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Emerge Capital Corp. Form 10QSB November 20, 2006

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

FORM 10-QSB (Mark One)

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

For the quarterly period ended September 30, 2006. o TRANSITION REPORT UNDER SECTION 13 OR 15(d) OF THE EXCHANGE ACT

For the transition period from ______ to _____

Commission file number 0-28606

EMERGE CAPITAL CORP.

(Exact name of small business issuer as specified in its charter)

DELAWARE (State or other jurisdiction of Incorporation or organization) 22-3387630 (I.R.S. Employer Identification No.)

109 North Post Oak Lane, Suite 422
Houston, TX 77024
(Address of principal executive offices, including area code)

713-621-2737 (Issuer's telephone number)

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

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

The number of shares outstanding of our common stock at November 15, 2006 was 27,635,816.

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

EMERGE CAPITAL CORP.

FORM 10-QSB

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PART I - FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

EMERGE CAPITAL CORP. AND SUBSIDIARIES CONDENSED CONSOLIDATED BALANCE SHEET September 30, 2006 (Unaudited)

ASSETS

Cash and cash equivalents 971,495 Restricted cash 98,452 Notes and accounts receivable - less reserve of \$160,189 543,355 Investment in marketable securities 421,449 Due from affiliate 21,038 Prepaid expense and deferred financing costs 329,161 Total current assets 2,384,950 NONCURRENT ASSETS Investment in real estate partnership and other investments 4,218,838 Note receivable 900,000 Deferred debenture expense 29,150 Fixed assets, net 75,817 Total noncurrent assets 5,223,805 TOTAL ASSETS CURRENT LIABILITIES Accounts payable and accrued expenses Convertible debenturesnet of \$254,126 discount 1,586,612 Notes payable 105,114 Uncarned income 449,305 Series C Preferred stock including associated paid in capital; liquidation preference of \$381,000, redeemable at \$1,500 per share at Company option, cumulative dividends of \$120 per share per year, non-voting, par value \$.01,1,000 shares authorized, 254 shares issued and outstanding 224,977 Derivative liability </th <th>CURRENT ASSETS</th> <th></th> <th></th>	CURRENT ASSETS		
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COMMITMENTS AND CONTINGENCIES

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EMERGE CAPITAL CORP. AND SUBSIDIARIES CONDENSED CONSOLIDATED BALANCE SHEET

September 30, 2006 (Unaudited) (Continued)

SHAREHOLDERS' DEFICIT

Preferred Stock, par value \$.01, 2,000,000 shares authorized:	
Series A Convertible Preferred Stock, noncumulative, \$.01 par value;	
400,000 shares authorized; none issued	-
Series B Convertible Preferred Stock, \$.01 par value; 100,000 shares authorized;	
6,666 shares issued and outstanding; no liquidation or redemption value	67
Series D Convertible Preferred Stock, 100,000 shares authorized;	
93,334 shares issued and outstanding; no liquidation or redemption value	933
Common stock, \$.001 par value; 900,000,000 shares authorized;	
27,635,816 shares issued and outstanding	27,636
Additional paid-in capital	723,741
Retained deficit	(5,532,411)
Total shareholders' deficit	4,780,034
TOTAL LIABILITIES AND SHAREHOLDERS' DEFICIT	\$ 7,608,755

See accompanying Notes to Condensed Consolidated Financial Statements (unaudited)

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EMERGE CAPITAL CORP. AND SUBSIDIARIES CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS (Unaudited)

	Three Months Ended S	Three Months Ended September 30,		
	2006	2005		
REVENUE				
Discount income	-	38,379		
Consulting revenue	223,194	15,000		
Marketable securities loss	(29,716)	(111,156)		
Fee income	65,500	-		
Total revenue (gross loss)	258,978	(57,777)		
General and administrative expenses				
(net of allocation to an affiliated entity\$63,654 for 2006				
and \$0 for 2005)	702,048	432,092		
OPERATING LOSS	(443,070)	(489,869)		
OTHER (INCOME) EXPENSE				
Net change in derivative liability	(192,830)	1,077,094		
Minority interest	-	(250)		
Merger expense	140,000	3,359,163		
Interest expense - Preferred Series C stock	6,633	7,968		
Other income - net	(17,614)	(65,520)		
Total other (income) expense	(63,811)	4,378,455		
Loss before income tax	(379,259)	(4,868,324		