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

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

FORM 10-QSB

(Mark One)

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

For the quarterly period ended July 31, 2007

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

For the transition period from ________ to ___________.

Commission file number: **0-9483**

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

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

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

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

Check whether the issuer (1) filed all reports required to be filed by Section 13 or 15(d) of the Exchange Act during the past 12 months (or for such shorter period that the registrant was required to file such reports), and (2)has been subject to such filing requirements for the past 90 days. Yes x No o

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

As of August 31, 2007, we had 124,316,157 shares of common stock issued and outstanding.

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

SPARTA COMMERCIAL SERVICES, INC.

FORM 10-QSB
FOR THE QUARTER ENDED JULY 31, 2007

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PART I. FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

SPARTA COMMERCIAL SERVICES, INC.
CONDENSED CONSOLIDATED BALANCE SHEETS

	July 31, 2007	April 30, 2007
ASSETS	UNAUDITED	
Current assets:		
Cash and cash equivalents	$ 10,403	$ 22,032
RISC loan receivable, current, net of reserve of $21,532 and $13,821, respectively (NOTE D)	761,435	569,052
Interest receivables	36,852	25,832
Prepaid expenses and other current assets	82	27,137
Inventory (NOTE C)	17,400	20,784
Total current assets	826,172	664,837
Motorcycles and other vehicles under operating leases, net of accumulated depreciation of $248,414 and $221,800, respectively and loss reserve of $36,115 and $26,059, respectively. (NOTE B)	1,065,242	1,088,686
Property and equipment, net of accumulated depreciation and amortization of $108,107 and $97,047, respectively (NOTE E)	83,140	94,200
RISC loan receivables, net of current portion and loss reserve of $74,282 and $45,517, respectively. (NOTE D)	2,626,905	1,923,767
Other assets	29,559	—
Restricted cash	357,476	284,943
Deposits	50,692	50,692
Total assets	$ 5,039,186	$ 4,107,125
LIABILITIES AND STOCKHOLDERS' DEFICIT		
Current liabilities:		
Accounts payable and accrued expenses	$ 1,063,412	$ 1,219,067
Accrued equity based compensation	52,820	40,310
Accrued equity based penalties	2,380	2,380
Notes payable - Senior Lender (NOTE F)	902,534	787,282
Notes payable - Other (NOTE I)	1,692,759	1,140,259
Loans payable - related parties	222,260	202,260
Deferred revenue	42,915	46,765
Total current liabilities	3,979,080	3,438,323
Notes payable - Senior Lender, long term portion (NOTE F)	3,258,316	2,197,925
Total liabilities	7,237,396	5,636,248
Stockholders' deficit:		

Preferred stock, $0.001 par value; 10,000,000 shares authorized of which 35,850 shares have been designated as Series A convertible preferred stock, with a stated value of $100 per share, 3,050 and 19,795 shares issued and outstanding, respectively		305,000		1,979,500
Common stock, $0.001 par value; 340,000,000 shares authorized, 124,316,157 and 123,216,157 shares issued and outstanding, respectively		124,316		123,216
Common stock to be issued, 10,733,980 and 0 shares, respectively.		10,734		—
Additional paid-in capital		16,632,518		14,595,827
Deferred compensation		—		(24,000)
Accumulated deficit		(19,270,778)		(18,203,666)
Total stockholders' deficit		(2,198,210)		(1,529,123)
Total liabilities and stockholders' deficit	$	5,039,186	$	4,107,125

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

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SPARTA COMMERCIAL SERVICES, INC.
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS
FOR THE THREE MONTHS ENDED JULY 31, 2007 AND 2006
(UNAUDITED)

	Three Months Ended July 31,			
		2007		2006
Revenue	$	283,997	$	191,642
Operating expenses:				
General and administrative		1,096,704		1,166,781
Depreciation and amortization		79,396		74,297
Total operating expenses		1,176,100		1,241,078
Loss from operations		(892,103)		(1,049,436)
Other expense:				
Interest expense and financing cost, net		(170,396)		13,323
Change in value of warrant liabilities		-		601,734
Net loss		(1,062,499)		(434,379)
Preferred dividend payable		4,613		29,937
Net loss attributed to common stockholders	$	(1,067,112)	$	(464,316)
Basic and diluted loss per share	$	(0.01)	$	(0.00)
Basic and diluted loss per share attributed to common stockholders	$	(0.01)	$	(0.00)
Weighted average shares outstanding		123,969,418		120,752,745

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

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

	Three Months Ended July 31, 2007	Three Months Ended July 31, 2006
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net loss	$ (1,062,499)	$ (434,379)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation and amortization	79,396	74,297
Allowance for loss reserve	55,004	40,773
Amortization of deferred revenue	(3,850)	(3,300)
Amortization of deferred compensation	24,000	125,363
Equity based compensation	149,806	98,542
Stock based finance cost	55	—
Forgiveness of dividend payable	224,164	—
Change in fair value of penalty warrant and warrant liability	—	(601,734)
Changes in operating assets and liabilities:		
(Increase) decrease in:		
Lease payments receivable	—	(1,151,492)
Interest receivable	(11,020)	—
Prepaid expenses and other assets	27,055	17,708
Loan proceeds receivable	—	333,427
Other current assets	—	(2,900)
Restricted cash	(72,533)	(59,755)
Deposits	—	(1,850)
Increase (decrease) in:		
Accounts payable and accrued expenses	(147,758)	237,635
Deferred revenue	—	366,531
Accrued registration penalty	—	(44,495)
Net cash used in operating activities	(738,180)	(1,005,629)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Payments for motorcycles and other vehicles	(51,461)	—
Purchases of RISC contracts	(970,131)	(471,528)
Purchases of property and equipment	—	(14,734)
Net cash used in investing activities	(1,021,592)	(486,262)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Proceeds from notes from senior lender	1,616,278	667,238
Payments on notes from senior lender	(440,635)	(81,860)
Proceeds from other notes	552,500	—
Loan proceeds from other related parties	20,000	—
Exercise of warrants	0	62,500
Net cash provided by financing activities	1,748,143	647,878

Net decrease in cash		(11,629)		(844,013)
Cash and cash equivalents, beginning of period	$	22,032	$	856,382
Cash and cash equivalents, end of period	$	10,403	$	12,369
Cash paid for:				
Interest	$	102,503	$	24,093
Income taxes	$	1,100	$	—

Non-cash items for the three months ended July 31, 2007 consisted of the conversion of 16,745 preferred shares into 10,733,974 shares of common stock.

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

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

NOTE A - SUMMARY OF ACCOUNTING POLICIES

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

Basis of Presentation

The accompanying unaudited condensed consolidated financial statements as of July 31, 2007 and for the three month periods ended July 31, 2007 and 2006 have been prepared by the Company pursuant to the rules and regulations of the Securities and Exchange Commission, including Form 10-QSB and Regulation S-B. The information furnished herein reflects all adjustments (consisting of normal recurring accruals and adjustments), which are, in the opinion of management, necessary to fairly present the operating results for the respective periods. Certain information and footnote disclosures normally present in annual financial statements prepared in accordance with accounting principles generally accepted in the United States of America have been omitted pursuant to such rules and regulations. The Company believes that the disclosures provided are adequate to make the information presented not misleading. These financial statements should be read in conjunction with the audited financial statements and explanatory notes for the year ended April 30, 2007 as disclosed in the Company's 10-KSB for that year as filed with the SEC, as it may be amended.

The results of the three months ended July 31, 2007 are not necessarily indicative of the results to be expected for the full year ending April 30, 2008.

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 and was dissolved in February 2007. 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 (principal amount of the contract plus the calculated earned income over the life of the contract), and the unearned income at lease inception is amortized over the lease term.

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

NOTE A - SUMMARY OF ACCOUNTING POLICIES (continued)

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

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

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

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

Stock Based Compensation

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

We have selected the Black-Scholes method of valuation for share-based compensation and have adopted the modified prospective transition method under SFAS 123R, which requires that compensation cost be recorded, as earned, for all unvested stock options outstanding at the beginning of the third quarter of adoption of SFAS 123R. As permitted by SFAS 123R, prior periods have not been restated. The charge is being recognized in non cash compensation, which is included in stock-based compensation expense, on a straight-line basis over the remaining service period after the adoption date based on the options' original estimate of fair value. Prior to the adoption of SFAS 123R, the Company applied the intrinsic-value-based method of accounting prescribed by Accounting Principles Board Opinion No. 25 ("APB 25"), "Accounting for Stock Issued to Employees." Under this method, compensation cost was recorded only if the market price of the underlying stock on the grant date exceeded the exercise price. As permitted by SFAS 123, the Company elected the disclosure only requirements of SFAS 123. The

fair-value based method used to determine historical pro forma amounts under SFAS 123 was similar in most respects to the method used to determine stock-based compensation expense under SFAS 123R.

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

NOTE A - SUMMARY OF ACCOUNTING POLICIES (continued)

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

	Under Pre-SFAS No.123 (R) Accounting	SFAS No. 123(R) Impact	Actual Quarter Ended July 31, 2007
Earnings before taxes	$ (999,305)	$ (67,807)	$ (1,067,112)
Net Earnings	(999,305)	$ (67,807)	$ (1,067,112)
Net Earnings			
Basic EPS	$ (0.01)	$ -	$ (0.01)
Diluted EPS	(0.01)	-	(0.01)
Cash Flows			
Operating Activities	$ (738,180)	$ -	$ (738,180)
Financing Activities	$ 1,748,143	-	1,748,143

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

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

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 $0.01 and $0.00 for the quarters ended July 31, 2007 and 2006, respectively. At July 31, 2007 and 2006, 20,934,071 and 27,069,527 potential shares, respectively, were excluded from the shares used to calculate diluted earnings per share as their inclusion would reduce net loss per share.

NOTE B - MOTORCYCLES UNDER OPERATING LEASE

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

	July 31, 2007	April 30, 2007
Motorcycles and other vehicles	$ 1,349,771	$ 1,336,545
Less: accumulated depreciation	(248,414)	(221,800)
Motorcycles and other vehicles, net of accumulated depreciation	1,101,357	1,114,745
Less: estimated reserve for residual values	(36,115)	(26,059)
Motorcycles and other vehicles under operating leases, net	$ 1,065,242	$ 1,088,686

Depreciation expense was $68,336 and $279,348 for the quarter ended July 31, 2007 and the year ended April 30, 2007, respectively. Depreciation expense for the quarter ended July 31, 2006 was $63,548.

NOTE C - INVENTORY

Inventory is comprised of repossessed vehicles and vehicles which have been returned at the end of their lease. Inventory is carried at the lower of depreciated cost or market, applied on a specific identification basis. At July 31, 2007 the Company had repossessed vehicles valued at book value of $17,400. At April 30, 2007, the Company had repossessed vehicles of value $20,784.

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

NOTE D - RETAIL (RISC) LOAN RECEIVABLES

RISC loan receivables, which are carried at cost, were $3,484,154 and $2,552,157 at July 31, 2007 and April 30, 2007, respectively. The following is a schedule by years of future principal payments related to these receivables. Certain of the assets are pledged as collateral for the note described in Note F.

Year ending July 31,		
2008	$	782,967
2009		803,044
2010		777,058
2011		727,046
2012		391,339
2013		2,700
	$	3,484,154
Less: allowance for doubtful receivables		(95,814)
		3,388,340
Less: current receivables, net of allowance		(761,435)
Long Term receivables	$	2,626,905

As of April 30, 2007 current loan receivables net of allowance was $569,052 and long term loan receivable net of allowance was $1,923,767.

NOTE E - PROPERTY AND EQUIPMENT

Major classes of property and equipment at July 31, 2007 and April 30, 2007 consist of the followings:

		July 31, 2007		**April 30, 2007**
Computer equipment, software and furniture	$	191,247	$	191,247
Less: accumulated depreciation and amortization		(108,107)		(97,047)
Net property and equipment	$	83,140	$	94,200

Depreciation expense was $11,060 and $43,798 for the quarter ended July 31, 2007 and the year ended April 30, 2007, respectively. Depreciation and amortization expense for the quarter ended July 31, 2006 was $10,749.

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

NOTE F - NOTES PAYABLE-SENIOR LENDER

The Company finances certain of its leases through a third party. The repayment terms are generally one year to five years and the notes are secured by the underlying assets. The weighted average interest rate at July 31, 2007 is 10.18%.

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

12 months Ended July 31		Amount
2008	$	902,534
2009		1,020,200
2010		822,907
2011		877,028
2012		534,839
2013		3,342
Total	$	4,160,850

Notes payable to Senior Lender at April 30, 2007 were $2,985,207.

NOTE G - EQUITY TRANSACTIONS

The Company is authorized to issue 10,000,000 shares of preferred stock with $0.001 par value per share and $100 stated value per share, of which 35,850 shares have been designated as Series A convertible preferred stock, and 340,000,000 shares of common stock with $0.001 par value per share. As of July 31, 2007 and April 30, 2007, the Company has issued and outstanding 3,050 and 19,795 shares of preferred stock issued and outstanding respectively. The Company has 124,316,157 and 123,216,157 shares of common stock issued and outstanding as of July 31, 2007 and April 30, 2007, respectively.

Preferred Stock Series A

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

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

dividend and are included in the accompanying financial statements.

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

NOTE G - EQUITY TRANSACTIONS (continued)

On July 20, 2007, one shareholder holding 16,745 shares of preferred stock converted those shares into 10,733,974 shares of common stock and forgave $224,163 in accumulated but unpaid dividends on the preferred shares. The 10,733,974 shares of common stock issuable upon conversion of the preferred shares had not been physically issued as of July 31, 2007. The forgiven dividends were recognized as additional paid-in capital in the quarter ended July 31, 2007.

Common Stock

In August 2007, the Company entered into a three month consulting agreement with a consultant which agreement calls for cash payments by the Company of $3,000, of which $1,000 has been paid, and issued 1,100,000 shares of restricted common stock based upon the consultants performance under the agreement.

During the three months ended July 31, 2007, the Company granted options to purchase an aggregate of 1,020,000 shares of common stock to eleven employees. However, four employees left during the three months ended July 31, 2007. The vested and unvested options have been valued at $55,136 using the Black-Sholes option pricing model with the following assumptions: (1) dividend yield of 0%; (2) expected volatility of 143%; (3) risk-free interest rate of 4.76%, vest over a 48 month period and expire if unexercised in ten years. During the quarter ended July 31, 2007 and the quarter ended July 31, 2006, the Company expensed $186,317 and $98,542, respectively, in non-cash charges related to stock and option compensation expense.

NOTE H - SUBSEQUENT EVENTS

During the period from August 1, 2007 to September 7, 2007, the Company sold to thirteen accredited investors, six month unsecured notes in the aggregate amount of $490,500. All notes bear 6% simple interest, payable in cash or shares, at the Company's option, with principal and accrued interest payable at maturity. Should the Company opt to convert these notes at maturity, these notes will be convertible into shares of common stock at prices ranging from $0.0288 to $0.0456 per share. All notes will mature in six months on various dates through March 7,2008.

NOTE I - NOTES PAYABLE-OTHER

Notes Payable Other	**July 31, 2007**	**April 30, 2007**
6% Bridge Loan, due October 19, 2007	$ 50,000	$ 50,000
Non-interest Demand Loan	100,000	40,000
10% Bridge Notes, due September 21, 2007	275,000	275,000
6% Convertible Notes, various due dates from August 24, 2007 (extended to October 1, 2007) to February 23, 2008	1,267,759	775,259
Total	$ 1,692,759	$ 1,140,259

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

NOTE J - GOING CONCERN MATTERS

The accompanying financial statements have been prepared on a going concern basis, which contemplates the realization of assets and the satisfaction of liabilities in the normal course of business. As shown in the accompanying financial statements during the period October 1, 2001 (date of inception) through July 31, 2007, the Company incurred loss of $19,270,778. Of these losses, $1,067,112 were incurred in the quarter ending July 31, 2007 and $464,316 in the quarter ending July 31, 2006. These factors among others may indicate that the Company will be unable to continue as a going concern for a reasonable period of time.

The Company's existence is dependent upon management's ability to develop profitable operations. Management is devoting substantially all of its efforts to developing its business and raising capital and there can be no assurance that the Company's efforts will be successful. However, there can be no assurance can be given that management's actions will result in profitable operations or the resolution of its liquidity problems. The accompanying statements do not include any adjustments that might result should the Company be unable to continue as a going concern.

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

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

GENERAL

The following discussion of our financial condition and results of operations should be read in conjunction with (1) our interim unaudited financial statements and their explanatory notes included as part of this quarterly report, and (2) our annual audited financial statements and explanatory notes for the year ended April 30, 2007 as disclosed in our annual report on Form 10-KSB for that year as filed with the SEC.

"FORWARD-LOOKING" INFORMATION

This report on Form 10-QSB contains certain "forward-looking statements" within the meaning of Section 21E of the Securities Exchange Act of 1934, as amended, which represent our expectations and beliefs, including, but not limited to statements concerning the Company's expected growth. The words "believe," "expect," "anticipate," "estimate," "project," and similar expressions identify forward-looking statements, which speak only as of the date such statement was made. These statements by their nature involve substantial risks and uncertainties, certain of which are beyond our control, and actual results may differ materially depending on a variety of important factors.

RESULTS OF OPERATIONS

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

For the three months ended July 31, 2007 and 2006, we have generated limited, but increasing, sales revenues, have incurred significant expenses, and have sustained significant losses. We believe we will continue to earn increasing revenues from operations during the remainder of our fiscal year ending April 30, 2008 and in the upcoming fiscal year.

REVENUES

Revenues totaled $283,997 during the three months ended July 31, 2007 as compared to $191,642 during the three months ended July 31, 2006. Current period revenue was comprised primarily of $138,964 in interest income from RISC Loans, $105,129 in lease revenue, $16,450 in private label fees and $23,454 in other fee income. For the three months ended July 31, 2006 revenues were comprised primarily of $153,092 in lease revenue, $10,200 in private label fees and $28,350 in other income.

COSTS AND EXPENSES

General and administrative expenses were $1,096,704 during the three months ended July 31, 2007, compared to $1,166,781 during the three months ended July 31, 2006, a decrease of $70,077or 6%. Expenses incurred during the current three month period consisted primarily of the following expenses: Compensation and related costs of $501,313; Legal and accounting fees of $7,404; Consulting fees of $80,246. Rent and utilities of $74,414; General office expenses of $143,201; and loss reserve expense of $52,994. Expenses incurred during the comparative three month period in 2006 consisted primarily of the following expenses: Compensation and related costs, $326,852; Accounting, audit and professional fees, $132,184; Consulting fees, $222,863; Rent, $48,087, Travel and entertainment, $39,590; and stock based compensation, $98,542.

During the three months ended July 31, 2007 we incurred, non-cash, stock based compensation charges of $186,317. During the three months ended July 31, 2006, we incurred a non-cash charge of $223,905 related to shares of common stock issued for consulting fees and services. During three months ending July 31, 2006 we have also recorded

non-cash income of $601,734 related to the decrease in value of warrants issued with registration rights.

NET LOSS

We incurred a net loss before preferred dividends of $1,062,499 for our three months ended July 31, 2007 as compared to $434,379 for the corresponding interim period in 2006. The $628,120 or 145% increase in our net loss before preferred dividends for our three month interim period ended July 31, 2007 was attributable primarily to the $601,734 non-cash reduction in operating loss for the 2006 period resulting from the gain in warrant liabilities.

We also incurred non-cash preferred dividend expense of $4,613 for our three month period ended July 31, 2007 as compared with an expense of $29,937 in the corresponding interim period of 2006. The decrease in preferred dividend expense was attributable to the conversion of 16,745 preferred shares to common stock during the current quarter.

Our net loss attributable to common stockholders increased to $1,067,112 for our three month period ended July 31, 2007 as compared to $464,316 for the corresponding three month period in 2006.

LIQUIDITY AND CAPITAL RESOURCES

As of July 31, 2007, the Company had a working capital deficit of $3,152,908. The Company generated a deficit in cash flow from operations of $738,180 for the three months ended July 31, 2007. Cash flows used in investing activities for the three months ended July 31, 2007 was $1,021,592 primarily due to the purchase of RISC Loans for $970,131 and payments for motorcycles and vehicles of $51,461.

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

The Company met its cash requirements for operating activities during the three month period ended July 31, 2007 through net proceeds from debt financing of $2,168,778 offset with payments of $440,635. Additionally, the Company had received limited revenues from leasing and financing motorcycles and other vehicles, its private label programs and from dealer sign-up fees and other fees.

The Company met its cash requirements for operating and financing activities during the three month period ended July 31, 2006 through net proceeds from equity transactions of $62,500 and debt financing of $667,238 offset with payments of $81,860. Additionally, the Company had received limited revenues from leasing and financing motorcycles and other vehicles, its recently launched private label programs and from dealer sign-up fees.

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

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

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

The independent auditors report on our April 30, 2007 and 2006 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 pursing additional financing through discussions with investment bankers, financial institutions and private investors. There can be no assurance the Company will be successful in its effort to secure additional financing.

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

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

PRODUCT RESEARCH AND DEVELOPMENT

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

ACQUISITION OR DISPOSITION OF PLANT AND EQUIPMENT

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

NUMBER OF EMPLOYEES

At July 31, 2007 we had 23 full time employees. If we fully implement our business plan, we anticipate our employment base may increase by approximately 25% 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

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 (principal amount of the contract plus the calculated earned income over the life of the contract), and the unearned income at lease inception is amortized over the lease term.

The Company purchases Retail Installment Sales Contracts (“RISC”) from motorcycle dealers. The RISCs are secured by liens on the titles to the vehicles. The RISCs are accounted for as loans. Upon purchase, the RISCs appear on the Company’s balance sheet as RISC loan receivable current and long term. Interest income on these loans is recognized when it is earned.

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

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

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.

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

STOCK-BASED COMPENSATION

On December 16, 2004, the Financial Accounting Standards Board (FASB) issued FASB Statement No. 123R (revised 2004), "Share-Based Payment" which is a revision of FASB Statement No. 123, "Accounting for Stock-Based Compensation". Statement 123R supersedes APB opinion No. 25, "Accounting for Stock Issued to Employees", and amends FASB Statement No. 95, "Statement of Cash Flows". Generally, the approach in Statement 123R is similar to the approach described in Statement 123. However, Statement 123R requires all share-based payments to employees, including grants of employee stock options, to be recognized in the income statement based on their fair values. Pro-forma disclosure is no longer an alternative.. Management has elected to apply Statement 123R in the third quarter of fiscal year 2006.

RECENT ACCOUNTING PRONOUNCEMENT

There have been no significant new pronouncements since the issuance of the Company’s Annual Report on Form 10-KSB for the fiscal year ended April 30, 2007.

WEBSITE DEVELOPMENT COSTS

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

OFF-BALANCE SHEET ARRANGEMENTS

The Company does not maintain off-balance sheet arrangements nor does it participate in non-exchange traded contracts requiring fair value accounting treatment.

TRENDS, RISKS AND UNCERTAINTIES

We have sought to identify what we believe to be the most significant risks to our business, but we cannot predict whether, or to what extent, any of such risks may be realized nor can we guarantee that we have identified all possible risks that might arise. Investors should carefully consider all of such risk factors before making an investment decision with respect to our Common Stock.

CAUTIONARY FACTORS THAT MAY AFFECT FUTURE RESULTS

We have sought to identify what we believe are significant risks to our business, but we cannot predict whether, or to what extent, any of such risks may be realized nor can we guarantee that we have identified all possible risks that might arise.

POTENTIAL FLUCTUATIONS IN ANNUAL OPERATING RESULTS

Our annual operating results may fluctuate significantly in the future as a result of a variety of factors, most of which are outside our control, including: the demand for our products and services; seasonal trends in purchasing, the amount and timing of capital expenditures and other costs relating to the commercial and consumer financing; price

competition or pricing changes in the market; technical difficulties or system downtime; general economic conditions and economic conditions specific to the consumer financing sector.

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

DEPENDENCE UPON MANAGEMENT

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

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

CONTINUED CONTROL OF CURRENT OFFICERS AND DIRECTORS

The present officers and directors own approximately 55% of the outstanding shares of common stock, without giving effect to shares underlying convertible securities, and therefore are in a position to elect all of our Directors and otherwise control the Company, including, without limitation, authorizing the sale of equity or debt securities of Sparta, the appointment of officers, and the determination of officers' salaries. Shareholders have no cumulative voting rights.

MANAGEMENT OF GROWTH

We may experience growth, which will place a strain on our managerial, operational and financial systems resources. To accommodate our current size and manage growth if it occurs, we must devote management attention and resources to improve our financial strength and our operational systems. Further, we will need to expand, train and manage our sales and distribution base. There is no guarantee that we will be able to effectively manage our existing operations or the growth of our operations, or that our facilities, systems, procedures or controls will be adequate to support any future growth. Our ability to manage our operations and any future growth will have a material effect on our stockholders.

If we fail to remain current on our reporting requirements, we could be removed from the OTC Bulletin Board which would limit the ability of broker-dealers to sell our securities and the ability of stockholders to sell their securities in the secondary market.

Companies trading on the OTC Bulletin Board, such as us, must be reporting issuers under Section 12 of the Securities Exchange Act of 1934, as amended, and must be current in their reports under Section 13, in order to maintain price quotation privileges on the OTC Bulletin Board. If we fail to remain current on our reporting requirements, we could be removed from the OTC Bulletin Board. As a result, the market liquidity for our securities could be severely adversely affected by limiting the ability of broker-dealers to sell our securities and the ability of stockholders to sell their securities in the secondary market.

ITEM 3. CONTROLS AND PROCEDURES

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

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

PART II. OTHER INFORMATION

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

From May 1, 2007 to July 24, 2007, in transactions deemed to be exempt from registration under the Securities Act in reliance on Section 4(2) of the Securities Act, the Company sold to sixteen accredited investors six month unsecured notes in the aggregate amount of $457,000. The notes bear interest at the simple interest rate of 6% per year. At the Company's option, the notes are convertible into shares of common stock at prices ranging from $0.03 to $0.055 per share. The notes mature in six months from the issuance on various dates through January 24, 2008.

During the three months ended July 31, 2007, in transactions deemed to be exempt from registration under the Securities Act in reliance on Section 4(2) of the Securities Act, the Company granted options to purchase an aggregate of 1,020,000 shares of common stock to eleven employees. The options are exercisable for a period of ten years, subject to vesting condition, at $0.10 per share.

In August 2007, 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 a three month consulting agreement with a consultant pursuant to which the Company issued 1,100,000 shares of restricted common stock.

During the period from August 1, 2007 to September 7, 2007, in transactions deemed to be exempt from registration under the Securities Act in reliance on Section 4(2) of the Securities Act, the Company sold to thirteen accredited investors, six month unsecured notes in the aggregate amount of $490,500. All notes bear 6% simple interest, payable in cash or shares, at the Company's option, with principal and accrued interest payable at maturity. Should the Company opt to convert these notes at maturity, these notes will be convertible into shares of common stock at prices ranging from $0.0288 to $0.0456 per share. All notes will mature in six months on various dates through March 7, 2008.

ITEM 6. EXHIBITS.

The following exhibits are filed with this report:

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

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* Filed herewith.

SIGNATURES

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

SPARTA COMMERCIAL SERVICES, INC.

Date: September 19, 2007

By: /s/ Anthony L. Havens

Anthony L. Havens
Chief Executive Officer

Date: September 19, 2007

By: /s/ Anthony W. Adler

Anthony W. Adler
Principal Financial Officer