$ 20,143	\$ 0	0	0	\$ 0	\$ 0
	2005	\$ 75,000	\$ 0	\$ 0	0	0	\$ 0	\$ 0
	2004	\$ 12,500	\$ 0	\$ 0	0	0	\$ 0	\$ 0

(1) Became an officer on February 27, 2004. His reported fiscal year 2004 compensation covers the period February 27, 2004 through April 30, 2004.

(2) Became an officer on November 1, 2004. His reported fiscal year 2005 compensation covers the period November 1, 2004 through April 30, 2005.

(3) Refers to restricted stock, subject to vesting, granted on November 1, 2004. Pursuant to an employment agreement, Mr. Trotter is entitled to up to 125,000 shares of common stock. The grant of shares is subject to vesting and subject to continued employment. On November 1, 2004, 25,000 shares vested. On November 1, 2005, an additional 25,000 shares vested. An additional 75,000 shares are subject to vesting at a future date, subject to proportionate adjustment in the event of employment termination for any incomplete vesting period, as follows: 25,000 shares on November 1, 2006; 25,000 shares on November 1, 2007; 12,500 shares on November 1, 2008; and 12,500 on November 1, 2009.

(4) Refers to stock options, subject to vesting, granted on April 29, 2005. Pursuant to an option agreement, Mr. Trotter is entitled to up to 875,000 stock options, subject to vesting. The stock options are exercisable for five years from the vesting date at \$0.605 per share. Options to purchase 175,000 shares vested on April 29, 2005, additional options to purchase 175,000 shares vested on April 29, 2006, and the remaining options are to vest in equal

installments over the next three anniversary date of the agreement.

(5) Became an officer on March 1, 2004. Her reported fiscal year 2004 compensation covers the period March 1, 2004 through April 30, 2004.

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**Back to Table of Contents****Option/SAR Grants in Last Fiscal Year  
Individual Grants**

We did not grant any stock options to a Named Executive Officer during our fiscal year ended April 30, 2006.

**Aggregated Option/SAR Exercises in Last Fiscal Year  
and FY-End Option/SAR Values**

Name	Shares Acquired on Exercise (#)	Value Realized (\$)	Number of securities underlying unexercised Options/SARs at FY-end (#)		Value of unexercised in-the-money options/SARs at FY-end \$(a)	
			Exercisable	Unexercisable	Exercisable	Unexercisable
Richard P. Trotter	—	—	350,000	525,000	\$ 0	\$ 0

(a) The dollar values were calculated by determining the difference between the fair market value at fiscal year-end of the common stock underlying the options and the exercise price of the options. The last sale price of a share of Sparta's common stock on April 28, 2006 as reported by the OTC Bulletin Board was \$0.55.

**Director Compensation**

Directors are reimbursed for reasonable out-of-pocket expenses incurred in connection with attendance at Board meetings.

**Management Employment Agreements****Employment Agreement with CEO**

We entered into an employment agreement, dated as of July 12, 2004, with Anthony L. Havens who serves as our Chief Executive Officer. The employment is for a term of five years. The employment term is to be automatically extended for one five-year period, and additional one-year periods, unless written notice is given three months prior to the expiration of any such term that the term will not be extended. His base salary is at an annual rate of \$280,000. He is entitled to defer a portion of his base salary each year. He is entitled to annual increases in his base salary and other compensation as may be determined by the Board of Directors. He is entitled to a \$1,000,000 term insurance policy. He is entitled to six weeks of paid vacation per year, and health insurance, short term and long term disability insurance, retirement benefits, fringe benefits, and other employee benefits on the same basis as is generally made available to other senior executives. He is entitled to reimbursement of reasonable business expenses incurred by him in accordance with company policies. If terminated, he is entitled to three months of severance for up to six months of service for each year of employment, plus full participation in all standard employee benefits during the period of severance payments. The employment agreement provides for termination for cause. If he resigns for good reason or is terminated without cause within twelve months after a change in control, he is entitled to receive an additional lump sum payment equal to the greater of the severance payment or the balance of his base salary for the remaining employment term, continued coverage under any welfare benefits plans for two years, and full vesting of any account balance under a 401(k) plan. For purposes of the employment agreement, a change in control refers to:

- a change in voting power, due to a person becoming the beneficial owner of 50% or more of the voting power of our securities and our largest shareholder;
- during any period of two consecutive years, individuals who at the beginning of such period constitute the Board of Directors, including later approved directors, ceasing to consist a majority of the Board of Directors;
- a merger or consolidation of our company with a third party, after which our shareholders do not own more than 50% of the voting power; or
- a sale of all or substantially all of our assets to a third party.

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If we elect not to renew the employment agreement, he shall be entitled to receive severance equal to thirty months of his base salary plus standard employment benefits. If we fail to fully perform all or any portion of our post-termination obligations, we are obligated to pay to him an amount equal to five times the value of the unperformed obligation.

**Employment Agreement with COO**

We entered into an employment agreement, effective November 1, 2004, with Richard P. Trotter, to serve as our Chief Operating Officer. The term of employment is one year. The employment term is to be automatically extended for one two-year period, and an additional two-year period, unless written notice is given three months prior to the expiration of any such term that the term will not be extended. His initial base salary was at an annual rate of \$160,000. On May 1, 2005, his base salary increased to \$200,000. He is entitled to annual increases in his base salary and other compensation as may be determined by the Board of Directors. He is entitled to a grant of 125,000 shares of our common stock. The grant of shares is subject to vesting and subject to continued employment. On November 1, 2004, 25,000 shares vested and on November 1, 2005, and an additional 25,000 shares vested on November 1, 2005. An additional 75,000 shares are subject to vesting at a future date, subject to proportionate adjustment in the event of employment termination for any incomplete vesting period, as follows: 25,000 shares on November 1, 2006; 25,000 shares on November 1, 2007; 12,500 shares on November 1, 2008; and 12,500 on November 1, 2009. He is entitled to three weeks of paid vacation during the first year of employment, and four weeks per year thereafter. He is entitled to health insurance, short term and long term disability insurance, retirement benefits, fringe benefits, and other employee benefits on the same basis as is made generally available to other employees. He is entitled to reimbursement of reasonable business expenses incurred by him in accordance with company policies. The employment agreement provides for termination for cause. If terminated without cause, he is entitled to severance. As severance, he shall be entitled to one week's base salary as of the date of termination for the first full year of service, and thereafter, two weeks' base salary for each succeeding year of service, up to an aggregate of four months of such base salary.

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**Back to Table of Contents****ITEM 11. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT****Securities Authorized for Issuance under Equity Compensation Plans**

The following table summarizes our equity compensation plan information as of April 30, 2006.

Plan category	Number of securities to be issued upon exercise of outstanding options, warrants and rights	Weighted-average exercise price of outstanding options, warrants and rights	Number of securities remaining available for future issuance under equity compensation plan
Equity compensation plans approved by securities holders	160,000	\$ 0.59	8,340,000
Equity compensation plans not approved by security holders	1,075,000	\$ 0.529	N/A
<b>Total</b>	<b>1,235,000</b>	<b>\$ 0.537</b>	<b>8,340,000</b>

In July 2004, we adopted a stock incentive compensation plan. The plan authorized our Board of Directors to grant securities, including stock options, to employees, directors and others, in the aggregate amount of 8,500,000 shares of common stock. Securities issued under the plan may be stock awards, non-qualified options, incentive stock options, or any combination of the foregoing. In general, stock options granted under the plan have a maximum duration of ten years from the date of the grant and are not transferable. The per share exercise price of any incentive stock option granted under the plan may not be less than the fair market value of the common stock on the date of grant. Incentive stock options granted to persons who have voting control over ten percent or more of our capital stock are granted at 110% of fair market value of the underlying common stock on the date of grant and expire five years after the date of grant. No options may be granted after July 1, 2014. During the year ended April 30, 2006, stock options to acquire 160,000 shares of common stock were granted under this plan.

On April 29, 2005, pursuant to an option agreement with Richard Trotter, our Chief Operating Officer, we issued stock options to purchase up to 875,000 shares of our common stock. Subject to vesting, the stock options are exercisable for five years from the vesting date at \$0.605 per share. Options to purchase 175,000 shares vested on April 29, 2005, additional options to purchase 175,000 shares vested on April 29, 2006, and the remaining options are to vest in equal installments over the next three anniversary date of the agreement.

In April 2005, we issued warrants to purchase 200,000 shares of our common stock to Jaffoni & Collins Incorporated pursuant to a consulting agreement for public relations services. The warrants are exercisable for three years at \$0.195 per share. In April 2006, 100,000 of these options were cancelled.

**Common Stock Ownership**

The following table sets forth information regarding the beneficial ownership of our common stock as of May 12, 2006 by:

- each person known by us to be the beneficial owner of more than 5% of our common stock;
- each of our directors;
- each of our executive officers; and
- our executive officers and directors as a group.

Beneficial ownership is determined in accordance with the rules of the SEC and includes voting and investment power. Under SEC rules, a person is deemed to be the beneficial owner of securities which may be acquired by such person upon the exercise of options and warrants or the conversion of convertible securities within 60 days from the date on which beneficial ownership is to be determined. Each beneficial owner's percentage ownership is determined by dividing the number of shares beneficially owned by that person by the base number of outstanding shares, increased to reflect the beneficially-owned shares underlying options, warrants or other convertible securities included in that person's holdings, but not those underlying shares held by any other person.

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Unless indicated otherwise, the address for each person named is c/o Sparta Commercial Services, Inc., 462 Seventh Ave, 20th Floor, New York, NY 10018.

Name	Amount and Nature Of Beneficial Ownership	Percent of Class
Anthony L. Havens (1)	32,833,250	27.2%
Kristian Srb (2)	33,066,550	27.4%
Jeffrey Bean	0	*
Richard P. Trotter (3)	400,000	*
Sandra L. Ahman	580,865	*
Glenn A. Little (4)		
211 West Wall Midland, TX 79701	6,792,758	5.6%
All Directors and Executive Officers (5 persons)	66,880,665	55.3%

\* Represents less than 1%.

(1) Excludes 150,000 shares of common stock held by Mr. Haven's minor son in a trust account. Mr. Havens is not the trustee for his son's trust account, and does not have direct voting control of such shares. Mr. Havens does not have the sole or shared power to vote or direct the vote of such shares, and, as a result, Mr. Havens disclaims beneficial ownership of such shares held in his son's trust account.

(2) Includes 62,500 shares of common stock held by Mr. Srb's minor daughter.

(3) Includes 50,000 vested shares. Pursuant to an employment agreement, Mr. Trotter is entitled to up to 125,000 shares of common stock. The grant of shares is subject to vesting and subject to continued employment. On November 1, 2004, 25,000 shares vested. An additional 25,000 shares vested on November 1, 2005. An additional 75,000 shares are subject to vesting at a future date, subject to proportionate adjustment in the event of employment termination for any incomplete vesting period, as follows: 25,000 shares on November 1, 2006; 25,000 shares on November 1, 2007; 12,500 shares on November 1, 2008; and 12,500 on November 1, 2009. Also includes 350,000 vested stock options. Pursuant to option agreement, Mr. Trotter is entitled to up to 875,000 stock options to purchase shares of our common stock, subject to vesting. The stock options are exercisable for five years from the vesting date at \$0.605 per share. Options to purchase 175,000 shares vested on April 29, 2005, additional options to purchase 175,000 shares vested on April 29, 2006, and the remaining options are to vest in equal installments over the next three anniversary date of the agreement.

(4) Includes (i) 641,026 shares issuable upon conversion of the Series A Convertible Preferred Stock, and (ii) 368,590 shares issuable upon exercise of warrants.

**Changes in Control**

We do not have any arrangements that may result in a change in control.

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**ITEM 12. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS**

On February 27, 2004, pursuant to an Agreement and Plan of Reorganization with Sparta Commercial Services, LLC and its members, we acquired all of the membership interests of Sparta in exchange for the issuance of such number of shares of our common stock as would represent approximately 91.75% of our outstanding shares. At February 26, 2004, we had an authorized capital of 200,000,000 shares and 56,637,228 shares issued and outstanding, and we issued the remaining balance of authorized capital of 143,362,772 shares (pre-split) to Sparta members. The remaining unissued balance of 486,511,854 shares (pre-split) due to the Sparta members were subsequently issued upon completion of an increase in our authorized capital. Pursuant to the acquisition, all of our former directors and officers resigned, and nominated Anthony Havens, the designee of Sparta, as the officer and director. Present officers of the company, Anthony Havens and Sandra Ahman, acquired their respective ownership interest in our common stock pursuant to their exchange of membership interests of Sparta. Glenn A. Little, the former principal stockholder of the company, prior to the completion of acquisition owned 40,000,000 shares, or 71%, of our then issued and outstanding shares of common stock. Sparta also entered into a consulting agreement for business and financial services with Glenn A. Little. The agreement is for a term of one year. Mr. Little received a fee of \$100,000 pursuant to the consulting agreement.

We entered into a license agreement, dated as of June 1, 2002, and as amended on December 3, 2003, with American Motorcycle Leasing Corp., an entity controlled by a director of the Company and formerly controlled our President and Chief Executive Officer. Under the agreement, we have a non-exclusive, perpetual right to use American Motorcycle Leasing Corp.'s proprietary operating systems related to consumer credit underwriting procedures, vehicle and vehicle lease value evaluation methods, rental stream collection and insurance tracking policies and procedures. The license fee consisted of \$300,000 and 330,433 membership interests of Sparta Commercial Services, LLC, which will be exchanged for 34,256,941 shares of Tomahawk upon an increase in our authorized capital.

We entered into a services agreement, dated as of March 1, 2004, with American Motorcycle Leasing Corp., an entity controlled by a director of the Company and formerly controlled our President and Chief Executive Officer. For a period of three years, American Motorcycle Leasing Corp. is to provide personnel, computer equipment and software, and facilities, in connection with our credit and underwriting activities and our use of the operating systems that we had licensed from American Motorcycle Leasing Corp. In return for such services, we agreed to pay \$100,000 by March 1, 2005, and for the time of the personnel utilized at their salary rate at American Motorcycle Leasing Corp.

On August 2, 2004, pursuant to an employment agreement with Daniel J. Lanjewar, our former Chief Financial Officer, we agreed to issue 568,175 shares of our common stock in a transaction deemed exempt from registration pursuant to Section 4(2) of the Securities Act. The grant of shares was subject to vesting and subject to continued employment. On January 1, 2005, 113,635 shares vested, and the remainder of the shares were to vest in equal portions on July 1, 2005, July 1, 2006, July 1, 2007, and July 1, 2008, subject to proportionate adjustment in the event of employment termination for any incomplete vesting period. In April 2005, Mr. Lanjewar resigned as our Chief Financial Officer, and was vested with an additional 113,637 shares of common stock.

We entered into a purchase option agreement with American Motorcycle Leasing Corp. an entity controlled by a director of the Company and formerly controlled our President and Chief Executive Officer, on November 2, 2004 at a cost to Sparta Commercial Services of \$250,000. This agreement granted Sparta Commercial Services the right, for a two year period, to purchase portions of a certain portfolio of equipment leases that American Motorcycle Leasing Corp. owns. The portfolio is secured by a first priority security interest in favor of Citibank, N.A. or its assigns. The cost of \$250,000 has been charged to operations in fiscal 2005. As of April 30, 2005, payments against this obligation of \$81,000 were made. In June, 2005, an additional \$20,000 was paid.

In January 2005, we received a loan of \$25,000 from Kristian Srb, one of our directors. This loan was non-interest bearing and was payable on demand and has subsequently been repaid.

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On April 29, 2005, pursuant to an option agreement with Richard Trotter, our Chief Operating Officer, we agreed to issue options to purchase up to 875,000 shares of our common stock. Subject to vesting, the stock options are exercisable for five years from the vesting date at \$0.605 per share. Options to purchase 175,000 shares vested on April 29, 2005, additional options to purchase 175,000 shares vested on April 29, 2006, and the remaining options are to vest in equal installments over the next three anniversary date of the agreement.

We believe that the terms of all of the above transactions are commercially reasonable and no less favorable to us than we could have obtained from an unaffiliated third party on an arm's length basis. Our policy requires that all related parties recuse themselves from negotiating and voting on behalf of our company in connection with related party transactions.

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**ITEM 13. EXHIBITS**

The following exhibits are filed with this report:

Exhibit Number	Description of Exhibit
Exhibit 2.1	Agreement and Plan of Reorganization, dated as of February 27, 2004 (Incorporated by reference to Exhibit 2 of Form 10-KSB filed on August 13, 2004)
Exhibit 3(i) (1)	Articles of Incorporation of Tomahawk Oil and Minerals, Inc. (Incorporated by reference to Exhibit 3(i) (1) of Form 10-KSB filed on August 13, 2004)
Exhibit 3(i) (2)	Certificate of Amendment of Articles of Incorporation, November 1983 (Incorporated by reference to Exhibit 3(i) (2) of Form 10-KSB filed on August 13, 2004)
Exhibit 3(i) (3)	Certificate of Amendment of Articles of Incorporation for name change, August 2004 (Incorporated by reference to Exhibit 3(i) of Form 8-K filed on August 27, 2004)
Exhibit 3(i) (4)	Certificate of Amendment of Articles of Incorporation for increase in authorized capital, September 2004 (Incorporated by reference to Exhibit 3(i) of Form 8-K filed on September 17, 2004)
Exhibit 3(i) (5)	Certificate of Amendment of Articles of Incorporation for decrease in authorized capital, December 2004 (Incorporated by reference to Exhibit 3(i) of Form 8-K filed on December 23, 2004)
Exhibit 3(i) (6)	Certificate of Designation for Series A Redeemable Preferred Stock, December 2004 (Incorporated by reference to Exhibit 3(i) of Form 8-K filed on January 4, 2005)
Exhibit 3(ii) (1)	By-laws (Incorporated by reference to Exhibit 3(ii) (1) of Form 10-KSB filed on August 13, 2004)
Exhibit 3(ii) (2)	By-laws Resolution (Incorporated by reference to Exhibit 3(ii) (2) of Form 10-KSB filed on August 13, 2004)
Exhibit 3(ii) (3)	Board of Directors Resolutions amending By-laws (Incorporated by reference to Exhibit 3(ii) of Form 10-QSB filed on December 15, 2004)
Exhibit 4.1	2005 Stock Incentive Compensation Plan (Incorporated by reference to Exhibit 4 of Form 10-KSB filed on August 13, 2004)
Exhibit 10.1	Service Agreement with American Motorcycle Leasing Corp. (Incorporated by reference to Exhibit 10.1 of Form 10KSB filed on August 13, 2004)
Exhibit 10.2	License Agreement with American Motorcycle Leasing Corp. (Incorporated by reference to Exhibit 10.1 of Form 10KSB filed on August 13, 2004)
Exhibit 10.3	Amended License Agreement with American Motorcycle Leasing Corp. (Incorporated by reference to Exhibit 10.1 of Form 10KSB filed on August 13, 2004)
Exhibit 10.4	Form of Employment Agreement with Anthony Havens (Incorporated by reference to Exhibit 10.4 of Form 10-KSB filed on August 13, 2004)
Exhibit 10.5	Consulting Agreement with Glenn Little (Incorporated by reference to Exhibit 10.6 of Form 10-KSB filed on August 13, 2004)
Exhibit 10.6	Employment Agreement with Richard Trotter (Incorporated by reference to Exhibit 10 of Form 8-K filed on October 29, 2004)
Exhibit 10.7	Purchase Option Agreement with American Motorcycle Leasing Corp., dated November 2, 2004 (Incorporated by reference to Exhibit 10.8 of Form 10-KSB filed on July 25, 2005)
Exhibit 10.8	Lease for office facilities (Incorporated by reference to Exhibit 10 of Form 10-QSB filed on December 15, 2004)
Exhibit 10.9	Option Agreement with Richard Trotter (Incorporated by reference to Exhibit 10.1 of Form 8-K filed on May 5, 2005)

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Exhibit 10.10	Master Loan and Security Agreement - Motor Vehicles (Incorporated by reference to Exhibit 10.1 of Form 8-K filed on July 28, 2005)
Exhibit 10.11	Master Loan and Security Agreement (Installment Sale Contract) (Incorporated by reference to Exhibit 10.2 of Form 8-K filed on July 28, 2005)
Exhibit 10.12	Form of Warrant included in Units (Incorporated by reference to Exhibit 10.1 of Form 10-QSB filed on March 22, 2006)
Exhibit 10.13	Form of Loan Agreement, December 2005 (Incorporated by reference to Exhibit 10.1 of Form 10-QSB filed on March 22, 2006)
Exhibit 10.14	Form of Subscription Agreement (Incorporated by reference to Exhibit 10.1 of Form 8-K filed on January 4, 2006)

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Exhibit Consulting Agreement with Christopher Kennan

10.15\*

Exhibit Consulting Agreement with American Capital Ventures, Inc.

10.16\*

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 Certification of Chief Executive Officer and Principal Financial Officer Pursuant to Securities Exchange Act Rule 13a-14(a)/15d-14(a)

31.1\*

Exhibit Certification of Chief Executive Officer and Principal Financial Officer Pursuant to Securities Exchange Act Rule 13a-14(b) and 18 U.S.C. Section 1350

32.1\*

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\* Filed herewith.

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**ITEM 14. PRINCIPAL ACCOUNTANT FEES AND SERVICES**

**Audit Fees**

Fees for audit services provided by our principal accountant during the years ended April 30, 2006 and 2005 were \$44,200 and \$39,746, respectively. Audit services consisted primarily of the annual audits, review of our financial statements, and services that are normally provided by our accountants in connection with statutory and regulatory filings or engagements for those fiscal years.

**Audit-Related Fees**

There were no fees billed for services reasonably related to the performance of the audit or review of our financial statements outside of those fees disclosed above under the caption Audit Fees for fiscal years ended April 30, 2006 and 2005.

**Tax Fees**

Fees for tax services provided by our principal accountant during the years ended April 30, 2006 and 2005 were \$0.00 and \$1,500, respectively. Tax services related primarily to the preparation of company tax filings with regulatory agencies.

**All Other Fees**

There were no other fees billed for services.

**Audit Committee Procedure**

The Board of Directors is responsible for matters typically performed by an audit committee. We do not presently have a separate audit committee of the Board of Directors. The Board of Directors considered whether, and determined that, the auditor's provision of non-audit services was compatible with maintaining the auditor's independence. All of the services described above for fiscal years ended April 30, 2006 and 2005 were approved by the Board of Directors. We intend to continue using our principal registered public accounting firm, solely for audit and audit-related services, tax consultation and tax compliance services, and, as needed, for due diligence in acquisitions and similar transactions.

**Pre-Approval Policies and Procedures**

The Board of Directors approved all of the services described above, and all fees paid. The Board of Directors did not have pre-approval policies and procedures in place during our fiscal years ended April 30, 2006 and 2005. In fiscal year 2007, we intend to implement a policy whereby, we will, prior to engaging our accountants to perform a particular service, obtain an estimate for the service to be performed and begin pre-approving all services.

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**SIGNATURES**

In accordance with Section 13 or 15(d) 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.

By: /s/ Anthony L. Havens

\_\_\_\_\_  
Anthony L. Havens  
Chief Executive Officer  
and Principal Financial Officer

Date: August 22, 2006

In accordance with the Exchange Act, this report has been signed below by the following persons on behalf of the registrant and in the capacities indicated and on the dates indicated:

Date: August 22, 2006

By: /s/ Anthony L. Havens

\_\_\_\_\_  
Anthony L. Havens  
Chief Executive Officer, Principal  
Financial Officer,  
and Chairman of the Board

Date: August 22, 2006

By: /s/ Sandra L. Ahman

\_\_\_\_\_  
Sandra L. Ahman  
Vice President and Director

Date: August 22, 2006

By: /s/ Kristian Srb

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Kristian Srb  
Director

Date: August 22, 2006

By: /s/ Jeffrey Bean

\_\_\_\_\_  
Jeffrey Bean  
Director

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