

U.S. SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

Quarterly Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934 For the Quarterly Period Ended September 30, 2006

or

Transition Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934 for the transition period from _____ to _____

Commission File Number 0-22153

AMERITRANS CAPITAL CORPORATION

(Exact name of registrant as specified in its charter)

Delaware

52-2102424

(State of incorporation)

(I.R.S. Employer Identification No.)

747 Third Avenue, New York, New York 10017

(Address of Registrant's principal executive office)

(Zip Code)

(800) 214-1047

(Registrant's telephone number, including area code)

Indicate by check mark whether the Registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 (the "Act") during the preceding 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 large accelerated filer, an accelerated filer, or a non-accelerated filer (as defined in Rule 12b-2 of the Act).

Large accelerated filer Accelerated filer Non-accelerated filer

The number of shares of Common Stock, par value \$.0001 per share, outstanding as of November 13, 2006: 3,401,208.

AMERITRANS CAPITAL CORPORATION AND SUBSIDIARIES
FORM 10-Q

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PART I. FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

AMERITRANS CAPITAL CORPORATION AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS

AS OF SEPTEMBER 30, 2006 (UNAUDITED) AND JUNE 30, 2006

ASSETS

	<u>September 30, 2006</u>	<u>June 30, 2006</u>
Loans receivable	\$49,858,894	\$49,855,530
Less: unrealized depreciation on loans receivable	<u>(186,550)</u>	<u>(290,300)</u>
Loans receivable, net	49,672,344	49,565,230
Cash and cash equivalents	819,677	846,623
Accrued interest receivable, net of unrealized depreciation of \$31,500 and \$31,500, respectively	671,842	662,846
Assets acquired in satisfaction of loans	253,251	288,251
Receivables from debtors on sales of assets acquired in satisfaction of loans	650,772	482,525
Equity securities	1,883,604	1,782,924
Investment in life settlement contracts	1,129,724	-
Furniture, equipment and leasehold improvements, net	223,325	244,340
Medallions under lease	1,706,901	1,706,901
Prepaid expenses and other assets	<u>453,682</u>	<u>439,171</u>
TOTAL ASSETS	<u>\$57,465,122</u>	<u>\$56,018,811</u>

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

AMERITRANS CAPITAL CORPORATION AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS

AS OF SEPTEMBER 30, 2006 (UNAUDITED) AND JUNE 30, 2006

LIABILITIES AND STOCKHOLDERS' EQUITY

	September 30, 2006	June 30, 2006
LIABILITIES		
Debentures payable to SBA	\$12,000,000	\$12,000,000
Notes payable, banks	22,882,500	20,927,500
Accrued expenses and other liabilities	660,953	880,203
Accrued interest payable	148,900	367,465
Dividends payable	84,375	84,375
	<hr/>	<hr/>
TOTAL LIABILITIES	35,776,728	34,259,543
	<hr/>	<hr/>
COMMITMENTS AND CONTINGENCIES (Notes 3,4, 5, 6 and 8)		
STOCKHOLDERS' EQUITY		
Preferred stock 500,000 shares authorized, none issued or outstanding	-	-
9 3/8% cumulative participating callable preferred stock \$ 0.01 par value, \$12.00 face value, 500,000 shares authorized; 300,000 shares issued and outstanding	3,600,000	3,600,000
Common stock, \$ 0.0001 par value; 10,000,000 shares authorized; 3,401,208 shares issued and 3,391,208 shares outstanding	340	340
Additional paid-in-capital	21,119,817	21,119,817
Accumulated deficit	(2,734,662)	(2,683,314)
Accumulated other comprehensive loss	(227,101)	(207,575)
	<hr/>	<hr/>
	21,758,394	21,829,268
Less: Treasury stock, at cost, 10,000 shares of common stock	(70,000)	(70,000)
	<hr/>	<hr/>
TOTAL STOCKHOLDERS' EQUITY	21,688,394	21,759,268
	<hr/>	<hr/>
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	\$57,465,122	\$56,018,811
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The accompanying notes are an integral part of these financial statements.

**AMERITRANS CAPITAL CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF OPERATIONS**

FOR THE THREE MONTHS ENDED SEPTEMBER 30, 2006 AND 2005 (UNAUDITED)

	Three Months Ended September 30, 2006	Three Months Ended September 30, 2005
INVESTMENT INCOME		
Interest on loans receivable	\$1,224,141	\$1,149,783
Fees and other income	179,087	82,301
Leasing income	22,971	49,468
TOTAL INVESTMENT INCOME	1,426,199	1,281,552
OPERATING EXPENSES		
Interest	536,146	539,273
Salaries and employee benefits	282,858	276,238
Occupancy costs	54,638	54,716
Professional fees	174,025	69,812
Other administrative expenses	316,386	281,789
Loss and impairments on assets acquired in satisfaction of loans, net	29,748	3,000
Foreclosure expenses, net	(2,466)	2,208
Write off and depreciation on interest and loans receivable	27,921	35,848
TOTAL OPERATING EXPENSES	1,419,256	1,262,884
OPERATING INCOME	6,943	18,668
OTHER INCOME		
Equity in income of investee	28,139	-
INCOME BEFORE PROVISION FOR INCOME TAXES	35,082	18,668
PROVISION FOR INCOME TAXES	2,055	9,724
NET INCOME	\$ 33,027	\$ 8,944
DIVIDENDS ON PREFERRED STOCK	\$ (84,375)	\$ (84,375)
NET LOSS AVAILABLE TO COMMON STOCKHOLDERS	\$ (51,348)	\$ (75,431)
WEIGHTED AVERAGE SHARES OUTSTANDING		
- Basic	3,391,208	2,035,600
- Diluted	3,391,208	2,035,600
NET LOSS PER COMMON SHARE		
- Basic	\$(0.02)	\$(0.03)
- Diluted	\$(0.02)	\$(0.03)

The accompanying notes are an integral part of these financial statements

AMERITRANS CAPITAL CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE THREE MONTHS ENDED SEPTEMBER 30, 2006 AND 2005 (UNAUDITED)

	Three Months Ended September 30, 2006	Three Months Ended September 30, 2005
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income	\$ 33,027	\$ 8,944
Adjustments to reconcile net income to net cash used in operating activities:		
Depreciation and amortization	31,350	31,735
Equity in income of investee	(28,139)	-
Loss on write-down of assets acquired in satisfaction of loans	35,000	-
Change in operating assets and liabilities:		
Changes in unrealized depreciation on loans receivable and accrued interest receivable	(103,750)	(34,500)
Accrued interest receivable	(8,996)	113,220
Prepaid expenses and other assets	(24,847)	(21,893)
Accrued expenses and other liabilities	(219,250)	(107,156)
Accrued interest payable	(218,565)	(129,425)
TOTAL ADJUSTMENTS	(537,197)	(148,019)
NET CASH USED IN OPERATING ACTIVITIES	(504,170)	(139,075)
CASH FLOWS FROM INVESTING ACTIVITIES		
Loans receivable	(3,364)	556,756
Receivables from debtors on sales of assets acquired in satisfaction of loans	(168,247)	40,709
Proceeds from sales of Medallions and Autos	-	57,500
Purchases of equity securities	(157,226)	-
Investment in life settlement contracts	(1,129,724)	-
Proceeds from sale of equity securities	65,200	-
Purchase of furniture and equipment	-	(4,784)
NET CASH (USED IN) PROVIDED BY INVESTING ACTIVITIES	(1,393,401)	650,181
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from notes payable, banks	2,830,000	500,000
Repayments of notes payable, banks	(875,000)	(620,000)
Dividends paid	(84,375)	(84,375)
NET CASH PROVIDED BY (USED IN) FINANCING ACTIVITIES	1,870,625	(204,375)
NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS	(26,946)	306,731
CASH AND CASH EQUIVALENTS – Beginning	846,623	327,793
CASH AND CASH EQUIVALENTS – Ending	\$ 819,677	\$ 634,524
SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION		
Cash paid for interest	\$ 754,711	\$ 668,698
SUPPLEMENTAL DISCLOSURES OF NON-CASH INVESTING ACTIVITIES		
Unrealized loss on equity securities arising during the period	\$ (19,526)	\$ (51,093)

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

AMERITRANS CAPITAL CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. Organization and Summary of Significant Accounting Policies

Financial Statements

The consolidated balance sheet of Ameritrans Capital Corporation ("Ameritrans", the "Company", "our", "us", or "we") as of September 30, 2006, and the related consolidated statements of operations and cash flows for the three months ended September 30, 2006 and 2005 have been prepared by the Company, without audit, pursuant to the rules and regulations of the Securities and Exchange Commission (the "Commission"). Certain information and footnote disclosures normally included in financial statements prepared in accordance with accounting principles generally accepted in the United States have been condensed or omitted pursuant to such rules and regulations. In the opinion of the Board of Directors and management of the Company ("Management" or "Board of Directors"), the accompanying consolidated financial statements include all adjustments (consisting of normal, recurring adjustments) necessary to summarize fairly the Company's financial position and results of operations. The results of operations for the three months ended September 30, 2006 are not necessarily indicative of the results of operations for the full year or any other interim period. These financial statements should be read in conjunction with the audited financial statements and notes thereto included in the Company's Annual Report on Form 10-K for the fiscal year ended June 30, 2006, as filed with the Commission.

Organization and Principal Business Activity

Ameritrans is a Delaware closed-end investment company formed in 1998, which through its subsidiary, Elk Associates Funding Corporation ("Elk"), makes loans to taxi owners to finance the acquisition and operation of taxi medallions and related assets, and to other small businesses. Ameritrans also makes loans to and investments in opportunities that Elk has historically been unable to make due to U.S. Small Business Administration (the "SBA") Regulation.

Both Ameritrans and Elk are registered as business development companies, or "BDCs," under the Investment Company Act of 1940, as amended (the "1940 Act"). Accordingly, Ameritrans and Elk are subject to the provisions of the 1940 Act governing the operation of BDCs. Both companies are managed by their executive officers under the supervision of their Boards of Directors. Ameritrans and Elk have also elected to be treated as regulated investment companies, or "RICs," for tax purposes. Additionally, Elk, a New York corporation, is licensed by the SBA to operate as a Small Business Investment Company ("SBIC") under the Small Business Investment Act of 1958, as amended.

Basis of Consolidation

The consolidated financial statements include the accounts of Ameritrans, Elk and Elk's wholly owned subsidiaries, EAF Holding Corporation ("EAF"), EAF Enterprises LLC ("EAF Enterprises"), Medallion Auto Management LLC ("Medallion"), EAF Leasing LLC, EAF Leasing II LLC and EAF Leasing III LLC. All significant inter-company transactions have been eliminated in consolidation.

EAF began operations in December 1993 and owns and operates certain real estate assets acquired in satisfaction of defaulted loans by Elk.

EAF Enterprises owned, leased and resold medallions acquired in satisfaction of foreclosures by Elk. EAF Enterprises was voluntarily liquidated and dissolved on April 20, 2006.

Medallion owned, leased and resold automobiles in conjunction with the activities of EAF Enterprises. Medallion was voluntarily liquidated and dissolved on April 21, 2006.

EAF Leasing LLC began operations in October 2003 and owns and leases medallions acquired in satisfaction of foreclosures by Elk.

EAF Leasing II LLC began operations in October 2003 and owns and leases medallions acquired in satisfaction of foreclosures by Elk.

EAF Leasing III LLC began operations in January 2004 and owns and leases medallions acquired in satisfaction of foreclosures by Elk.

Ameritrans organized another subsidiary on June 8, 1998, Elk Capital Corporation ("Elk Capital"), which may engage in lending and investment activities similar to Ameritrans. Since its inception, Elk Capital has had no operations.

Income Taxes

The Company has elected to be taxed as a Regulated Investment Company ("RIC") under the Internal Revenue Code (the "Code"). An RIC generally is not taxed at the corporate level to the extent its income is distributed to its shareholders. In order to qualify as an RIC, a company must payout at least ninety percent (90%) of its net taxable investment income to its stockholders as well as meet other requirements under the Code. In order to preserve this election for fiscal 2006, the Company intends to make the required distributions to its shareholders.

The Company is subject to certain state and local franchise taxes, as well as related minimum filing fees assessed by state taxing authorities. Such taxes and fees are reported as "provisions for income taxes" and reflected in each of the periods presented.

Earnings (Loss) Per Share

Basic earnings (loss) per share is computed by dividing income (loss) available to common stockholders by the weighted average number of common shares outstanding for the applicable period. Diluted earnings per share reflect, in periods in which they have a dilutive effect, the effect of common shares issuable upon the exercise of stock options and warrants. The difference between reported basic and diluted weighted average common shares results from the assumption that all dilutive stock options outstanding were exercised. For the periods presented, the effect of stock options and warrants has been excluded from the diluted calculation since their inclusion would be antidilutive.

Loan Valuations

The Company's loan portfolio is carried at fair value. Since no ready market exists for these loans, the fair value is determined in good faith by the Board of Directors of the Company with Management's participation. In determining the fair value, the Board considers factors such as the financial condition of the borrower, the adequacy of the collateral to support the loans, individual credit risks, historical loss experience and the relationships between current and projected market rates and portfolio rates of interest and maturities. The fair value of the loans approximates cost less unrealized depreciation.

Unrealized depreciation in loan values has generally been caused by specific events related to credit risk. Loans are considered "non-performing" once they become 90 days past due as to principal or interest. These past due loans are periodically evaluated by management and if, in the judgment of management, the amount is not collectible and the fair value of the collateral is less than the amount due, a reserve is established. If the fair value of the collateral exceeds the loan balance at the date of valuation, the Company makes no write-down of the loan amount.

Use of Estimates

The preparation of financial statements in conformity with U.S. generally accepted accounting principles requires Management to make extensive use of estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. Estimates that are particularly susceptible to change are these estimates that relate to the determination of the fair value of loans receivable and other financial instruments.

2. Medallions

During the year ended June 30, 2004, Elk transferred Chicago taxicab medallions obtained from defaulted and foreclosed loans to certain newly formed wholly-owned subsidiaries. The subsidiaries borrowed funds in the amount of \$2,382,201 from Elk to complete the purchases of the medallions and gained title by paying related transfer fees and satisfying outstanding liens with Elk and Chicago.

The subsidiaries, in turn, leased these medallions to taxicab operators or companies in the Chicago market under weekly and long-term operating lease terms. By the close of the fiscal year ended June 30, 2006, there were no leases to individuals in effect and all medallions previously leased to individual operators were sold. The long-term medallion leases are with taxicab companies, which expire at various dates between January 31, 2008 and December 31, 2008, and may be cancelled by either party with forty-five (45) days advance written notice.

Leasing income under all medallion and taxi cab leases for the three (3) months ended September 30, 2006 was \$22,971.

3. Investment in Life Settlement Contracts

On September 20, 2006, the Company entered into an agreement with an unaffiliated company (the "Agreement") for the purpose of purchasing life insurance policies on unrelated individuals. Under terms of the Agreement, the Company was designated as nominee to maintain possession of the policies and process transactions related to such policies until the policies are subsequently sold. The Company is entitled to receive from the unaffiliated company a twelve percent (12%) annual return on the amount of funds paid by the Company and outstanding on a monthly, prorated basis. Proceeds from the sale of the policies are to be distributed, net of direct expenses, as defined in the Agreement.

As of September 30, 2006, the carrying value of amounts invested was \$1,129,724. The amount represents payments made to cover first year premiums for six (6) life insurance policies with an aggregate face value of \$23,250,000 in order to obtain the rights of being the owner and beneficiary on those policies. Premiums on the policies will continue to be paid by the Company, until the policies are sold. If an insured dies before the policy is resold, then the terms of the contractual agreements with the insured provide that 50% of the death benefit proceeds of the policy will be paid to the insured party's family, and the other 50% of the death benefit proceeds will be paid to the Company, to be distributed in accordance with the terms of the Agreement. The Company may sell the policies at any time, at the sole discretion of the Company. However, if the Company were to continue to make payments on each of the policies for the life expectancy of the insured, premiums due would be approximately \$4,200,000 over the next five (5) years and \$9,800,000 thereafter.

4. Debentures Payable to SBA

At September 30, 2006 and June 30, 2006, debentures payable to the SBA consisted of subordinated debentures with interest payable semiannually, as follows:

<u>Issue Date</u>	<u>Due Date</u>	<u>Effective Interest Rate</u>	<u>3/31/06 and 6/30/06 Principal Amount</u>
July 2002	September 2012	4.67% ⁽¹⁾	\$ 2,050,000
December 2002	March 2013	4.63% ⁽¹⁾	3,000,000
September 2003	March 2014	4.12% ⁽¹⁾	5,000,000
February 2004	March 2014	4.12% ⁽¹⁾	1,950,000
			<u>\$ 12,000,000</u>

⁽¹⁾ Elk is required to pay an additional annual user fee of 0.866% on these debentures.

Under the terms of the subordinated debentures, the Company may not repurchase or retire any of its capital stock or make any distributions to its stockholders other than dividends out of retained earnings (as computed in accordance with SBA regulations) without the prior written approval of the SBA. Dividends paid in 2006 and 2005 were in accordance with SBA regulations.

SBA Commitment

In January 2002 the Company and the SBA entered into an agreement whereby the SBA committed to reserve debentures in the amount of \$12,000,000 to be issued by the Company on or prior to September 30, 2006. A 2% leverage fee will be deducted pro rata as the commitment proceeds are drawn down. A 1% non-refundable commitment fee of \$120,000 was paid by Elk in 2002 at the time of obtaining the \$12,000,000 commitment. In February 2004, Elk made the final draw down under this commitment.

5. Notes Payable to Banks

At September 30, 2006 and June 30, 2006, Elk had loan agreements with three (3) banks for lines of credit aggregating \$36,000,000. At September 30, 2006 and June 30, 2006, \$22,882,500 and \$20,927,500 respectively, were outstanding under these lines. The loans, which mature at various dates through January 31, 2007, and bear interest at the lower of either the reserve adjusted LIBOR rate plus 1.5% or the banks' prime rate minus 0.50%. At September 30, 2006, the weighted average interest rate on outstanding bank debt was approximately 6.89%.

Upon maturity, the Company anticipates that the banks will extend these lines of credit for another year, as has been the practice in previous years. Pursuant to the terms of the agreements, the Company is required to comply with certain covenants and conditions, as defined in the agreements. The Company has pledged its loans receivable and all other assets as collateral for the above lines of credit. Pursuant to the SBA agreement and an "intercreditor agreement" among the lending banks, the SBA agreed to subordination in favor of the banks, provided that the Company maintains certain debt levels based on performance of its portfolio.

6. Commitments and Contingencies

Interest Rate Swaps

On October 14, 2005, Elk entered into two (2) interest rate swap transactions for \$5,000,000 each, which expire October 15, 2007 and October 14, 2008 respectively. Elk entered into these swap transactions to hedge against an upward movement in interest rates relating to outstanding bank debt. The swap transaction expiring October 15, 2007 provides for a fixed rate of 6.20%, and the swap transaction expiring October 14, 2008 provides for a fixed rate of 6.23%. If the Company's floating borrowing rate (the one-month LIBOR rate plus 1.5%) falls below the fixed rate, Elk is obligated to pay the bank the difference in rates. If the Company's floating borrowing rate rises above the fixed rate, the bank is obligated to pay Elk the difference in rates.

7. Comprehensive Income (Loss)

The components of comprehensive income (loss) are as follows:

	Three Months Ended September 30,	
	2006	2005
Net income	\$33,027	\$8,944
Other comprehensive income (loss):		
Unrealized losses on equity securities	(19,526)	(51,093)
Total comprehensive income (loss)	<u>\$13,501</u>	<u>\$(42,149)</u>

8. Other Matters

Quarterly Dividend

The Company has declared and paid the quarterly dividend on its 9 3/8% Cumulative Participating Preferred Stock (the "Participating Preferred Stock") since the Participating Preferred Stock was issued. Most recently, on September 19, 2006 the Company's Board of Directors declared a dividend of \$0.28125 per share on the Participating Preferred Stock for the period July 1, 2006 through September 30, 2006, which was paid on or about October 16, 2006 to all holders of record as of September 29, 2006.

SBA Matter

On August 29, 2005, the Company received a letter from the U.S. Small Business Administration together with a copy of the Examination Report for the period ended March 31, 2004. The letter and Examination Report contained findings that Elk had potentially violated certain provisions of the SBA regulations, relating to (1) the sale of certain foreclosed Chicago medallions to an associate of Elk without obtaining the SBA's final written approval, and (2) the creation of subsidiary companies and completion of certain related financings to those subsidiary companies without obtaining the SBA's prior written approval. The letter contained certain other comments with respect to partial use of proceeds concerning one loan that the Company

made to a third party borrower, and the prepayment provision contained in loan documents to a different borrower.

Certain members of the Company's Management met with the SBA on September 20, 2005 to discuss and resolve these issues. The Company believes that it was acting in good faith when it effectuated the transactions with respect to the sale of the foreclosed Chicago medallions to an associate, as it had applied for permission from SBA prior to completion of the loan in question, had obtained an indication of approval and SBA was in the process of taking the steps to obtain formal written approval for the transaction. The Company believes that it was also acting in good faith when it created the subsidiary companies (deemed "associates" under SBA regulations) to purchase the foreclosed medallions, as it was having ongoing discussions with SBA at the time to obtain SBA's approval of the transaction and had received verbal indications that it felt it had or would, in due course, subsequently obtain SBA's written approval to the transactions.

On February 21, 2006, the Company received a letter (the "SBA Letter") from the SBA regarding the September 20, 2005 meeting between the SBA and the Company, the Examination Report and the SBA findings. The Company responded in writing to the SBA Letter on March 29, 2006. On November 8, 2006, the Company received a response letter from the SBA requesting additional information concerning the sale of the remaining medallions and the dissolution of the three remaining subsidiaries. The Company will be required to provide this additional information to the SBA on an ongoing basis until all of the medallions are sold and the subsidiaries are dissolved. The SBA has given the Company until February 21, 2008 to sell all of the 27 remaining medallions and to dissolve the remaining three subsidiaries. The Company has entered into purchase agreements for three of the medallions and is presently negotiating with several different parties regarding the sale of the remaining 24 medallions.

The SBA also stated in the November 8, 2006 letter that the matter relating to the partial use of proceeds concerning one loan that the Company made to a third party borrower, and the prepayment provision contained in loan documents to a different borrower were resolved.

New Accounting Standards

In March 2006, the Financial Accounting Standards Board ("FASB") issued SFAS No. 156, "Accounting for Servicing of Financial Assets – an amendment of FASB Statement No. 140." This Statement requires that all separately recognized servicing rights be initially measured at fair value. Subsequently, an entity may either recognize its servicing rights at fair value or amortize its servicing rights over an estimated life and assess for impairment at least quarterly. SFAS No. 156 also amends how gains and losses are computed in transfers or securitizations that qualify for sale treatment in which the transferor retains the right to service the transferred financial assets. Additional disclosures for all separately recognized servicing rights are also required. This Statement is effective January 1, 2007 for calendar year companies. The Company is currently in the process of evaluating the impact that SFAS No. 156 will have on the Company's financial position and results of operations.

In March 2006, the FASB issued FASB Staff Position No. FTB 85-4-1, "Accounting for Life Settlement Contracts by Third-Party Investors" (FSP FTB 85-4-1), which allows an investor to account for its investments in a life settlement contract using either the investment method or the fair value method. The investment method requires the initial investment to be recognized at the transaction price, while the fair value method requires the initial investment to be recognized at its transaction price and remeasured to fair value each subsequent reporting period. The election of the investment method or fair value method is irrevocable and should be made on an instrument-by-instrument basis. Previously, only the fair value method was available. FSP FTB 85-4-1 is effective for fiscal years beginning after June 15, 2006. Prospective application is required for all new investments in life settlement contracts, and a cumulative-effect adjustment to retained earnings should be made at the date of adoption to recognize the impact on existing life settlement contract investments. The Company adopted the investment method in the first quarter of fiscal 2007, and did not have any previous investments subject to a cumulative-effect adjustment at the time of the adoption. The Company does not expect that the adoption of FSP FTB 85-4-1 will have a material impact on its consolidated financial position or results of operations.

In February 2006, the FASB issued SFAS No. 155, "Accounting for Certain Hybrid Financial Instruments" an amendment of SFAS No. 133 and 140. This statement permits fair value remeasurement for any hybrid financial instrument that contains an embedded derivative that otherwise would require bifurcation, clarifies which interest-only strips and principal-only strips are not subject to the requirements of SFAS No. 133, establishes a requirement to evaluate interests in securitized financial assets to identify interests that are free standing derivatives or that are hybrid financial instruments that contain an embedded derivative that require bifurcation, clarifies that concentrations of credit risk in the form of subordination are not embedded derivatives, and amends SFAS No. 140 to eliminate the prohibition on a qualifying special-purpose entity from holding a derivative financial instrument that pertains to a beneficial interest other than another derivative financial instrument. This statement is effective for all financial instruments acquired or issued after the beginning of an entity's first fiscal year that begins after September 15, 2006, as defined. The Company does not expect that the adoption of SFAS No. 155 will have a material impact on its consolidated financial position or results of operations.

In June 2005, the FASB issued Statement No. 154, "Accounting Changes and Error Corrections" ("SFAS No. 154"), which changes the requirements for accounting for and reporting of a change in accounting principle. SFAS No. 154 requires retrospective application to prior periods' financial statements of a voluntary change in accounting principle unless it is impracticable. SFAS No. 154 also requires that a change in method of depreciation, amortization, or depletion for long-lived, nonfinancial assets be accounted for as a change in accounting estimate that is affected by a change in accounting principle. SFAS No. 154 is effective for accounting changes and corrections of errors made in fiscal years beginning after December 15, 2005, but does not change the transition provisions of any existing accounting pronouncements, including those that are in a transition phase as of the effective date of the Statement. The adoption of SFAS No. 154 will not have a material effect on results of operations or the Company's financial position.

In December 2004, the FASB issued the SFAS No. 123(R), "Share-Based Payment" ("SFAS 123(R)"), which replaced SFAS No. 123, "Accounting for Stock-Based Compensation," and superseded APB Opinion 25, "Accounting for Stock Issued to Employees." SFAS 123(R) requires that all share-based payments to employees be recognized in the financial statements based on their fair values on the date of grant. The Company previously used the intrinsic value method to measure compensation expense for stock-based awards. On April 14, 2005, the SEC amended the compliance dates for SFAS 123(R), which extended the Company's required adoption date of SFAS 123(R) to its fiscal third quarter in its fiscal year ended June 30, 2006. The Company adopted the requirements of SFAS 123(R) on a modified prospective basis effective January 1, 2006 and expects that its adoption will not have a material impact on its financial position or results of operations and earnings per share.

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The information contained in this section should be read in conjunction with the consolidated Financial Statements and Notes therewith appearing in this quarterly report on Form 10-Q and in the Company's Annual Report on Form 10-K for the year ended June 30, 2006, filed with the Commission by the Company on September 28, 2006 and which is available on the Company's web site at www.ameritranscapital.com.

Critical Accounting Policies

In the preparation of the Company's financial statements in conformity with accounting principles generally accepted in the United States, management uses judgment in selecting policies and procedures and making estimates and assumptions that affect amounts reported and disclosed in the financial statements and related notes. Significant estimates that the Company makes include (1) valuation of loans receivable and equity investments, (2) evaluation of the recoverability of various receivables, and (3) the assessment of litigation and other possible contingencies. The Company's ability to collect receivables and recover the value of its loans depends on a number of factors, including the financial condition of the debtors and its ability to enforce provisions of its contracts in the event of disputes, through litigation if necessary. Although the Company believes that estimates and assumptions used in determining the recorded amounts of net assets and liabilities at September 30, 2006 are reasonable, actual results could differ materially from the estimated amounts recorded in the Company's financial statements. Our key critical accounting policies are those applicable to the valuation of loans receivable and other investments including medallions, and contingencies from daily operations, as discussed below:

Valuation of Loans Receivable. For loans receivable, fair value generally approximates cost less unrealized depreciation. Overall financial condition of the borrower, the adequacy of the collateral supporting the loans, individual credit risks, historical loss experience and other factors are criteria considered in quantifying the unrealized depreciation, if any, that might exist at the valuation date.

Equity Securities. The fair value of publicly traded corporate equity securities is based on quoted market prices. Privately held corporate equity securities are recorded at the lower of cost

or estimated fair value. For these non-quoted investments, the Company reviews the financial performance of the privately held companies in which the investments are maintained. If and when a determination is made that a decline in fair value below the cost basis is other than temporary, the related investment is written down to its estimated fair value.

Investment in Life Settlement Contracts. The Company uses the investment method to value contracts, which capitalizes contract costs plus premiums paid to keep the policies in force. The difference between the carrying value of the contract and proceeds received, either upon death of the insured or sale of the policy, are recorded in earnings. Contracts are also tested for impairment based changes in the insured's life expectancy or creditworthiness of the issuer of the policy. If an impairment loss is recognized, the carrying amount of the investment is written down to its estimated fair value.

Assets Acquired in Satisfaction of Loans. Assets acquired in satisfaction of loans are carried at the lower of the net value of the related foreclosed loan or the estimated fair value less cost of disposal. Losses incurred at the time of foreclosure are charged to the unrealized depreciation on loans receivable. Subsequent reductions in estimated net realizable value are charged to operations as losses on assets acquired in satisfaction of loans.

Medallions. The Company obtained medallions through foreclosure of loans and the value of such medallions are carried at the lower of the net value of the related foreclosed loans or the fair market value of the medallions. The medallions are being treated as having indefinite lives, therefore, the assets are not being amortized. However, the Company periodically tests their carrying value for impairment.

Contingencies. The Company is subject to legal proceedings in the course of its daily operations from enforcement of its rights in disputes pursuant to the terms of various contractual arrangements. In this connection, the Company assesses the likelihood of any adverse judgment or outcome to these matters as well as a potential range of probable losses. A determination of the amount of reserve required, if any, for these contingencies is made after careful analysis of each individual issue. The required reserves may change in the future due to new developments in each matter or changes in approach, such as a change in settlement strategy in dealing with these matters.

General

Ameritrans acquired Elk on December 16, 1999. Elk is an SBIC that has been operating since 1980, making loans to (and, to a limited extent, investments in) small businesses, primarily businesses that are majority-owned by persons who qualify under SBA Regulations as socially or economically disadvantaged. Most of Elk's business has consisted of originating and servicing loans collateralized by New York City, Boston, Chicago and Miami taxi medallions, but Elk also makes loans to and investments in other diversified businesses and to persons who qualify under SBA Regulations as "non-disadvantaged."

Historically, Elk's earnings derived primarily from net interest income, which is the difference between interest earned on interest-earning assets (consisting of business loans), and the interest paid on interest-bearing liabilities (consisting of indebtedness to Elk's banks and subordinated debentures issued to the SBA). Net interest income is a function of the net interest rate spread, which is the difference between the average yield earned on interest-earning assets and the average interest rate paid on interest-bearing liabilities, as well as the average balance of interest-earning assets as compared to interest-bearing liabilities. Unrealized depreciation on loans and investments is recorded when Elk adjusts the value of a loan to reflect management's estimate of the fair value, as approved by the Board of Directors.

Results of Operations for the Three Months Ended September 30, 2006 and 2005

Total Investment Income

The Company's interest income for the three months ended September 30, 2006 increased \$74,358 or 6% to \$1,224,141 as compared to the three months ended September 30, 2005. The increase in investment income between the periods can be attributed to higher interest rate charged on the total loan portfolio for the quarter. Fees and other income increased by \$96,786 or 117% to \$179,087 as compared to the three months ended September 30, 2005. The increase is primarily attributed to an increase in loan origination fees of approximately \$74,000 and an increase in other income of approximately \$21,000.

Operating Expenses

Interest expense for the three months ended September 30, 2006 decreased \$3,127, or .6%, to \$536,146 as compared to the three months ended September 30, 2005, due to a reduction in the outstanding banks notes payable from the same period last year of approximately \$6,800,000 which was partially offset by higher interest rate charges on outstanding bank borrowings. Salaries and employee benefits increased \$6,620, or 2%, as compared to the similar period in the prior year. Professional fees increased \$104,213, or 149%, as compared to the comparable period in the prior year, due primarily to an increase in legal fees including legal fees to a related party for loan closings. Write off and depreciation of interest and loans receivable decreased \$7,927 or 22%, as compared to the similar quarter in the prior year. The decrease in the amount of write-offs and depreciation reflects the reserving of potential write-offs of several uncollectible loans in previous quarters. Other administrative expenses increased \$34,597 or 12% as compared to the similar period in the prior year which is due primarily to one-time increases in Chicago service fees.

Net Income

Net income increased from \$8,944 for the three months ended September 30, 2005 to \$33,027 for the three months ended September 30, 2006. The increase in net income between the periods was attributable primarily to increases in interest income, fees and other income and an equity gain on investment. Dividends for Participating Preferred Stock were unchanged at \$84,375 for the three months ended September 30, 2006 and 2005.

Financial Condition at September 30, 2006 and June 30, 2006

Balance Sheet and Reserves

Total assets increased \$1,446,311 to \$57,465,122 at September 30, 2006 as compared to the June 30, 2006 total assets of \$56,018,811. This increase was primarily due to an increase in investment in life settlement contracts during the quarter. The reserve for unrealized depreciation on loans receivable decreased \$103,750 due to the write-offs of several loans directly against the reserve during the quarter. Total liabilities increased during the quarter as borrowings against outstanding bank credit lines were \$2,830,000 versus \$875,000 in repayments on these credit lines. This resulted in an increase of \$1,955,000 in its short-term bank borrowings.

Liquidity and Capital Resources

The Company has funded its operations through private and public placements of its securities, bank financing, the issuance to the SBA of its subordinated debentures and internally generated funds.

On March 2, 2006, the Company closed on the sale of 1,355,608 shares (the "Shares") of Common Stock and 338,902 warrants to purchase shares of Common Stock ("Private Offering Warrants") for aggregate gross proceeds totaling \$7,930,310, (\$7,250,407 net of expenses). The Company granted a total of 338,902 Private Offering Warrants. Each Private Offering Warrant entitles the holder thereof to purchase one share of Common Stock at an exercise price of \$6.44 per share. The Private Offering Warrants may be exercised in whole or in part, and expire five (5) years from the date of issuance. These Shares and Private Offering Warrants were issued pursuant to the private offering of the Company dated July 29, 2005 of which various closing took place throughout December 2005, and January, February and March 2006. The increased capital that was raised for Ameritrans will help the Company significantly in its plans for the expansion of the Company's business, enabling Ameritrans to make loans to and investments in opportunities that the Company's operating subsidiary, Elk has historically been unable to make due to SBA Regulation.

On March 15, 2006, Ameritrans filed a registration statement (the "March Registration Statement") with the SEC to cover the 1,355,608 shares of Common Stock and 338,902 shares of Common Stock underlying the Private Warrants sold in the Private Offering. The March Registration Statement did not cover any authorized but unissued shares of the Company's Common Stock or Participating Preferred Stock. The March Registration Statement was declared effective by the SEC on April 25, 2006.

At September 30, 2006, approximately 65% of Elk's indebtedness was represented by indebtedness to its banks with variable rates ranging from 6.83% to 6.945%, whereas approximately 35% of Elk's indebtedness was due to debentures issued to the SBA with fixed rates of interest plus user fees resulting in rates ranging from 4.99% to 5.54%. Elk currently may borrow up to \$36,000,000, of which \$13,117,500 was available for draw down as of September 30, 2006 under its existing lines of credit, subject to limitations imposed by its borrowing base agreement with its banks and the SBA, the statutory and regulatory limitations imposed by the

SBA and the availability of funds. On January 2002, the Company and the SBA entered into an agreement whereby the SBA committed to reserve debentures in the amount of \$12,000,000 to be issued to the Company on or prior to September 30, 2006. In July and December 2002, debentures payable to the SBA were drawn from the reserved pool of \$12,000,000 in the amount of \$2,050,000 and \$3,000,000, respectively. The interim interest rates assigned were 2.351% and 1.927%, respectively, subsequently adjusted to long term fixed rates of 4.67% and 4.628% determined on the pooling dates of September 25, 2002 and March 26, 2003, respectively. On September 15, 2003 and February 17, 2004, two additional debentures payable to the SBA were drawn in the amount of \$5,000,000 and \$1,950,000, respectively. Interim interest rates assigned were 1.682% and 1.595%, respectively, subsequently adjusted to the long term fixed rate of 4.12% on the pooling date of March 24, 2004. In addition to the fixed rates, there is an additional annual SBA user fee on each debenture of 0.866% per annum making the rates 5.54%, 5.498% and 4.99% before applicable amortization of points and fees. The draw down in February 2004 was the final draw from the \$12,000,000 commitment.

In September 2006, the Company invested in life settlement contracts which require the company to continue premium payments to keep the policies in force through the insured's life expectancy, or until such time the policies are sold. The Company may sell the policies at any time, at its sole discretion. However, if the Company chooses to keep the policies, as of September 30, 2006, premium payments due through the life expectancy of the insured are approximately \$4,200,000 over the next five years and \$9,800,000 thereafter.

Loan amortization and prepayments also provide a source of funding for Elk. Prepayments on loans are influenced significantly by general interest rates, economic conditions and competition.

Like Elk, Ameritrans will distribute at least 90% of its investment company taxable income and, accordingly, will continue to rely upon external sources of funds to finance growth. To provide the funds necessary for expansion, management expects to raise additional capital and to incur, from time to time, additional bank indebtedness and (if deemed necessary) to obtain SBA loans. There can be no assurances that such additional financing will be available on acceptable terms.

Recently Issued Accounting Standards

In March 2006, the Financial Accounting Standards Board ("FASB") issued SFAS No. 156, "Accounting for Servicing of Financial Assets – an amendment of FASB Statement No. 140." This Statement requires that all separately recognized servicing rights be initially measured at fair value. Subsequently, an entity may either recognize its servicing rights at fair value or amortize its servicing rights over an estimated life and assess for impairment at least quarterly. SFAS No. 156 also amends how gains and losses are computed in transfers or securitizations that qualify for sale treatment in which the transferor retains the right to service the transferred financial assets. Additional disclosures for all separately recognized servicing rights are also required. This Statement is effective January 1, 2007 for calendar year companies. The Company is currently in the process of evaluating the impact that SFAS No. 156 will have on the Company's financial position and results of operations.

In March 2006, the FASB issued FASB Staff Position No. FTB 85-4-1, "Accounting for Life Settlement Contracts by Third-Party Investors" (FSP FTB 85-4-1), which allows an investor to account for its investments in a life settlement contract using either the investment method or the fair value method. The investment method requires the initial investment to be recognized at the transaction price, while the fair value method requires the initial investment to be recognized at its transaction price and remeasured to fair value each subsequent reporting period. The election of the investment method or fair value method is irrevocable and should be made on an instrument-by-instrument basis. Previously, only the fair value method was available. FSP FTB 85-4-1 is effective for fiscal years beginning after June 15, 2006. Prospective application is required for all new investments in life settlement contracts, and a cumulative-effect adjustment to retained earnings should be made at the date of adoption to recognize the impact on existing life settlement contract investments. The Company adopted the investment method in the first quarter of fiscal 2007, and did not have any previous investments subject to a cumulative-effect adjustment at the time of the adoption. The Company does not expect that the adoption of FSP FTB 85-4-1 will have a material impact on its consolidated financial position or results of operations.

In February 2006, the FASB issued SFAS No. 155, "Accounting for Certain Hybrid Financial Instruments" an amendment of SFAS No. 133 and 140. This statement permits fair value remeasurement for any hybrid financial instrument that contains an embedded derivative that otherwise would require bifurcation, clarifies which interest-only strips and principal-only strips are not subject to the requirements of SFAS No. 133, establishes a requirement to evaluate interests in securitized financial assets to identify interests that are free standing derivatives or that are hybrid financial instruments that contain an embedded derivative that require bifurcation, clarifies that concentrations of credit risk in the form of subordination are not embedded derivatives, and amends SFAS No. 140 to eliminate the prohibition on a qualifying special-purpose entity from holding a derivative financial instrument that pertains to a beneficial interest other than another derivative financial instrument. This statement is effective for all financial instruments acquired or issued after the beginning of an entity's first fiscal year that begins after September 15, 2006, as defined. The Company does not expect that the adoption of SFAS No. 155 will have a material impact on its consolidated financial position or results of operations.

In June 2005, the FASB issued Statement No. 154, "Accounting Changes and Error Corrections" ("SFAS No. 154"), which changes the requirements for accounting for and reporting of a change in accounting principle. SFAS No. 154 requires retrospective application to prior periods' financial statements of a voluntary change in accounting principle unless it is impracticable. SFAS No. 154 also requires that a change in method of depreciation, amortization, or depletion for long-lived, nonfinancial assets be accounted for as a change in accounting estimate that is affected by a change in accounting principle. SFAS No. 154 is effective for accounting changes and corrections of errors made in fiscal years beginning after December 15, 2005, but does not change the transition provisions of any existing accounting pronouncements, including those that are in a transition phase as of the effective date of the Statement. The adoption of SFAS No. 154 will not have a material effect on results of operations or the Company's financial position.

In December 2004, the FASB issued the SFAS No. 123(R), "Share-Based Payment" ("SFAS 123(R)"), which replaced SFAS No. 123, "Accounting for Stock-Based Compensation," and superseded APB Opinion 25, "Accounting for Stock Issued to Employees." SFAS 123(R) requires that all share-based payments to employees be recognized in the financial statements based on their fair values on the date of grant. The Company previously used the intrinsic value method to measure compensation expense for stock-based awards. On April 14, 2005, the SEC amended the compliance dates for SFAS 123(R), which extended the Company's required adoption date of SFAS 123(R) to its fiscal third quarter in its fiscal year ended June 30, 2006. The Company adopted the requirements of SFAS 123(R) on a modified prospective basis effective January 1, 2006 and expects that its adoption will not have a material impact on its financial position or results of operations and earnings per share.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURE ABOUT MARKET RISK

The Company's business activities contain elements of risk. The Company considers the principal types of risk to be fluctuations in interest rates and portfolio valuations. The Company considers the management of risk essential to conducting its businesses. Accordingly, the Company's risk management systems and procedures are designed to identify and analyze the Company's risks, to set appropriate policies and limits and to continually monitor these risks and limits by means of reliable administrative and information systems and other policies and programs.

The Company values its portfolio at fair value as determined in good faith by the Company's Board of Directors in accordance with the Company's valuation policy. Unlike certain lending institutions, the Company is not permitted to establish reserves for loan losses. Instead, the Company must value each individual investment and portfolio loan on a quarterly basis. The Company records unrealized depreciation on investments and loans when it believes that an asset has been impaired and full collection is unlikely. Without a readily ascertainable market value, the estimated value of the Company's portfolio of investments and loans may differ significantly from the values that would be placed on the portfolio if there existed a ready market for the investments. The Company adjusts the valuation of the portfolio quarterly to reflect the Board of Directors' estimate of the current fair value of each component of the portfolio. Any changes in estimated fair value are recorded in the Company's statement of operations as net unrealized depreciation on investments.

In addition, the illiquidity of our loan portfolio and investments may adversely affect our ability to dispose of loans at times when it may be advantageous for us to liquidate such portfolio or investments. Also, if we were required to liquidate some or all of the investments in the portfolio, the proceeds of such liquidation might be significantly less than the current value of such investments. Because we borrow money to make loans and investments, our net operating income is dependent upon the difference between the rate at which we borrow funds and the rate at which we loan and invest these funds. As a result, there can be no assurance that a significant change in market interest rates will not have a material adverse effect on our interest income. As interest rates rise, our interest costs increase, decreasing the net interest rate spread we receive and thereby adversely affect our profitability. Although we intend to continue to manage our

interest rate risk through asset and liability management, including the use of interest rate swaps, general rises in interest rates will tend to reduce our interest rate spread in the short term.

Assuming that the balance sheet were to remain constant and no actions were taken to alter the existing interest rate sensitivity, a hypothetical immediate 1% change in interest rates would have resulted in an additional annual net income of approximately \$13,000 at September 30, 2006. This is comprised of a 1% change in two components, loans receivable of approximately \$14,200,000 at variable interest rate terms, and approximately \$12,900,000 for bank debt subject to variable market rates. This example takes into account the impact of the two (2) \$5,000,000 interest rate swaps the Company has in place on its bank debt to mitigate the effects of increases in variable interest rates. No assurances can be given however, that actual results would not differ materially from the potential outcome simulated by these estimates.

ITEM 4. CONTROLS AND PROCEDURES

The Company maintains disclosure controls and procedures as defined under the Securities Exchange Act Rule 13a-15(e), that are designed to ensure that information required to be disclosed in our periodic reports filed pursuant to the rules promulgated under the Exchange Act are recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms and that such information is accumulated and communicated to our management including our Chief Executive Officer (also acting as Chief Financial Officer), to allow timely decisions regarding required disclosure. In designing and evaluating the disclosure controls and procedures, management recognized that any controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving the desired control objectives. As of the end of the period covered by this report, we carried out an evaluation, under the supervision and with the participation of our management, including our Chief Executive Officer (also acting as Chief Financial Officer), of the effectiveness of the design and operation of our disclosure controls and procedures as defined in Rules 13a-15(e) and 15d-15(e) of the Exchange Act. Based on that evaluation, the Company concluded that, as of the end of the period covered by this report, our disclosure controls and procedures are effective in timely communicating the material information required to be included in our periodic SEC filings.

IMPORTANT FACTORS RELATING TO FORWARD-LOOKING STATEMENTS

Cautionary Note Regarding Forward-Looking Statements

This report, including, but not limited to, "Management's Discussion and Analysis of Financial Condition and Results of Operations," may contain certain forward-looking statements within the meaning of the federal securities laws. Some of the forward-looking statements can be identified by the use of forward-looking words. When used in this report, statements which are not historical in nature, including the words "anticipate," "may," "estimate," "should," "seek," "expect," "plan," "believe," "intend," and similar words, or the negatives of those words, are intended to identify forward-looking statements. Statements which also contain a projection of revenues, earnings (loss), capital expenditures, dividends, capital structure or other financial terms are intended to be forward-looking statements.

The Private Securities Litigation Reform Act of 1995 provides a "safe harbor" for forward-looking statements so long as those statements are identified as forward-looking and are accompanied by meaningful cautionary statements identifying important factors that could cause actual results to differ materially from those projected in such statements. In connection with certain forward-looking statements contained in this Form 10-Q and those that may be made in the future by or on behalf of Ameritrans, Ameritrans notes that there are various factors that could cause actual results to differ materially from those set forth in any such forward-looking statements. The forward looking statements contained in this Form 10-Q were prepared by management and are qualified by, and subject to, significant business, economic, competitive, regulatory and other uncertainties and contingencies, all of which are difficult or impossible to predict and many of which are beyond the control of Ameritrans. Accordingly, there can be no assurance that the forward-looking statements contained in this Form 10-Q will be realized or that actual results will not be significantly higher or lower. Readers of this Form 10-Q should consider these facts in evaluating the information contained herein. In addition, the business and operations of Ameritrans are subject to substantial risks which increase the uncertainty inherent in the forward-looking statements contained in this Form 10-Q. The inclusion of the forward-looking statements contained in this Form 10-Q should not be regarded as a representation by Ameritrans or any other person that the forward-looking statements contained in this Form 10-Q will be achieved. In light of the foregoing, readers of this Form 10-Q are cautioned not to place undue reliance on the forward-looking statements contained herein. These risks and others that are detailed in this Form 10-Q and other documents that Ameritrans files from time to time with the Commission, including quarterly reports on Form 10-Q and any current reports on Form 8-K must be considered by any investor or potential investor in Ameritrans.

PART II. OTHER INFORMATION

INFORMATION INCORPORATED BY REFERENCE. Certain information previously disclosed in Part I of this quarterly report on Form 10-Q are incorporated by reference into Part II of this quarterly report on Form 10-Q.

Item 1. Legal Proceedings

The Company is not currently a party to any material legal proceeding. From time to time, the Company is engaged in various legal proceedings incident to the ordinary course of its business. In the opinion of the Company's management and based upon the advice of legal counsel, there is no proceeding pending, or to the knowledge of management threatened, which in the event of an adverse decision would result in a material adverse effect on the Company's results of operations or financial condition.

Item 1A. Risk Factors

No change.

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

None

Item 3. Default upon Senior Securities

None

Item 4. Submission of Matters to a Vote of Security Holders

None

Item 5. Other Information

The Company entered into an amended and restated employment agreement dated as of September 28, 2006, with Silvia Mullens which, effective as of January 1, 2007, replaces the employment agreement between the Company and Ms. Mullens dated January 1, 2002. The agreement automatically renews for an additional five (5) year term on July 1, 2012, unless either party gives notice of non-renewal prior to the expiration of that initial term. The agreement provides that, commencing January 1, 2007, Ms. Mullens shall assume the role and have the title of Senior Vice President, and be paid an annual base salary of \$122,678 which increases four percent (4%) each year the agreement is in effect. The agreement also provides that Ms. Mullens will be paid a minimum guaranteed yearly bonus of \$10,000. Additionally, Ms. Mullens shall be eligible to receive an additional bonus in the sole discretion of the Board of Ameritrans. The agreement provides for compensation to Ms. Mullens if she is terminated prior to the expiration of her employment term, the exact amount of which varies depending upon the nature of the termination. The agreement also provides for confidentiality and for non-

competition and non-solicitation during the term of the agreement and for one (1) year thereafter. The agreement is attached as Exhibit 10.18 to this quarterly report filed on Form 10-Q.

The Company entered into an amended and restated employment agreement dated as of September 28, 2006, with Margaret Chance, the Company's Vice President and Secretary, which, effective as of January 1, 2007, which replaces the employment agreement between the Company and Ms. Chance dated January 1, 2002. The agreement automatically renews for an additional five (5) year term on July 1, 2012, unless either party gives notice of non-renewal prior to the expiration of that initial term. The agreement provides that, commencing January 1, 2007, Ms. Chance be paid an annual base salary of \$97,740 which increases four percent (4%) each year the agreement is in effect. The agreement also provides that Ms. Chance will be paid a minimum guaranteed yearly bonus of \$10,000. Additionally, Ms. Chance shall be eligible to receive an additional bonus in the sole discretion of the Board of Ameritrans. The agreement provides for compensation to Ms. Chance if she is terminated prior to the expiration of her employment term, the exact amount of which varies depending upon the nature of the termination. The agreement also provides for confidentiality and for non-competition and non-solicitation during the term of the agreement and for one (1) year thereafter. The agreement is attached as Exhibit 10.19 to this quarterly report filed on Form 10-Q.

Item 6. Exhibits and Reports on Form 8-K

The Exhibits filed as part of this report on Form 10-Q are listed on the Exhibit Index immediately preceding such Exhibits, which Exhibit index is incorporated by reference.

Exhibit Index

(a) Exhibits

3(i) Certificate of Incorporation (3)

3(ii) By-laws (3)

4 Form of subordinated debentures issued to the U.S. Small Business Administration ("SBA") by Elk Associates Funding Corporation ("Elk") Debenture issued March 26, 1997 - principal amount - \$430,000; Maturity Date - March 1, 2007; Stated Interest Rate - 7.38%.(4)

The following debentures are omitted pursuant to Rule 483:

a. Debenture issued September 22, 1993 - principal amount \$1,500,000; Maturity Date - September 1, 2003; Stated Interest Rate - 6.12%.

b. Debenture issued September 22, 1993 - principal amount - \$2,220,000; Maturity Date - September 1, 2003; Stated Interest Rate - 6.12%.

c. Debenture issued September 28, 1994 - principal amount \$2,690,000; Maturity Date - September 1, 2004; Stated Interest Rate - 8.20%.

d. Debenture issued December 14, 1995 - principal amount \$1,020,000; Maturity Date - December 1, 2005; Stated Interest Rate - 6.54%.

- e. Debenture issued June 26, 1996 - principal amount \$1,020,000; Maturity Date - June 1, 2006; Stated Interest Rate - 7.71%.
- 10.1 Security Agreement between Elk and the SBA, dated September 9, 1993. (4)
- 10.3 1999 Employee Stock Option Plan. (5)
- 10.4 Non-Employee Director Stock Option Plan. (5)
- 10.5 Custodian Agreement among Elk; Bank Leumi Trust Company of New York ("Leumi"), Israel Discount Bank of New York ("IDB"), Bank Hapoalim B.M. ("Hapoalim") and Extebank; the SBA, and IDB as Custodian; dated September 9, 1993 (the "Custodian Agreement").(4)
- 10.6 Agreements between Elk and the SBA.(4)
- 10.7 Intercreditor Agreement among Elk, Leumi, IDB, Hapoalim, Extebank and the SBA dated September 9, 1993 (the "Intercreditor Agreement") (4)
- 10.8 Amendments to the Custodian and Intercreditor Agreements. (4)
 - a. Amendment removing Hapoalim and Extebank and adding European American Bank ("EAB"), dated September 28, 1994.
 - b. Form of Amendment adding bank:
 - i. Amendment adding United Mizrahi Bank and Trust Company ("UMB"), dated June, 1995 was previously filed.
 - ii. Amendment adding Sterling National Bank and Trust Company of New York ("Sterling"), dated April, 1996 - omitted pursuant to Rule 483.
- 10.9 Bank Intercreditor Agreement among Elk, Leumi, IDB, Hapoalim and Extebank, dated September 9, 1993 (the "Bank Intercreditor Agreement"). (4)
- 10.10 Amendments to the Bank Intercreditor Agreement. (4)
 - a. Amendment removing Hapoalim and Extebank and adding European American Bank ("EAB"), dated September 28, 1994.
 - b. Form of Amendment adding bank:
 - i. Amendment adding UMB, dated June, 1995 was previously filed.
 - ii. Amendment adding Sterling, dated April, 1996 omitted pursuant to Rule 483.
- 10.12 Promissory Note dated March 3, 2003 between Ameritrans and Bank Leumi USA and Letter Agreement dated March 11, 2003 between aforementioned parties. (6)
- 10.13 Master Note dated October 4, 1999 between Ameritrans and European American Bank. (6)

- 10.14 Line of Credit Agreement dated January 3, 2002 between Elk and Citibank. (7)
- 10.15 Form of indemnity agreement between Ameritrans and each of its directors and officers. (3)
- 10.16 Amended and Restated Employment Agreement dated as of December 31, 2002 between Ameritrans and Gary Granoff. (8)
- 10.17 Amended and Restated Consulting Agreement dated as of December 31, 2002 between Ameritrans and Gary Granoff. (8)
- 10.18 Amended and Restated Employment Agreement dated as of September 28, 2006 between Ameritrans and Silvia Mullens. Attached hereto.
- 10.19 Amended and Restated Employment Agreement dated as of September 28, 2006 between Ameritrans and Margaret Chance. Attached hereto.
- 10.20 Letter Agreement between Israel Discount Bank of New York and Elk dated May 9, 2006 extending the line of credit. (10)
- 10.21 Amended and Restated Employment Agreement dated as of February 21, 2006 between Ameritrans and Lee Forlenza. (2)
- 10.22 Amended and Restated Employment Agreement dated as of February 21, 2006 between Ameritrans and Ellen Walker. (2)
- 10.23 Form of Warrant Agreement relating to the Warrants subject to this Registration Statement (2)
- 10.24 Form of Registration Rights Agreement relating to the Shares subject to this Registration Statement (2)
- 10.25 Form of Common Share Subscription Agreement relating to the Shares subject to this Registration Statement (2)
- 10.26 Form of Waiver relating to Common Share Subscription Agreement (2)
- 10.27 Code of Ethics adopted under Rule 17j-1 under the 1940 Act. (2)
- 10.28 Line of Credit Agreement dated November 7, 2006 between Elk and Israel Discount Bank of New York. Attached hereto
- 22.1 Proxy statement on Schedule 14A mailed to stockholders on April 7, 2006 (1)
- 31.1 Certification pursuant to Rule 13a-14(a) or Rule 15d-14(a), as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002. Attached hereto
- 32.1 Certification pursuant to 18 USC Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002. Attached hereto

(b) Reports on Form 8-K

On September 29, 2006, the Company filed a current report on Form 8-K reporting under Items 2.02 and 9.01 that the Company issued a press release announcing the Company's results for the fourth quarter and fiscal year ending June 30, 2006.

On September 19, 2006, the Company filed a current report on Form 8-K reporting under Item 2.02 that the Company issued a press release announcing the Company's declaration of a quarterly dividend for its 9 3/8% Preferred Stock for the first quarter of 2006.

On August 4, 2006, the Company filed a current report on Form 8-K reporting under Item 8.01 that the Company issued a press release announcing the appointment of Wesley Finch to the Audit Committee of the Company in response to a letter from NASDAQ.

(1) Incorporated by reference from the Registrant's Schedule 14-A (File No. 811-08847) filed April 7, 2006.

(2) Incorporated by reference from the Registrants Registration Statement on Form N-2 (File No. 333-132438) filed March 15, 2006.

(3) Incorporated by reference from the Registrant's Registration Statement on Form N-14 (File No. 333-63951) filed September 22, 1998.

(4) Incorporated by reference from the Registrant's Registration Statement filed on Form N-2 (File No. 333-82693) filed July 12, 1999.

(5) Incorporated by reference from the Registrant's Proxy Statement on Form 14A (File No. 811-08847) filed on December 14, 2001.

(6) Incorporated by reference from the Registrant's 10-Q (File No. 811-08847) filed May 14, 2004.

(7) Incorporated by reference from the amendment to the Registrant's N-2 (File No. 333-82693) filed March 1, 2002.

(8) Incorporated by reference from the Registrant's 10-Q (File No. 811-08847) filed February 14, 2003.

(9) Incorporated by reference from the Registrant's 10-Q (File No. 811-08847) filed February 14, 2002.

(10) Incorporated by reference from the Registrant's 10-Q (File No. 811-08847) filed May 14, 2006.

(All other items of Part II are inapplicable)

AMERITRANS CAPITAL CORPORATION

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

AMERITRANS CAPITAL CORPORATION

Dated: November 14, 2006

By: /s/ Gary C. Granoff
Gary C. Granoff
President, Chief Executive Officer and
Chief Financial Officer

Exhibit 31.1

CERTIFICATION UNDER SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002 DISCLOSURE IN THE REGISTRANT'S QUARTERLY REPORT

I, Gary C. Granoff, President, Chief Executive Officer, and Chief Financial Officer of Ameritrans Capital Corporation, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Ameritrans Capital Corporation (the "report");
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operation, and cash flows of the registrant as of, and for, the periods presented in the report.
4. I am responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under my supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to me by others within those entities, particularly during the period in which this report is being prepared;
 - (b) Designed such internal control over financial reporting, or caused such internal controls over financial reporting to be designed under my supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principle;
 - (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report my conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. I have disclosed, based on my most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Dated: November 14, 2006

By: /s/ Gary C. Granoff

Gary C. Granoff
President, Chief Executive Officer and
Chief Financial Officer

Exhibit 32.1

CERTIFICATION PURSUANT TO
18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the Quarterly Report of Ameritrans Capital Corporation (the "Company") on Form 10-Q for the quarter ended September 30, 2006, as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Gary C. Granoff, President, Chief Executive Officer, and Chief Financial Officer of the Company, certify, pursuant to 18 U.S.C. §1350, as adopted pursuant to §906 of the Sarbanes-Oxley Act of 2002, that:

1. The Report fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
2. The information contained in the Report fairly presents, in all material respects, the financial condition, and results of operations of the Company.

By: /s/Gary C. Granoff
Gary C. Granoff
President, Chief Executive Officer, and Chief Financial Officer

November 14, 2006