

Edgar Filing: SPARTA COMMERCIAL SERVICES, INC. - Form 10QSB

SPARTA COMMERCIAL SERVICES, INC.  
Form 10QSB  
December 19, 2005

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

FORM 10-QSB

(Mark One)

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

For the quarterly period ended October 31, 2005

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

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

Commission file number: 0-9483

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

NEVADA  
(State or other jurisdiction of  
incorporation or organization)

30-0298178  
(IRS Employer  
Identification No.)

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

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

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

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

As of October 31, 2005, we had 87,834,921 shares of common stock issued and  
outstanding.

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

SPARTA COMMERCIAL SERVICES, INC.

FORM 10-QSB  
FOR THE QUARTER ENDED OCTOBER 31, 2005

TABLE OF CONTENTS

Page

PART I. FINANCIAL INFORMATION

## Edgar Filing: SPARTA COMMERCIAL SERVICES, INC. - Form 10QSB

Item 1.	Financial Statements (Unaudited)	3
	Condensed Consolidated Balance Sheets as of October 31, 2005 and April 30, 2005	3
	Condensed Consolidated Statements of Operations for the Three and Six Months Ended October 31, 2005 and 2004	4
	Condensed Consolidated Statements of Cash Flows for the Six Months Ended October 31, 2005 and 2004	5
	Notes to Unaudited Condensed Consolidated Financial Statements	6
Item 2.	Management's Discussion and Analysis of Financial Condition, Results of Operations and Plan of Operation	12
Item 3.	Controls and Procedures	20
PART II. OTHER INFORMATION		
Item 2.	Unregistered Sales of Equity Securities and Use of Proceeds	21
Item 6.	Exhibits	22
	Signatures	23

2

### PART I. FINANCIAL INFORMATION

#### ITEM 1. FINANCIAL STATEMENTS

##### SPARTA COMMERCIAL SERVICES, INC. CONDENSED CONSOLIDATED BALANCE SHEETS

	October 31, 2005	April 30, 2005
	----- (Unaudited)	-----
<b>ASSETS</b>		
Current assets:		
Cash and cash equivalents	\$ 19,740	\$ 108,365
Lease payments receivable, current portion	80,486	14,764
Prepaid expenses	90,000	--
Other current assets	6,034	6,700
	-----	-----
Total current assets	196,260	129,829
Motorcycles and other vehicles under operating leases, net of accumulated depreciation of \$28,364 and \$13,392, respectively	259,112	99,886
Property and equipment, net of accumulated depreciation and		

Edgar Filing: SPARTA COMMERCIAL SERVICES, INC. - Form 10QSB

amortization of \$33,665 and \$15,378, respectively	119,631	106,809
Lease payments receivable, net of current portion	205,027	21,521
Deposits	155,479	48,967
	-----	-----
Total assets	\$ 935,509	\$ 407,012
	=====	=====
LIABILITIES AND STOCKHOLDERS' EQUITY (DEFICIT)		
Current liabilities:		
Accounts payable and accrued expenses	\$ 1,224,019	\$ 509,936
Notes payable	17,605	300,000
Deferred revenue	78,548	23,100
Due to related party	25,000	25,000
	-----	-----
Total current liabilities	1,345,172	858,036
Notes payable, long term portion	86,686	--
	-----	-----
Total liabilities	1,431,858	858,036
	-----	-----
Stockholders' equity (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, 35,850 and 18,100 shares issued and outstanding, respectively	3,585,000	1,810,000
Common stock, \$0.001 par value; 340,000,000 shares authorized, 87,834,921 and 86,005,415 shares issued and outstanding, respectively	87,835	86,005
Common stock subscribed	180,000	--
Additional paid-in capital	7,216,915	3,930,629
Deferred compensation	(355,500)	--
Accumulated deficit	(11,210,599)	(6,277,658)
	-----	-----
Total stockholders' equity (deficit)	(496,349)	(451,024)
	-----	-----
Total liabilities and stockholders' equity (deficit)	\$ 935,509	\$ 407,012
	=====	=====

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

Edgar Filing: SPARTA COMMERCIAL SERVICES, INC. - Form 10QSB

	ended October 31, 2005	ended October 31, 2004	ended October 31, 2005
	-----	-----	-----
Revenue	\$ 30,295	\$ 21,464	\$ 47,621
	-----	-----	-----
Operating expenses:			
General and administrative	910,737	371,203	1,497,469
Depreciation and amortization	23,654	7,631	35,887
	-----	-----	-----
Total operating expenses	934,391	378,834	1,533,356
Loss from operations	(904,096)	(357,370)	(1,485,735)
Other expense:			
Interest expense and financing cost, net	(925,961)	--	(1,583,214)
Loss on sale of asset	--	--	(6,500)
	-----	-----	-----
Net loss	(1,830,057)	(357,370)	(3,075,449)
Preferred dividend	54,217	--	1,857,492
	-----	-----	-----
Net loss attributed to common stockholders	\$ (1,884,274)	\$ (357,370)	\$ (4,932,941)
	=====	=====	=====
Basic and diluted loss per share	\$ (0.02)	\$ (0.02)	\$ (0.04)
	=====	=====	=====
Basic and diluted loss per share attributed to common stockholders	\$ (0.02)	\$ (0.02)	\$ (0.06)
	=====	=====	=====
Weighted average shares outstanding	87,040,454	20,000,000	86,555,857

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

4

SPARTA COMMERCIAL SERVICES, INC.  
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS  
FOR THE SIX MONTHS ENDED OCTOBER 31, 2005 AND 2004  
(UNAUDITED)

	2005	2004
	-----	-----
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net loss	\$ (3,075,449)	\$ (770,815)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation and amortization	35,887	7,659
Amortization of deferred revenue	(6,600)	--
Amortization of deferred compensation	118,500	--
Stock issued for services	85,228	--

Edgar Filing: SPARTA COMMERCIAL SERVICES, INC. - Form 10QSB

Stock based finance cost	973,607	--
Loss on sale of assets	6,500	--
Changes in operating assets and liabilities:		
(Increase) decrease in:		
Lease payments receivable	(41,167)	(63,500)
Prepaid expenses	(90,000)	--
Other current assets	666	(10,695)
Deposits	(106,512)	--
Increase (decrease) in:		
Accounts payable and accrued expenses	644,371	250,342
Deferred revenue	62,048	86,033
	-----	-----
Net cash used in operating activities	(1,392,921)	(500,976)
	-----	-----
CASH FLOWS FROM INVESTING ACTIVITIES:		
Proceeds from sale of asset	25,000	--
Cost of asset sold	(31,500)	--
Payments for motorcycles and other vehicles	(176,826)	(81,696)
Investment in leases	(208,061)	--
Purchases of property and equipment	(31,109)	(45,894)
Net proceeds from marketable securities	--	13,379
	-----	-----
Net cash used by investing activities	(422,496)	(114,211)
	-----	-----
CASH FLOWS FROM FINANCING ACTIVITIES:		
Proceeds from sale of preferred stock, net	1,592,517	585,000
Repayment of affiliate advances	--	(23,885)
Proceeds from notes	104,340	75,000
Payments on notes	(150,049)	--
Common stock subscription	180,000	--
Payments for fractional shares	(16)	--
	-----	-----
Net cash provided by financing activities	1,726,792	636,115
	-----	-----
Net (decrease) increase in cash	(88,625)	20,928
Cash and cash equivalents, beginning of year	\$ 108,365	11,973
	-----	-----
Cash and cash equivalents, end of year	\$ 19,740	\$ 32,901
	=====	=====
Cash paid for:		
Interest	\$ 10,424	\$ --
Income taxes	--	--

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

## Edgar Filing: SPARTA COMMERCIAL SERVICES, INC. - Form 10QSB

### NOTE A - SUMMARY OF ACCOUNTING POLICIES

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

#### Basis of Presentation

The accompanying unaudited consolidated financial statements as of October 31, 2005 and for the six month periods ended October 31, 2005 and 2004 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, 2005 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 six months ended October 31, 2005 are not necessarily indicative of the results to be expected for the full year ending April 30, 2006.

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

#### Estimates

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

#### Revenue Recognition

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

# Edgar Filing: SPARTA COMMERCIAL SERVICES, INC. - Form 10QSB

OCTOBER 31, 2005  
(UNAUDITED)

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

### Revenue Recognition (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 October 31, 2005, the Company had recorded deferred revenue related to these contracts of \$16,500.

### 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 \$0.02 and \$0.02 for the three months ended October 31, 2005 and 2004, respectively, and \$0.06 and \$0.04 for the six months ended October 31, 2005 and 2004, respectively. For the six months ended October 31, 2005, 37,468,324 potential shares were excluded from the shares used to calculate diluted earnings per share as their inclusion would reduce net loss per share. There were no potentially dilutive securities at October 31, 2004.

### Reclassifications

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

# Edgar Filing: SPARTA COMMERCIAL SERVICES, INC. - Form 10QSB

SPARTA COMMERCIAL SERVICES, INC.  
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS  
OCTOBER 31, 2005  
(UNAUDITED)

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

### Stock Based Compensation

In December 2003, the FASB issued SFAS No. 148, "Accounting for Stock-Based Compensation-Transition and Disclosure-an amendment of SFAS 123." This statement amends SFAS No. 123, "Accounting for Stock-Based Compensation," to provide alternative methods of transition for a voluntary change to the fair value based method of accounting for stock-based employee compensation. In addition, this statement amends the disclosure requirements of SFAS No. 123 to require prominent disclosures in both annual and interim financial statements about the method of accounting for stock-based employee compensation and the effect of the method used on reported results. The Company has chosen to continue to account for stock-based compensation using the intrinsic value method prescribed in APB Opinion No. 25 and related interpretations. Accordingly, compensation expense for stock Warrants is measured as the excess, if any, of the fair market value of the Company's stock at the date of the grant over the exercise price of the related option. The Company has adopted the annual disclosure provisions of SFAS No. 148 in its financial reports from January 1, 2003. The Company had no awards of stock-based employee compensation during the six month periods ended October 31, 2005 or 2004.

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 third quarter of 2006. 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.

## NOTE B - RELATED PARTY TRANSACTIONS

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 the Company 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. Through October 31, 2005, payments of aggregating \$104,500 have been made against this obligation.

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.

# Edgar Filing: SPARTA COMMERCIAL SERVICES, INC. - Form 10QSB

SPARTA COMMERCIAL SERVICES, INC.  
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS  
OCTOBER 31, 2005  
(UNAUDITED)

## NOTE C - STOCKHOLDERS' EQUITY

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 six months ended October 31, 2005, 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 during the quarter.

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.

During September and October 2005, the Company issued an aggregate of 600,000 shares of common stock, pursuant to a consulting agreement. The shares have been valued at \$474,000 and this amount is being amortized over twelve months, commencing August 1, 2005. Additionally, the company will issue 600,000 during the second year of the agreement.

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

During October 2005, the Company received \$180,000 pursuant to a subscription agreement for 300,000 units of the Company's securities. Each unit consists of one share of common stock and a warrant to purchase one share of common stock exercisable for three years at \$0.80 per share. The price of the unit is \$0.60.

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 October 31, 2005.

### 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. 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.

SPARTA COMMERCIAL SERVICES, INC.  
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS  
OCTOBER 31, 2005  
(UNAUDITED)

NOTE C - STOCKHOLDERS' EQUITY (continued)

Preferred Stock Series A (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. There was not an effective registration statement as of July 31, 2005, nor is there one as of October 31, 2005. As a result, the Company has accrued an expense of \$600,000 during the three months ended October 31, 2005 related to this penalty provision. This amount will be settled through the issuance of equity securities. 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.

During the six months ended October 31, 2004, 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.

NOTE D - GOING CONCERN MATTERS

The accompanying consolidated financial statements have been prepared on a going concern basis, which contemplates the realization of assets and the satisfaction of liabilities in the normal course of business. As shown in the accompanying consolidated financial statements the Company has realized minimal revenue from operations and has incurred significant operating losses since inception. 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

## Edgar Filing: SPARTA COMMERCIAL SERVICES, INC. - Form 10QSB

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.

10

SPARTA COMMERCIAL SERVICES, INC.  
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS  
OCTOBER 31, 2005  
(UNAUDITED)

### NOTE E - NON-CASH FINANCIAL INFORMATION

During the six months ended October 31, 2005, the Company:

- o 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.
- o Incurred costs of \$182,483 related to the sale of preferred stock. These costs were deducted from the proceeds.
- o Issued 464,745 shares of common stock, valued at \$243,270, as additional costs related to loans received by the Company.
- o 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.
- o Issued an aggregate of 600,000 shares of common stock, pursuant to a consulting agreement. The shares have been valued at \$474,000 and this amount is being amortized over twelve months, commencing August 1, 2005.
- o Issued 113,637 shares of common stock, valued at \$85,228, for services.

### NOTE F - SUBSEQUENT EVENTS

Subsequent to October 31, 2005, the Company:

- o Received \$20,000 pursuant to a subscription agreement for 33,334 units of the Company's securities. Each unit consists of one share of common stock and a warrant to purchase one share of common stock exercisable for three years at \$0.80 per share. The price of the unit is \$0.60.
- o Received bridge loans in the amount of \$175,000. These bridge loans are due to be repaid in March 2006, together with simple interest at the rate of 10% per annum and an equity kicker of 70,000 shares of the company's common stock. 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 equity kicker shall be increased by 50% for each

## Edgar Filing: SPARTA COMMERCIAL SERVICES, INC. - Form 10QSB

month that such default has not been cured.

11

### ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION, RESULTS OF OPERATIONS 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, 2005 as disclosed in our annual report on Form 10-KSB for that year as filed with the SEC.

#### "FORWARD-LOOKING" INFORMATION

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

#### INTRODUCTORY STATEMENT

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

The year ended April 30, 2005 was a period of development, as we continued to develop our products and market them to dealers and manufacturers. 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. The period from inception through April 30, 2005 was a developmental stage period for us, setting up credit procedures, setting our arrangements with vehicle distributors, obtaining personnel, seeking financing to support our developmental efforts, and seeking credit facilities. In fiscal year 2005, we began to obtain regulatory approval in several states, where required, prior to commencing active operations. We are actively signing up dealers to participate in our financing programs, including our private label financing programs. We have signed up four manufacturers to our private label programs, and are in negotiations with other manufacturers who have indicated an interest in a private label program. Presently, we do not have sufficient operating capital to fulfill our planned business operations for the next twelve months for a credit line reserve and for our general operating expenses. We estimate that we will need approximately \$1,500,000 in additional funds to fully implement our business plan during the next twelve months. Although the Company obtained a senior credit facility in July 2005, which allowed us to commence our initial active operations, we will need to obtain additional credit facilities to fully implement our business plan. We need the additional credit facilities so that we have the funding sources to originate leases and finance contracts across all credit profiles. Our current credit facility only allows for origination across three out of five credit profiles. We are presently in discussions with several institutions about obtaining additional credit facilities, however, our lack of working capital could

## Edgar Filing: SPARTA COMMERCIAL SERVICES, INC. - Form 10QSB

negatively impact our ability to secure these facilities.

### RESULTS OF OPERATIONS

#### COMPARISON OF THE THREE MONTHS ENDED OCTOBER 31, 2005 TO THE THREE MONTHS ENDED OCTOBER 31, 2004

For the three months ended October 31, 2005 and 2004, 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 the current fiscal year.

12

#### Revenues

Revenues totaled \$30,295 during the three months ended October 31, 2005 as compared to \$21,464 during the three months ended July 31, 2004. Current period revenue was comprised primarily of \$24,223 in lease revenue, \$2,772 in dealer fees, and \$3,300 in private label fees. Prior period revenue was comprised primarily of \$16,497 in lease revenue and \$4,967 in private label fees.

#### Costs and Expenses

General and administrative expenses were \$910,737 during the three months ended October 31, 2005, compared to \$371,203 during the three months ended October 31, 2004, an increase of \$539,534, or 145%. Expenses incurred during the current three month period consisted primarily of the following expenses: Compensation and related costs, \$400,925; Accounting, audit and professional fees, \$114,008; Consulting fees, \$215,529; Rent, \$44,857; and Travel and entertainment, \$17,905. Expenses incurred during the comparative three month period consisted primarily of the following expenses: Compensation and related costs, \$178,769; Accounting, audit and professional fees, \$26,803; and Consulting fees, \$20,113.

We incurred a non-cash charge of \$323,672 during the three months ended October 31, 2005 related to shares of common stock issued in connection with debt financing. Additionally, we recorded an expense of \$600,000 related to the failure to have an effective registration statement covering the underlying shares of common stock issuable upon conversion of its preferred stock and the related warrants. This expense will be settled through the issuance of shares and warrants. There were no comparable expenses during the six months ended October 31, 2004.

#### Net Loss

We incurred a net loss before preferred dividends of \$1,830,057 for our three months ended October 31, 2005 as compared to \$357,370 for the corresponding interim period in 2004. The \$1,472,687 or 412% increase in our net loss before preferred dividends for our three month interim period ended October 31, 2005 was attributable primarily to a \$539,534 increase in general and administrative expense and an increase of \$923,672 in non-cash financing costs.

We also incurred preferred dividend expense of \$54,217 for our three month period ended October 31, 2005 with no comparable expense for the corresponding interim period in 2004. The increase in preferred dividend expense was attributable to the sale of convertible preferred stock that commenced in December, 2004 and concluded in July 2005.

Our net loss attributable to common stockholders increased to \$1,884,274 for our three month period ended October 31, 2005 as compared to \$357,370 for the corresponding period in 2004. The \$1,526,904 increase in net loss attributable

## Edgar Filing: SPARTA COMMERCIAL SERVICES, INC. - Form 10QSB

to common stockholders for our three month period ended October 31, 2005 was due to the \$1,472,687 increase in our net loss before preferred dividends, increased by the aforesaid \$54,217 increase in preferred dividend expense.

COMPARISON OF THE SIX MONTHS ENDED OCTOBER 31, 2005 TO THE SIX MONTHS ENDED OCTOBER 31, 2004

For the six months ended October 31, 2005 and 2004, 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 the current fiscal year.

13

### Revenues

Revenues totaled \$47,621 during the six months ended October 31, 2005 as compared to \$21,464 during the six months ended October 31, 2004. Current period revenue was comprised primarily of \$34,974 in lease revenue, \$6,047 in dealer fees, and \$6,600 in private label fees. Prior period revenue was comprised primarily of \$16,497 in lease revenue and \$4,967 in private label fees.

### Costs and Expenses

General and administrative expenses were \$1,497,469 during the six months ended October 31, 2005, compared to \$784,620 during the six months ended October 31, 2004, an increase of \$712,849, or 91%. Expenses incurred during the current six month period consisted primarily of the following expenses: Compensation and related costs, \$656,294; Accounting, audit and professional fees, \$173,149; Consulting fees, \$361,587; Rent, \$72,814; and Travel and entertainment, \$35,331. Expenses incurred during the comparative six month period consisted primarily of the following expenses: Compensation and related costs, \$322,362; Accounting, audit and professional fees, \$59,657; Consulting fees, \$59,438; and License fees, \$150,633.

In connection with its private placement transactions, the Company has expensed non-cash costs of \$406,665 during the six months ended October 31, 2005 related to warrants granted to the private placement agent, with no related expense during the comparative period. The Company also incurred a non-cash charge of \$599,642 during the six months ended October 31, 2005 related to shares of common stock issued in connection with debt financing and has recorded an expense of \$600,000 related to the failure to have an effective registration statement covering the underlying shares of common stock issuable upon conversion of its preferred stock and the related warrants. This expense will be settled through the issuance of shares and warrants. There were no comparable expenses during the six months ended October 31, 2004.

### Net Loss

We incurred a net loss before preferred dividends of \$3,075,449 for our six months ended October 31, 2005 as compared to \$770,815 for the corresponding interim period in 2004. The \$2,304,634 or 299% increase in our net loss before preferred dividends for our six month interim period ended October 31, 2005 was attributable primarily to a \$712,849 increase in general and administrative expense and an increase of \$1,573,607 in non-cash financing costs.

We also incurred preferred dividend expense of \$1,857,492 for our six month period ended October 31, 2005 with no comparable expense for the corresponding interim period in 2004. The increase in preferred dividend expense was attributable to the sale of convertible preferred stock that commenced in December, 2004 and concluded in July 2005. In addition to dividends payable on

## Edgar Filing: SPARTA COMMERCIAL SERVICES, INC. - Form 10QSB

the outstanding preferred stock, preferred dividend expense includes an aggregate charge of \$1,775,000 related to warrants issued with the convertible preferred stock and a beneficial conversion feature associated with the preferred stock.

Our net loss attributable to common stockholders increased to \$4,932,941 for our six month period ended October 31, 2005 as compared to \$770,815 for the corresponding period in 2004. The \$4,162,126 increase in net loss attributable to common stockholders for our six month period ended October 31, 2005 was due to the \$2,304,634 increase in our net loss before preferred dividends, increased by the aforesaid \$1,857,492 increase in preferred dividend expense.

14

### LIQUIDITY AND CAPITAL RESOURCES

As of October 31, 2005, the Company had a working capital deficit of \$1,148,912. The Company generated a deficit in cash flow from operations of \$1,392,921 for the six months ended October 31, 2005. This deficit is primarily attributable to the Company's net loss from operations of \$3,075,449, partially offset by depreciation and amortization of \$35,887 and the fair value attributed to stock and warrants issued of \$1,177,335, and to changes in the balances of current assets and liabilities. Accounts payable and accrued expenses increased by \$644,371, deferred revenue increased by 62,048 and prepaid expenses and deposits increased by \$196,512.

Cash flows used in investing activities for the six months ended October 31, 2005 was \$422,496, primarily due to the purchase of property and equipment of \$31,109, payments for motorcycles and vehicles of \$176,826 and investments in leases of \$208,061.

The Company met its cash requirements during the period through net proceeds from the issuance of equity of \$1,592,517, debt financing of \$104,340 and a subscription for 300,000 units of our securities, consisting of one share of common stock and a warrant to purchase one share of common stock exercisable for three years at \$0.80 per share, for \$180,000, all partially offset by payments on bridge loans of \$150,000. In November 2005, we sold 33,334 additional units of our securities, at \$0.60 per unit, consisting of one share of common stock and a warrant to purchase one share of common stock exercisable for three years at \$0.80 per share, for gross proceeds of \$20,000. During December 2005, we have received a bridge loan in the amount of \$50,000. This bridge loan is due to be repaid on March 14, 2006, together with simple interest at the rate of 10% per annum and an equity kicker of 20,000 shares of the Company's common stock. 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 equity kicker shall be increased by 50% for each month that such default has not been cured. Additionally, the Company has received limited revenues from leasing and financing motorcycles and other vehicles, its recently launched private label programs and from dealer sign-up fees.

While we have raised capital to meet our working capital and financing needs in the past, additional financing is required in order to meet our current and projected cash flow deficits from operations and development. We are seeking financing, which may take the form of debt, convertible debt or equity, in order to provide the necessary working capital. We have entered into negotiations with an investment bank to help us raise equity capital, but we currently have no commitments for financing. There is no guarantee that we will be successful in raising the funds required.

We estimate that we will need approximately \$1,500,000 in additional funds to

## Edgar Filing: SPARTA COMMERCIAL SERVICES, INC. - Form 10QSB

fully implement our business plan during the next twelve months for a credit line reserve and for our general operating expenses. 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.

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

The independent auditors report on our April 30, 2005 and 2004 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.

15

### PLAN OF OPERATIONS

#### Addressing the Going Concern Issues

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

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 increases the difficulty in meeting such goals and there can be no assurances that such methods will prove successful.

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

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

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

#### Product Research and Development

## Edgar Filing: SPARTA COMMERCIAL SERVICES, INC. - Form 10QSB

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 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 October 31, 2005, we have relied on the services of outside consultants for services and currently have nine 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.

16

### 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

## Edgar Filing: SPARTA COMMERCIAL SERVICES, INC. - Form 10QSB

and recognized in income at the inception of the lease. Direct financing leases are recorded at the gross amount of the lease receivable, and unearned income at lease inception is amortized over the lease term.

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

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

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

### Stock-Based Compensation

In December 2003, the FASB issued SFAS No. 148, "Accounting for Stock-Based Compensation-Transition and Disclosure-an amendment of SFAS 123." This statement amends SFAS No. 123, "Accounting for Stock-Based Compensation," to provide alternative methods of transition for a voluntary change to the fair value based method of accounting for stock-based employee compensation. In addition, this statement amends the disclosure requirements of SFAS No. 123 to require prominent disclosures in both annual and interim financial statements about the method of accounting for stock-based employee compensation and the effect of the method used on reported results. The Company has chosen to continue to account for stock-based compensation using the intrinsic value method prescribed in APB Opinion No. 25 and related interpretations. Accordingly, compensation expense for stock warrants is measured as the excess, if any, of the fair market value of the Company's stock at the date of the grant over the exercise price of the related option. The Company has adopted the annual disclosure provisions of SFAS No. 148 in its financial reports for the period from January 1, 2003 through April 30, 2003 and will adopt the interim disclosure provisions for its financial reports for the subsequent periods. The Company has stock based awards of compensation to employees of \$82,500 granted and outstanding during the period from October 1, 2001 (date of inception) through April 30, 2005, with none granted during the current interim period.

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

## Edgar Filing: SPARTA COMMERCIAL SERVICES, INC. - Form 10QSB

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 third quarter of 2006. 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.

### 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.

## Edgar Filing: SPARTA COMMERCIAL SERVICES, INC. - Form 10QSB

### 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 Articles of Incorporation provide, however, that our officers and directors shall have no liability to our shareholders for losses sustained or liabilities incurred which arise from any transaction in their respective managerial capacities unless they violated their duty of loyalty, did not act in good faith, engaged in intentional misconduct or knowingly violated the law, approved an improper dividend or stock repurchase, or derived an improper benefit from the transaction. Our Articles and By-Laws also provide for the indemnification by us of the officers and directors against any losses or liabilities they may incur as a result of the manner in which they operate our business or conduct the internal affairs, provided that in connection with these activities they act in good faith and in a manner that they reasonably believe to be in, or not opposed to, the best interests of Sparta, and their conduct does not constitute gross negligence, misconduct or breach of fiduciary obligations. To further implement the permitted indemnification, we have entered into Indemnity Agreements with our officers and directors.

### Continued Control of Current Officers and Directors

The present officers and directors own approximately 76% 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

## Edgar Filing: SPARTA COMMERCIAL SERVICES, INC. - Form 10QSB

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.

19

### ITEM 3. 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 15a-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.

20

## PART II. OTHER INFORMATION

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

During the year ended April 30, 2005, we sold promissory notes with rights to acquire common stock to accredited investors in transaction deemed exempt from registration pursuant to Section 4(2) of the Securities Act. During the quarter ended July 31, 2005, we issued 288,464 shares of common stock pursuant to the terms of the notes. In August 2005 and October 2005, we issued an aggregate of 827,406 shares of common stock pursuant to the terms of the notes.

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 have not yet been issued as of October 31, 2005.

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.

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. In November 2005, we sold to one accredited investor an additional 33,334 units for gross proceeds of \$20,000. 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. We used the proceeds for working capital purposes.

Edgar Filing: SPARTA COMMERCIAL SERVICES, INC. - Form 10QSB

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 for bridge loans in the amount of \$175,000. These bridge loans mature in March 2006, together with simple interest at the rate of 10% per annum. As part of the loans, we agreed to issue the lenders, as an equity kicker, 70,000 shares of our common stock. 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.

21

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 and Principal Financial Officer Pursuant to Securities Exchange Act Rule 13a-14(a)/15d-14(a)
Exhibit 32.1*	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

---

\* Filed herewith.

22

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: December 19, 2005

By: /s/ Anthony L. Havens  
-----  
Anthony L. Havens  
Chief Executive Officer and  
Principal Financial Officer

23