

Edgar Filing: TRANSAX INTERNATIONAL LTD - Form 10-Q

TRANSAX INTERNATIONAL LTD  
Form 10-Q  
November 19, 2008

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

FORM 10-Q

(Mark One)

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

For the period ended September 30, 2008

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

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

COMMISSION FILE NO. 0-27845

TRANSAX INTERNATIONAL LIMITED

-----  
(Name of registrant as specified in its charter)

Colorado

90-0287423

-----  
(State or other jurisdiction of incorporation or organization)

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

5201 Blue Lagoon Drive, 8th Floor, Miami, Florida 33126

-----  
(Address of principal executive offices)

(305) 629-3090

-----  
(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 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, a non-accelerated filer, or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer   
Non-accelerated filer

Accelerated filer   
Smaller reporting company

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

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the most practicable date: 52,398,756 shares of common stock are issued and outstanding as of November 14, 2008.

Edgar Filing: TRANSAX INTERNATIONAL LTD - Form 10-Q

TRANSAX INTERNATIONAL LIMITED AND SUBSIDIARIES  
FORM 10-Q  
SEPTEMBER 30, 2008

TABLE OF CONTENTS

	Page No. ----
PART I. - FINANCIAL INFORMATION	
Item 1. Financial Statements. ....	3
Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations. ....	28
Item 3. Quantitative and Qualitative Disclosures About Market Risk. ....	37
Item 4. Controls and Procedures. ....	38
PART II - OTHER INFORMATION	
Item 1. Legal Proceedings. ....	41
Item 1A. Risk Factors. ....	41
Item 2. Unregistered Sales of Equity Securities and Use of Proceeds. ....	41
Item 3. Defaults Upon Senior Securities. ....	41
Item 4. Submission of Matters to a Vote of Security Holders. ....	41
Item 5. Other Information. ....	41
Item 6. Exhibits. ....	41

FORWARD LOOKING STATEMENTS

This report on Form 10-Q contains forward-looking statements that are subject to risks and uncertainties that could cause actual results to differ materially from those discussed in the forward-looking statements and from historical results of operations. Among the risks and uncertainties which could cause such a difference are those relating to our dependence upon certain key personnel, our ability to manage our growth, our success in implementing the business strategy, our success in arranging financing where required, and the risk of economic and market factors affecting us or our customers. Many of such risk factors are beyond the control of the Company and its management.

TRANSAX INTERNATIONAL LIMITED AND SUBSIDIARIES  
CONSOLIDATED BALANCE SHEETS

September 30, 2008	December 31, 2007
-----	-----
(Unaudited)	(Audited)

Edgar Filing: TRANSAX INTERNATIONAL LTD - Form 10-Q

ASSETS

CURRENT ASSETS:

Cash .....	\$ 160,790	\$ 175,9
Accounts receivable (net of allowance for doubtful accounts of \$0)	660,154	487,3
Prepaid expenses and other current assets .....	355,956	277,9
	-----	-----
TOTAL CURRENT ASSETS .....	1,176,900	941,3
SOFTWARE DEVELOPMENT COSTS, net .....	188,866	347,0
PROPERTY AND EQUIPMENT, net .....	910,180	757,6
OTHER ASSETS .....	2,610	4,8
	-----	-----
TOTAL ASSETS .....	\$ 2,278,556	\$ 2,050,8
	=====	=====

LIABILITIES AND STOCKHOLDERS' DEFICIT

CURRENT LIABILITIES:

Current portion of loans payable .....	\$ 678,327	\$ 600,4
Convertible debenture payable, net .....	-	225,0
Accounts payable and accrued expenses .....	1,943,471	2,184,6
Deposit on sale of minority interest .....	-	187,7
Deferred gain on sale of minority interest in subsidiary .....	937,700	
Due to related parties .....	305,116	406,0
Warrant liability .....	6,121	153,1
Convertible feature liability .....	817,254	1,280,1
Loans payable - related party .....	304,896	292,4
Convertible loan - related party .....	254,386	238,6
	-----	-----
TOTAL CURRENT LIABILITIES .....	5,247,271	5,568,2
LOANS PAYABLE, NET OF CURRENT PORTION .....	-	52,3
ACCOUNTS PAYABLE AND ACCRUED EXPENSES, NET OF CURRENT PORTION .....	195,759	287,3
	-----	-----
TOTAL LIABILITIES .....	5,443,030	5,907,9
	-----	-----

STOCKHOLDERS' DEFICIT:

Series A convertible preferred stock, no par value; 16,000 shares authorized; 14,517 and 15,330 shares issued and outstanding at September 30, 2008 and December 31, 2007, respectively; liquidation preference \$1,451,700 at September 30, 2008 .....	1,335,739	1,417,0
Common stock \$.00001 par value; 100,000,000 shares authorized; 47,717,963 and 34,632,778 shares issued and outstanding at September 30, 2008 and December 31, 2007, respectively .....	477	3
Paid-in capital .....	8,395,494	8,013,6
Accumulated deficit .....	(13,440,277)	(13,313,4
Accumulated other comprehensive income .....	544,093	25,3
	-----	-----
TOTAL STOCKHOLDERS' DEFICIT .....	(3,164,474)	(3,857,0
	-----	-----
TOTAL LIABILITIES AND STOCKHOLDERS' DEFICIT .....	\$ 2,278,556	\$ 2,050,8
	=====	=====

## Edgar Filing: TRANSAX INTERNATIONAL LTD - Form 10-Q

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

3

### TRANSAX INTERNATIONAL LIMITED AND SUBSIDIARIES CONSOLIDATED STATEMENTS OF OPERATIONS (Unaudited)

	For the Three Months Ended September 30,		
	2008	2007	
REVENUES .....	\$ 1,774,551	\$ 1,328,636	\$
OPERATING EXPENSES:			
Cost of product support services .....	738,657	580,372	
Compensation and related benefits .....	442,008	219,465	
Professional fees .....	16,687	17,496	
Management and consulting fees - related parties .....	74,985	71,365	
Investor relations .....	1,000	9,700	
Depreciation and amortization .....	87,593	105,592	
General and administrative .....	504,664	438,258	
TOTAL OPERATING EXPENSES .....	1,865,594	1,442,248	
INCOME (LOSS) FROM OPERATIONS .....	(91,043)	(113,612)	
OTHER INCOME (EXPENSES):			
Other income (expenses) .....	-	(52,871)	
Foreign currency exchange loss .....	15,536	(9,166)	
Gain from derivative liabilities .....	97,524	331,500	
Interest expense, net .....	24,956	(49,756)	
Interest expense - related party .....	(8,379)	(20,093)	
TOTAL OTHER INCOME (EXPENSES) .....	129,637	199,614	
INCOME (LOSS) BEFORE INCOME TAXES .....	38,594	86,002	
PROVISION FOR INCOME TAXES .....	(3,852)	(145,462)	
NET INCOME (LOSS) .....	34,742	(59,460)	
DEEMED AND CUMULATIVE PREFERRED STOCK DIVIDENDS .....	(25,556)	(27,790)	
NET INCOME (LOSS) ATTRIBUTABLE TO COMMON STOCKHOLDERS ..	\$ 9,186	\$ (87,250)	\$
COMPREHENSIVE INCOME (LOSS):			
NET INCOME (LOSS) .....	\$ 34,742	\$ (59,460)	\$

Edgar Filing: TRANSAX INTERNATIONAL LTD - Form 10-Q

OTHER COMPREHENSIVE INCOME (LOSS)			
Unrealized foreign currency translation gain (loss)	274,278	147,064	
	-----	-----	-----
COMPREHENSIVE INCOME (LOSS) .....	\$ 309,020	\$ 87,604	\$
	=====	=====	=====
NET INCOME (LOSS) PER COMMON SHARE:			
BASIC .....	\$ -	\$ -	\$
	=====	=====	=====
DILUTED .....	\$ -	\$ -	\$
	=====	=====	=====
WEIGHTED AVERAGE SHARES OUTSTANDING:			
BASIC .....	46,534,216	32,299,923	4
	=====	=====	=====
DILUTED .....	100,000,000	32,299,923	4
	=====	=====	=====

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

4

TRANSAX INTERNATIONAL LIMITED AND SUBSIDIARIES  
CONSOLIDATED STATEMENTS OF CASH FLOWS  
(Unaudited)

	For the Nine Months Ended September 30,	
	2008	2007
	-----	-----
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net (loss) income .....	\$(126,842)	\$ 152,842
Adjustments to reconcile net (loss) income to net cash provided by operating activities:		
Depreciation and amortization .....	261,012	272,503
Amortization of software maintenance costs .....	158,197	176,264
Deposit on sale of minority interest applied to professional fees	(20,000)	-
Amortization of deferred debt issuance costs .....	-	4,783
Amortization of debt discount .....	-	31,250
Gain from derivative liabilities .....	(309,166)	(738,898)
Changes in assets and liabilities:		
Accounts receivable .....	(237,078)	(102,922)
Prepaid expenses and other current assets .....	(111,853)	(24,834)
Other assets .....	2,190	-
Accounts payable and accrued expenses .....	(58,861)	453,665
Accrued interest payable, related party .....	28,186	57,144
Due to related parties .....	(100,936)	138,727
Accounts payable and accrued expenses - long-term .....	(79,437)	(113,165)
	-----	-----
NET CASH (USED IN) PROVIDED BY OPERATING ACTIVITIES .....	(594,588)	307,359
	-----	-----
CASH FLOWS FROM INVESTING ACTIVITIES:		
Proceeds from sale of minority interest .....	937,700	-
Capitalized software development costs .....	-	(254,409)

Edgar Filing: TRANSAX INTERNATIONAL LTD - Form 10-Q

Acquisition of property and equipment .....	(497,924)	(36,713)
NET CASH PROVIDED BY (USED IN) INVESTING ACTIVITIES .....	439,776	(291,122)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Proceeds from (repayment of) of loans .....	84,200	(125,205)
Repayment of convertible debt .....	(225,000)	-
Proceeds from loan - related party .....	-	80,000
NET CASH USED IN FINANCING ACTIVITIES .....	(140,800)	(45,205)
EFFECT OF EXCHANGE RATE CHANGES ON CASH .....	280,464	4,584
NET DECREASE IN CASH .....	(15,148)	(24,384)
CASH, BEGINNING OF YEAR .....	175,938	71,501
CASH, END OF PERIOD .....	\$ 160,790	\$ 47,117
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION:		
Cash paid for interest .....	\$ 234,448	\$ 297,602
Cash paid for income taxes .....	\$ -	\$ -
NON-CASH INVESTING AND FINANCING ACTIVITIES:		
Series A preferred stock converted to common stock .....	\$ 81,300	\$ 11,092
Derivative liability reclassified to equity upon conversion .....	\$ 300,693	\$ -

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

5

TRANSAX INTERNATIONAL LIMITED AND SUBSIDIARIES  
Notes to the Unaudited Consolidated Financial Statements  
September 30, 2008

NOTE 1 - ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The Company

Transax International Limited ("TNSX" or the "Company") was incorporated in the State of Colorado in 1987. The Company currently trades on the OTC Bulletin Board under the symbol "TNSX" and the Frankfurt and Berlin Stock Exchanges under the symbol "TX6".

The Company, primarily through its 55% owned subsidiary, Medlink Conectividade em Saude Ltda ("Medlink Conectividade") is an international provider of information network solutions specifically designed for healthcare providers and health insurance companies. The Company's MedLink Solution enables the real time

## Edgar Filing: TRANSAX INTERNATIONAL LTD - Form 10-Q

automation of routine patient eligibility, verification, authorizations, claims processing and payment functions. The Company has offices located in Miami, Florida and Rio de Janeiro, Brazil.

On March 26, 2008, the Company executed a stock purchase and option agreement (the "Agreement") with Engetech, Inc., a Turks & Caicos corporation controlled and owned 20% by Americo de Castro, director and President of Medlink Conectividade, and 80% by Flavio Gonzalez Duarte (the "Buyer"). In accordance with the terms and provisions of the Agreement, the Company sold to the Buyer 45% of the total issued and outstanding stock of its wholly-owned subsidiary, Transax Limited, which owns one hundred percent of the total issued and outstanding shares of: (i) Medlink Conectividade, and (ii) Medlink Technologies, Inc., ("MTI") a Mauritius corporation (See Note 8).

### Principles of Consolidation

The consolidated financial statements are prepared in accordance with generally accepted accounting principles in the United States of America. The consolidated financial statements include the Company and its 55% owned subsidiary, Transax Limited, and Transax Limited's wholly-owned subsidiaries Medlink Conectividade, and MTI. All significant intercompany balances and transactions have been eliminated in the consolidated financial statements.

Management acknowledges its responsibility for the preparation of the accompanying interim consolidated financial statements, which reflect all adjustments, consisting of normal recurring adjustments, considered necessary, in its opinion, for a fair statement of its consolidated financial position and the results of its operations for the interim period presented. These consolidated financial statements should be read in conjunction with the summary of significant accounting policies and notes to consolidated financial statements included in the Company's Form 10-KSB annual report for the year ended December 31, 2007.

The accompanying unaudited condensed consolidated financial statements for Transax International, Inc. and its subsidiaries have been prepared in accordance with accounting principles generally accepted in the United States of America for interim financial information and with the instructions to Form 10-Q and Article 8-03 of Regulation S-X. Operating results for interim periods are not necessarily indicative of results that may be expected for the fiscal year as a whole.

6

### TRANSAX INTERNATIONAL LIMITED AND SUBSIDIARIES Notes to the Unaudited Consolidated Financial Statements September 30, 2008

#### NOTE 1 - ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

##### Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the dates of the financial statements and the reported amounts of revenues and expenses during the reporting periods. Actual results could differ from those estimates. Significant estimates used in the preparation of the accompanying consolidated financial statements include the allowance for doubtful accounts receivable, the estimated lives and recoverable value of property, equipment and software development costs, and the assumptions used to calculate stock-based compensation and derivative

liabilities.

#### Fair Value of Financial Instruments

Effective January 1, 2008, the Company adopted Statement of Financial Accounting Standards ("SFAS") 157, Fair Value Measurements. SFAS 157 clarifies the definition of fair value, prescribes methods for measuring fair value, and establishes a fair value hierarchy to classify the inputs used in measuring fair value as follows:

Level 1-Inputs are unadjusted quoted prices in active markets for identical assets or liabilities available at the measurement date.

Level 2-Inputs are unadjusted quoted prices for similar assets and liabilities in active markets, quoted prices for identical or similar assets and liabilities in markets that are not active, inputs other than quoted prices that are observable, and inputs derived from or corroborated by observable market data.

Level 3-Inputs are unobservable inputs which reflect the reporting entity's own assumptions on what assumptions the market participants would use in pricing the asset or liability based on the best available information.

The adoption of SFAS No. 157 did not have a material impact on the Company's fair value measurements. The carrying amounts reported in the balance sheet for cash, accounts receivable, loans payable, accounts payable and accrued expenses, and amounts due from related parties approximate their fair market value based on the short-term maturity of these instruments. The Company uses level 2 inputs to value its derivative liabilities (See Notes 6 and 7).

In February 2008, the Financial Accounting Standards Board ("FASB") issued FASB Staff Position FAS 157-2, "Effective Date of FASB Statement No. 157" ("FSP FAS 157-2"), which delays the effective date of SFAS No. 157 for all nonrecurring fair value measurements of nonfinancial assets and liabilities until fiscal years beginning after November 15, 2008. The Company has elected to defer the adoption of the nonrecurring fair value measurement disclosures of nonfinancial assets and liabilities. The adoption of FSP FAS 157-2 is not expected to have a material impact on the Company's results of operations, cash flows or financial positions.

7

TRANSAX INTERNATIONAL LIMITED AND SUBSIDIARIES  
Notes to the Unaudited Consolidated Financial Statements  
September 30, 2008

#### NOTE 1 - ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

##### Concentrations of Credit Risk

Financial instruments that potentially subject us to significant concentrations of credit risk consist principally of cash and accounts receivable. The Company performs certain credit evaluation procedures and does not require collateral for financial instruments subject to credit risk. The Company believes that its credit risk is limited because the Company routinely assesses the financial strength of its customers, and, based upon factors surrounding the credit risk of its customers, establishes an allowance for uncollectible accounts and, as a consequence, believes that its accounts receivable credit risk exposure beyond such allowances is limited.



## Edgar Filing: TRANSAX INTERNATIONAL LTD - Form 10-Q

The Company recognizes an allowance for doubtful accounts to ensure accounts receivable are not overstated due to uncollectability and are maintained for all customers based on a variety of factors, including the length of time the receivables are past due, significant one-time events and historical experience. An additional reserve for individual accounts is recorded when the Company becomes aware of a customer's inability to meet its financial obligation, such as in the case of bankruptcy filings or deterioration in the customer's operating results or financial position. If circumstances related to customers change, estimates of the recoverability of receivables would be further adjusted. As of September 30, 2008 and December 31, 2007, the allowance for doubtful accounts was \$0.

The Company's principal business activities are located in Brazil. Although Brazil is considered to be economically and politically stable, it is always possible that unanticipated events in foreign countries could disrupt the Company's operations.

The Company had revenues from two major customers during each of the nine months ended September 30, 2008 and 2007 that accounted for approximately 79.9%, or \$3,981,700 and 89.1%, or \$3,433,449 of the revenues, respectively. For the nine months ended September 30, 2008, these two major customers accounted for 40.7% and 39.1% of net revenues, respectively. For the nine months ended September 30, 2007, these two major customers accounted for 49.5% and 39.6% of revenues, respectively. At September 30, 2008, the same major customers accounted for 33.2% and 38.3% of the total accounts receivable balance outstanding, respectively. At December 31, 2007, the same major customers accounted for 47% and 35%, of the total accounts receivable balance outstanding, respectively.

The Company maintains its cash in accounts with major financial institutions in the United States and Brazil. Deposits in these banks may exceed the amounts of insurance provided on such deposits. As of September 30, 2008, bank deposits in the United States did not exceed federally insured limits of \$250,000. At September 30, 2008, the Company had deposits of \$28,128 in banks in Brazil which may not be insured. Historically, we have not experienced any losses on our deposits of cash.

### Cash and Cash Equivalents

The Company considers all highly liquid investments purchased with original maturities of three months or less to be cash equivalents. The Company had no cash equivalents at September 30, 2008 and December 31, 2007.

8

TRANSAX INTERNATIONAL LIMITED AND SUBSIDIARIES  
Notes to the Unaudited Consolidated Financial Statements  
September 30, 2008

### NOTE 1 - ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

#### Property and Equipment, net

Property and equipment, net, is stated at cost less accumulated depreciation and amortization. Depreciation and amortization is computed generally by the straight-line method at rates adequate to allocate the cost of applicable assets over their estimated useful lives, which range from 2 to 10 years. Expenditures for maintenance and repairs that do not improve or extend the lives of the related assets are expensed as incurred, while major repairs are capitalized.

#### Long-Lived Assets

## Edgar Filing: TRANSAX INTERNATIONAL LTD - Form 10-Q

Long-lived assets are reviewed annually for possible impairment, or whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. When such factors and circumstances exist, we compare the projected undiscounted future cash flows associated with the future use and disposal of the related asset or group of assets to their respective carrying amounts. Impairment, if any, is measured as the excess of the carrying amount over the fair value, based on market value when available, or discounted expected cash flows, of those assets and is recorded in the period in which the determination is made. Management recorded no impairment charges of long-lived assets during each of the nine months ended September 30, 2008 and 2007.

### Income Taxes

The Company files federal and state income tax returns in the United States for its domestic operations, and files separate foreign tax returns for the Company's foreign subsidiaries in the jurisdictions in which those subsidiaries operate. The Company accounts for income taxes under SFAS 109, "Accounting for Income Taxes." Under SFAS 109, deferred tax assets and liabilities are determined based on differences between the financial statement and tax basis of assets and liabilities and net operating loss and credit carryforwards using enacted tax rates in effect for the year in which the differences are expected to affect taxable income. A valuation allowance is established, when necessary, to reduce deferred tax assets to the amount that is more likely than not to be realized. If it becomes more likely than not that a deferred tax asset will be used, the related valuation allowance on such assets would be reversed. Management makes judgments as to the interpretation of the tax laws that might be challenged upon an audit and cause changes to previous estimates of tax liability. In management's opinion, adequate provisions for income taxes have been made for all years. If actual taxable income by tax jurisdiction varies from estimates, additional allowances or reversal of reserves may be necessary. Under SFAS 109, the effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enactment date. Due to net operating loss carry forwards available, no provision for income taxes has been recorded for the U.S. entities for the nine months ended September 30, 2008 and 2007. The Company has not recorded any deferred taxes at September 30, 2008 and December 31, 2007.

9

TRANSAX INTERNATIONAL LIMITED AND SUBSIDIARIES  
Notes to the Unaudited Consolidated Financial Statements  
September 30, 2008

#### NOTE 1 - ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

On January 1, 2007, the Company adopted the provisions of the FASB's Interpretation Number 48, "Accounting for Uncertainty in Income Taxes - an interpretation of SFAS Statement No. 109", ("FIN 48"), which provides a financial statement recognition threshold and measurement attribute for a tax position taken or expected to be taken in a tax return. Under FIN 48, we may recognize the tax benefit from an uncertain tax position only if it is more likely than not that the tax position will be sustained on examination by the taxing authorities, based on the technical merits of the position. The tax benefits recognized in the financial statements from such a position should be measured based on the largest benefit that has a greater than 50% likelihood of being realized upon ultimate settlement. FIN 48 also provides guidance on de-recognition of income tax assets and liabilities, classification of current and deferred income tax assets and liabilities, accounting for interest and penalties associated with tax positions, and income tax disclosures. The adoption of FIN 48 did not have a material impact on our consolidated financial statements.

Foreign Currency Translation

The reporting currency of the Company is the U.S. dollar. The functional currency of the Company's operating subsidiary, Medlink Conectividade, is its local currency, the Brazilian Real ("R\$"). Results of operations and cash flows are translated at average exchange rates during the period, assets and liabilities are translated at the unified exchange rate at the end of the period, and equity is translated at historical exchange rates. Translation adjustments resulting from the process of translating the local currency financial statements into U.S. dollars are included in determining comprehensive income. The cumulative translation adjustment and effect of exchange rate changes on cash for the nine months ended September 30, 2008 and 2007 was \$160,464 and \$4,584, respectively. Transaction gains and losses that arise from exchange rate fluctuations on transactions denominated in a currency other than the functional currency are included in the results of operations as incurred.

Asset and liability accounts at September 30, 2008 and December 31, 2007 were translated at 1.9143 R\$ to \$1.00 and at 1.7713 R\$ to \$1.00, respectively. Equity accounts are translated at their historical rate. In accordance with SFAS 95, "Statement of Cash Flows," cash flows from the Company's operations are calculated based upon the local currencies using the average translation rate. As a result, amounts related to assets and liabilities reported on the statement of cash flows will not necessarily agree with changes in the corresponding balances on the balance sheet.

Transactions and balances originally denominated in U.S. dollars are presented at their original amounts. Transactions and balances in other currencies are converted into U.S. dollars in accordance with SFAS 52, "Foreign Currency Translation," and are included in determining net income or loss.

Although the economic situation in Brazil has remained relatively stable in recent years, a return to higher levels of inflation, and currency exchange rate volatility could adversely affect the Company's operations. Changes in the valuation of the Brazilian Real in relation to the U.S. dollar may have significant effects on the Company's consolidated financial statements.

Revenue Recognition

The Company's revenues, which do not require any significant production, modification or customization for the Company's targeted customers and do not have multiple elements, are recognized when (1) persuasive evidence of an arrangement exists; (2) delivery has occurred; (3) the Company's fee is fixed and determinable; and (4) collectability is probable.

NOTE 1 - ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Substantially all of the Company's revenues are derived from the processing of applications by healthcare providers for approval of patients for healthcare services from insurance carriers. The Company's software or hardware devices containing the Company's software are installed at the healthcare provider's location. The Company offers transaction services to authorize and adjudicate the identity of the patient and obtains "real time" approval for any necessary medical procedure from the insurance carrier. The Company's transaction-based solutions provide remote access for healthcare providers to connect with

## Edgar Filing: TRANSAX INTERNATIONAL LTD - Form 10-Q

contracted insurance carriers. Transaction services are provided through contracts with insurance carriers and others, which specify the services to be utilized and the markets to be served. The Company's clients are charged for these services on a per transaction basis. Pricing varies depending on the type of transactions being processed under the terms of the contract for which services are provided. Transaction revenues are recognized in the period in which the transactions are performed.

### Accounting for Conversion Features and Warrants issued with Preferred Stock

The Company issued 16,000 shares of convertible Series A preferred stock, (see Note 6 and Note 7), which contained an Embedded Conversion Feature, ("ECF"), and warrants to purchase common stock. In accordance with the guidance in paragraph 12 of SFAS 133, "Accounting for Derivative Instruments and Hedging Activities," it was necessary to evaluate the conversion option separately from the debt host and account for it separately as a derivative if the conversion option met certain criteria. The conversion option met all three criteria of paragraph 12: (1) the conversion feature is not clearly and closely related to the host component, (2) the convertible instrument is not accounted for at fair value, and (3) the embedded conversion option meets the definition of a derivative in paragraph 6 of SFAS 133.

To assess whether or not the ECF would be classified as stockholders' equity if it were freestanding, management considered the guidance in Emerging Issues Task Force ("EITF") issue No. 00-19, "Accounting for Derivative Financial Instruments Indexed to, and Potentially Settled in, a Company's Own Stock." In assessing whether or not the conversion option would be classified as equity or a liability if it were freestanding, management determined whether or not the Series A convertible preferred stock is considered "conventional". EITF 00-19 and EITF issue No. 05-2, "The Meaning of Conventional Convertible Debt Instruments in issue No. 00-19," defines conventional convertible debt as debt whereby the holder will, at the issuer's option, receive a fixed amount of shares or the equivalent amount of cash as proceeds when the conversion option is exercised. . Management considered all aspects of EITF 00-19, paragraphs 12-33 and determined that Series A convertible preferred stock was not conventional as defined.

This caused the ECF of the Series A convertible preferred stock to be classified as a derivative financial instrument under SFAS 133. In addition, all warrants to purchase common stock issued with the preferred stock were then deemed to be derivative instruments under SFAS 133. The accounting treatment of derivative financial instruments requires that the Company record the ECF and warrants at their fair values as of each reporting date. Any change in fair value is recorded as a gain or loss from derivative liabilities within the consolidated statements of operations for all periods presented. The derivatives were valued using the Black-Scholes-Merton option pricing model and are classified in the consolidated balance sheets as current liabilities at September 30, 2008 and December 31, 2007.

11

TRANSAX INTERNATIONAL LIMITED AND SUBSIDIARIES  
Notes to the Unaudited Consolidated Financial Statements  
September 30, 2008

#### NOTE 1 - ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

##### Basic and Diluted Income (Loss) per Share

Basic income (loss) per share is computed by dividing the net income (loss) by the weighted average number of shares of common stock outstanding during the

Edgar Filing: TRANSAX INTERNATIONAL LTD - Form 10-Q

period. Diluted income (loss) per share reflects the basic income (loss) per share, while giving effect to all potentially dilutive shares of common stock that were outstanding during the period, such as common stock issuances that could result from the exercise or conversion of securities (options or warrants). The computation of diluted loss per share does not assume conversion, exercise, or contingent issuance of securities that would have an anti-dilutive effect on loss per share (i.e. reducing loss per share). The dilutive effect of outstanding options and warrants and their equivalents are reflected in dilutive earnings per share by the application of the treasury stock method which recognizes the use of proceeds that could be obtained upon the exercise of options and warrants in computing diluted earnings per share. It assumes that any proceeds would be used to purchase common stock at the average market price of the common stock during the period. The following table presents a reconciliation of basic and diluted earnings per share:

	For the Three Months Ended September 30,		For the Nine Months Ended September 30,	
	2008	2007	2008	2007
Net income (loss) attributable to common shareholders for basic and diluted earnings per share .....	\$ 9,186	\$ (87,250)	\$ (204,318)	\$ 69,000
Weighted average shares outstanding - basic	46,534,216	32,299,923	41,690,594	32,121,000
Effect of dilutive securities				
Unexercised options and warrants .....	-	-	-	-
Convertible debentures .....	-	-	-	5,357,000
Convertible loan payable - related party	-	-	-	-
Convertible preferred stock .....	53,465,784	-	-	35,509,000
Weighted average shares outstanding- diluted	100,000,000	32,299,923	41,690,594	72,988,000
Earnings per share - basic .....	\$ -	\$ -	\$ -	\$ -
Earnings per share - diluted .....	\$ -	\$ -	\$ -	\$ -

The following were excluded from the computation of diluted shares outstanding as they would have had an anti-dilutive impact. In periods where the Company has a net loss, all dilutive securities are excluded. In periods where the Company has net income, the dilutive securities are excluded when, for example, their exercise prices are greater than the average fair values of the Company's common stock as follows:

	Three months ended September 30,		Nine months ended September 30,	
	2008	2007	2008	2007
Stock options .....	2,375,000	2,825,000	2,375,000	2,825,000
Stock warrants .....	7,402,500	11,902,500	7,402,500	11,902,500
Convertible debt .....	-	5,357,143	-	-
Convertible debt-related party	1,400,000	1,400,000	1,400,000	1,400,000
Convertible preferred stock ..	853,856,716	35,509,839	907,312,500	-
Total .....	865,034,216	56,994,482	918,490,000	16,127,500

=====

TRANSAX INTERNATIONAL LIMITED AND SUBSIDIARIES  
Notes to the Unaudited Consolidated Financial Statements  
September 30, 2008

NOTE 1 - ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Stock Based Compensation

The Company adopted SFAS 123R (revised 2004), "Share Based Payment" on a prospective basis. SFAS 123R establishes the financial accounting and reporting standards for stock-based compensation plans at fair values. As required by SFAS 123R, the Company recognizes the cost resulting from all stock-based payment transactions including shares issued under its stock option plans in the financial statements.

Advertising

Advertising costs are expensed when incurred. For the nine months ended September 30, 2008 and 2007, advertising expense was deemed to be not material.

Comprehensive Income (Loss)

The Company follows SFAS 130, "Reporting Comprehensive Income" to recognize the elements of comprehensive income (loss). Comprehensive income (loss) is comprised of net earnings and all changes to the statements of stockholders' deficit, except those due to investments by stockholders, changes in paid-in capital and distributions to stockholders. For the Company, comprehensive income for the nine months ended September 30, 2008 and 2007 included net earnings and unrealized foreign currency translation adjustments only.

Research and Development

Research and development costs are expensed as incurred. For the nine months ended September 30, 2008 and 2007, research and development costs were deemed to be not material.

Recent Authoritative Pronouncements

In December 2007, the FASB issued SFAS 141(R), "Business Combinations", which replaces SFAS 141. SFAS 141(R) establishes principles and requirements for how an acquirer recognizes and measures in its financial statements the identifiable assets acquired, the liabilities assumed, any non-controlling interest in the acquiree and the goodwill acquired. The Statement also establishes disclosure requirements which will enable users to evaluate the nature and financial effects of the business combination. SFAS 141(R) is effective for fiscal years beginning after December 15, 2008. The adoption of SFAS 141(R) may have an impact on accounting for future business combinations once adopted.

TRANSAX INTERNATIONAL LIMITED AND SUBSIDIARIES  
Notes to the Unaudited Consolidated Financial Statements  
September 30, 2008

NOTE 1 - ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

## Edgar Filing: TRANSAX INTERNATIONAL LTD - Form 10-Q

In December 2007, the FASB issued SFAS 160, "Non-controlling Interests in Consolidated Financial Statements - an amendment of Accounting Research Bulletin No. 51", which establishes accounting and reporting standards for ownership interests in subsidiaries held by parties other than the parent, the amount of consolidated net earnings attributable to the parent and to the non-controlling interest, changes in a parent's ownership interest and the valuation of retained non-controlling equity investments when a subsidiary is deconsolidated. The Statement also establishes reporting requirements that provide sufficient disclosures that clearly identify and distinguish between the interests of the parent and the interests of the non-controlling owners. SFAS 160 is effective for fiscal years beginning after December 15, 2008. The Company has not determined the effect that the application of SFAS 160 will have on its consolidated financial statements.

In March 2008, the FASB issued SFAS 161, "Disclosures about Derivative Instruments and Hedging Activities". The new standard is intended to improve financial reporting about derivative instruments and hedging activities by requiring enhanced disclosures to enable investors to better understand the effects of those instruments and activities on an entity's financial position, financial performance, and cash flows. It is effective for financial statements issued for fiscal years and interim periods beginning after November 5, 2008, with early application encouraged. The Company is currently evaluating the impact of adopting SFAS 161 on its consolidated financial statements.

In May 2008, the FASB issued FSP APB 14-1, "Accounting for Convertible Debt Instruments That May Be Settled in Cash upon Conversion (Including Partial Cash Settlement)". FSP APB 14-1 clarifies that convertible debt instruments that may be settled in cash upon either mandatory or optional conversion (including partial cash settlement) are not addressed by paragraph 12 of APB Opinion No. 14, "Accounting for Convertible Debt and Debt issued with Stock Purchase Warrants". Additionally, FSP APB 14-1 specifies that issuers of such instruments should separately account for the liability and equity components in a manner that will reflect the entity's non-convertible debt borrowing rate when interest cost is recognized in subsequent periods. FSP APB 14-1 is effective for financial statements issued for fiscal years beginning after December 15, 2008, and interim periods within those fiscal years. The Company will adopt FSP APB 14-1 beginning in the first quarter of fiscal 2009, and this standard must be applied on a retrospective basis. The Company is evaluating the impact the adoption of FSP APB 14-1 will have on its consolidated financial position and results of operations.

On June 16, 2008, the FASB issued FSP No. EITF 03-6-1, "Determining Whether Instruments Granted in Share-Based Payment Transactions Are Participating Securities," to address the question of whether instruments granted in share-based payment transactions are participating securities prior to vesting. The FSP determines that unvested share-based payment awards that contain rights to dividend payments should be included in earnings per share calculations. The guidance will be effective for fiscal years beginning after December 15, 2008. The Company is currently evaluating the requirements of FSP No. EITF 03-6-1 as well as the impact of the adoption on its consolidated financial statements.

14

TRANSAX INTERNATIONAL LIMITED AND SUBSIDIARIES  
Notes to the Unaudited Consolidated Financial Statements  
September 30, 2008

### NOTE 2 - GOING CONCERN

Since inception, the Company has incurred cumulative net losses of \$13,440,277, and has a stockholders' deficit of \$3,164,474 and a working capital deficit of

## Edgar Filing: TRANSAX INTERNATIONAL LTD - Form 10-Q

\$4,070,371 at September 30, 2008. Since its inception, the Company has funded operations through short-term borrowings and equity investments in order to meet its strategic objectives. The Company's future operations are dependent upon external funding and its ability to increase revenues and reduce expenses. Management believes that sufficient funding will be available from additional related party borrowings and private placements to meet its business objectives, including anticipated cash needs for working capital, for a reasonable period of time. However, there can be no assurance that the Company will be able to obtain sufficient funds to continue the development of its software products and distribution networks. Further, since fiscal 2000, the Company has been deficient in the payment of Brazilian payroll taxes and Social Security taxes. At September 30, 2008 and December 31, 2007, these deficiencies (including interest and penalties) amounted to approximately \$1,214,000 and \$1,080,000, respectively. This payroll liability is included as part of the accounts payable and accrued expenses (short-term and long-term) within the consolidated balance sheet. Additionally, the Company sold 45% of its operating subsidiary and the Buyer has an option to acquire the remaining 55%. Upon the sale of its operating subsidiary, the Company will have no continuing operations. As a result of the foregoing, there exists substantial doubt about the Company's ability to continue as a going concern. These consolidated financial statements do not include any adjustments that might result from the outcome of this uncertainty.

### NOTE 3 - PROPERTY AND EQUIPMENT

Property and equipment consisted of the following at September 30, 2008 and December 31, 2007:

	2008	2007
	-----	-----
Computer Equipment .....	\$ 1,512,676	\$ 1,501,682
Software .....	822,313	607,919
Office Furniture and Equipment	27,621	22,685
Vehicle .....	72,089	46,011
Other .....	20,999	19,232
	-----	-----
	2,455,698	2,197,529
Accumulated Depreciation .....	(1,545,518)	(1,439,856)
	-----	-----
	\$ 910,180	\$ 757,673
	=====	=====

For the nine months ended September 30, 2008 and 2007, depreciation expense amounted to \$261,012 and \$272,503, respectively.

TRANSAX INTERNATIONAL LIMITED AND SUBSIDIARIES  
Notes to the Unaudited Consolidated Financial Statements  
September 30, 2008

### NOTE 4 - SOFTWARE DEVELOPMENT COSTS

Under the criteria set forth in SFAS 86, "Accounting for the Costs of Computer Software to be Sold, Leased or Otherwise Marketed," capitalization of software development costs begins upon the establishment of technological feasibility of the software. The establishment of technological feasibility and the ongoing assessment of the recoverability of these costs require considerable judgment by management with respect to certain external factors, including, but not limited to, anticipated future gross product revenues, estimated economic life, and changes in software and hardware technology. Capitalized software development costs are amortized utilizing the straight-line method over the estimated



Edgar Filing: TRANSAX INTERNATIONAL LTD - Form 10-Q

economic life of the software not to exceed three years. The Company regularly reviews the carrying value of software development assets and a loss is recognized when the unamortized costs are deemed unrecoverable based on the estimated cash flows to be generated from the applicable software. Capitalized software development costs consisted of the following at September 30, 2008 and December 31, 2007:

	2008	2007
Software development costs .....	\$ 707,823	\$ 707,823
Accumulated amortization .....	(518,957)	(360,760)
	-----	-----
	\$ 188,866	\$ 347,063
	=====	=====

For the nine months ended September 30, 2008 and 2007, amortization of development costs amounted to \$158,197 and \$176,264, respectively, and has been included in cost of product support services on the accompanying consolidated statements of operations.

NOTE 5 - RELATED PARTY TRANSACTIONS

Convertible Loan- Related Party

-----

At September 30, 2008 and December 31, 2007, the Company had aggregate loans payable for \$175,000 to a related party company whose officer is an officer of the Company. In 2005, the Company modified the terms of its convertible loans to this related party and under the modified terms, payment in full was due by April 30, 2007. These loans are convertible into the Company's common stock at \$0.125 per share. For each share of common stock received upon conversion of the principal balance, the related party is entitled to receive one warrant to purchase the Company's common stock at \$0.25 per share for a period of two years from the conversion date. The interest rate of the loan is 12% per annum computed at simple interest. At September 30, 2008 and December 31, 2007, interest due on these loans amounted to \$79,386 and \$63,621 and the aggregate principal amount due is \$175,000. During the nine months ended September 30, 2008 and 2007, the Company incurred \$15,764 and \$15,707, respectively, in interest expense related to these two loans. These two loans are in default and are currently under re-negotiation with the lender.

TRANSAX INTERNATIONAL LIMITED AND SUBSIDIARIES  
Notes to the Unaudited Consolidated Financial Statements  
September 30, 2008

NOTE 5 - RELATED PARTY TRANSACTIONS (CONTINUED)

Due to Related Parties

-----

For the nine months ended September 30, 2008 and 2007, the Company incurred \$162,411 and \$144,405, respectively, in management fees to an officer/director of the Company, which has been included in management and consulting fees - related party on the accompanying consolidated statements of operations. Effective July 1, 2007, pursuant to a Management Consulting Services Agreement, the Company's board of directors agreed to increase the compensation of this officer/director from \$15,000 per month to \$17,500 per month. At September 30, 2008 and December 31, 2007, \$274,481 and \$371,932 in management fees and other

## Edgar Filing: TRANSAX INTERNATIONAL LTD - Form 10-Q

expenses are payable to this officer/director and are included in due to related parties on the accompanying consolidated balance sheet. The amount due is unsecured, non-interest bearing and payable on demand.

For the nine months ended September 30, 2008 and 2007, the Company incurred \$36,015 and \$35,627, respectively, in accounting fees to a company whose officer is an officer of the Company. The fees are included in management and consulting fees - related party on the accompanying consolidated statements of operations. At September 30, 2008 and December 31, 2007, \$28,135 and \$34,120 in these fees is payable to this officer and are included in due to related parties on the accompanying consolidated balance sheets.

For the nine months ended September 30, 2008 and 2007, the Company incurred \$25,000 and \$32,000, respectively, in consulting fees to an officer of the Company. At September 30, 2008 and December 31, 2007, \$2,500 and \$0 in these fees is payable to this officer and are included in due to related parties on the accompanying consolidated balance sheet.

For the nine months ended September 30, 2008 and 2007, the Company incurred \$6,000 and \$72,000, respectively, in director and consulting fees to a director of the Company which has been included in management and consulting fees - related party on the accompanying consolidated statement of operations.

### Loans Payable - Related Party

-----

On March 5, 2004, the Company borrowed 115,000 Euros (translated to \$166,164 and \$169,384 at September 30, 2008 and December 31, 2007, respectively) from an officer of the Company for working capital purposes. The loan accrues 0.8% non-compounding interest per month, (9.6% per annum), had an initial term of twelve months, and was repayable quarterly in arrears. On September 25, 2007, the officer agreed to extend this loan for an additional twelve months until March 4, 2008. This loan has not been repaid and is currently payable on demand. Additionally, during fiscal 2007, the Company borrowed \$80,000 from this officer. This loan accrues 1.0% non-compounding interest per month, (12% per annum), and is due on demand. In connection with the two loans, for the nine months ended September 30, 2007, the Company incurred a loan fee of \$12,756 which has been included in interest expense - related party on the accompanying statement of operations. For the nine months ended September 30, 2008 and 2007, the Company incurred \$15,640 and \$29,143, respectively, in interest related to these loans. At September 30, 2008 and December 31, 2007, \$58,732 and \$43,091 in interest and loan fees was accrued on these loans and the aggregate principal and interest amount due is \$304,896 and \$292,475, respectively, and is included in loan payable - related party on the accompanying consolidated balance sheets.

17

## TRANSAX INTERNATIONAL LIMITED AND SUBSIDIARIES

### Notes to the Unaudited Consolidated Financial Statements

September 30, 2008

#### NOTE 6 - FINANCING ARRANGEMENTS

##### Loans Payable

-----

The Company's subsidiary, Medlink Conectividade, has several loans and credit lines with financial institutions. The loans require monthly installment payments, bear interest at rates ranging from 30% to 50% per annum, are secured by certain receivables of Medlink Conectividade, and are due through July 2009. At September 30, 2008 and December 31, 2007, loans payable to these financial

## Edgar Filing: TRANSAX INTERNATIONAL LTD - Form 10-Q

institutions aggregated \$678,327 and \$652,804, respectively.

### Convertible Debenture Payable

-----

On April 1, 2005, the Company entered into a Securities Purchase Agreement with Scott and Heather Grimes, Joint Tenants - with Rights of Survivorship ("Grimes"). Pursuant to the Securities Purchase Agreement, the Company issued convertible debentures to Grimes in the original principal amount of \$250,000. The debentures were convertible at the holder's option any time up to maturity at a conversion price equal to the lower of (i) 120% of the closing bid price of the common stock on the date of the debentures or (ii) 80% of the lowest closing bid price of the common stock for the five trading days immediately preceding the conversion date. The debentures had a two-year term and accrue interest at 5% per year.

Prior to May 15, 2008, the Company determined that the conversion feature of the convertible debentures represents an embedded derivative since the debentures are convertible into a variable number of shares. Accordingly, the convertible debentures are not considered to be conventional debt under EITF 00-19 and the embedded conversion feature must be bifurcated from the debt host and accounted for as a derivative liability. The Company believes that the aforementioned embedded derivative meets the criteria of SFAS 133 and EITF 00-19, and should be accounted for as a separate derivative with a corresponding value recorded as a liability. Accordingly, the fair value of this derivative instrument has been recorded as a liability on the consolidated balance sheets. The gains and losses recorded from changes in the fair value of the liability for derivative contracts has been recorded as a component of other income /(expense) in the consolidated statements of operations.

At the end of each reporting period and through May 15, 2008, the Company revalued the convertible feature of these derivative liabilities and the unexpired warrant. For the nine months ended September 30, 2008 and 2007, the Company recorded a gain (loss) on valuation of these derivative liability and warrants of \$(41,939) and \$113,412, respectively. Amortization of debt discount for the nine months ended September 30, 2008 and 2007 was \$0 and \$31,250, respectively, and is included in interest expense. Amortization of debt offering costs for the nine months ended September 30, 2008 and 2007 was \$0 and \$4,783, respectively, and is included in interest expense. At May 15, 2008, pursuant to an agreement, the convertible debt is payable in cash. Accordingly, the remaining derivative liability at May 15, 2008 of \$257,058 was reclassified to paid in capital. At September 30, 2008, the estimated fair values of the convertible feature derivative liabilities and warrants are \$0 and \$0, respectively. At December 31, 2007, the estimated fair values of the convertible feature derivative liabilities and warrants were \$215,119 and \$239. These liabilities were reflected as a conversion feature liability and warrant liability, respectively, on the accompanying consolidated balance sheets.

On May 15, 2008, the Company entered into an agreement with Grimes to repay the outstanding convertible debenture payable including interest and fees as follows: i) \$106,902 on May 16, 2008; ii) \$100,000 on June 16, 2008; and iii) \$100,000 on July 16, 2008. As of September 30, 2008, all remaining debt was paid in full.

Edgar Filing: TRANSAX INTERNATIONAL LTD - Form 10-Q

Convertible Debentures Payable (continued)

At the valuation date of May 15, 2008 and December 31, 2007, the following assumptions were applied to the convertible debt and warrants:

	2008	2007
	-----	-----
Market price .....	\$ 0.004	\$ 0.065
Exercise price of debt .....	\$ 0.002	\$0.036 to \$0.20
Term .....	0.25 years	0.25 - 0.50 years
Volatility .....	174%	114%
Risk-free interest rate ....	1.55%	3.36% - 3.49%

The convertible debenture liability is as follows at September 30, 2008 and December 31, 2007:

	2008	2007
	-----	-----
Convertible debentures payable .....	\$ -	\$225,000
Less: unamortized discount on debentures	-	-
	-----	-----
	\$ -	\$225,000
	=====	=====

For the nine months ended September 30, 2008 and 2007, the related gain or (loss) from derivative liabilities is as follows:

	Convertible debt	Preferred stock (See Note 7)	Total
	-----	-----	-----
2008			
----			
Change in fair value of derivative liabilities .....	\$ (41,939)	\$ 351,105	\$ 309,166
	-----	-----	-----
Total gain (loss) from derivative liabilities .....	\$ (41,939)	\$ 351,105	\$ 309,166
	=====	=====	=====
2007			
----			
Change in fair value of derivative liabilities .....	\$ 113,412	\$ 625,486	\$ 738,898
	-----	-----	-----
Total gain from derivative liabilities .....	\$ 113,412	\$ 625,486	\$ 738,898
	=====	=====	=====

NOTE 7 - STOCKHOLDERS' DEFICIT

Preferred stock

Edgar Filing: TRANSAX INTERNATIONAL LTD - Form 10-Q

-----  
On January 13, 2006, the Company's Board of Directors approved the creation of 16,000 shares of Series A Convertible Preferred Stock having the following rights, preferences and limitations:

- (a) each share has a stated value of \$100 per share and no par value;
- (b) With respect to the payment of dividends and other distributions on the capital stock of the Company, including distribution of the assets of the Company upon liquidation, the Series A Preferred Shares shall be senior to the common stock of the Company, par value \$.00001 per share and senior to all other series of Preferred Shares (the "Junior Stock").
- (c) The holders of Series A Preferred Shares shall be entitled to receive dividends or distributions on a pro rata basis according to their holdings of shares of Series A Preferred Shares in the amount of seven percent (7%) per year (computed on the basis of a 365-day year and the actual days elapsed). Dividends shall be paid in cash. Dividends shall be cumulative. No cash dividends or distributions shall be declared or paid or set apart for payment on the common stock in any calendar year unless cash dividends or distributions on the Series A Preferred Shares for such calendar year are likewise declared and paid or set apart for payment. No declared and unpaid dividends shall bear or accrue interest.
- (d) Each share of Series A Preferred Shares shall be convertible, at the option of the holder thereof, at any time after the date of issuance of such shares, into such number of fully paid and non-assessable shares of common stock equal to the sum of (i) the Liquidation Amount of the Series A Preferred Shares (\$100 per share) plus (ii) all accrued but unpaid dividends thereon, divided by the "Conversion Price", which is equal to the lower of (i) \$0.192 ( the "Fixed Conversion Price"), or (ii) eighty percent (80%) of the lowest daily volume weighted average price ("VWAP") of the common stock during the ten (10) Trading Days immediately preceding the date of conversion (the "Market Conversion Price"). The VWAP shall be determined using price quotations from Bloomberg, LP and a "Trading Day" is any day during which the FINRA OTC Bulletin Board is open for trading. Additionally, each share of Series A Preferred Shares shall automatically convert into shares of common stock at the Conversion Price then in effect immediately upon the consummation of the occurrence of a stock acquisition, merger, consolidation or reorganization of the Company into or with another entity through one or a series of related transactions, or the sale, transfer or lease of all or substantially all of the assets of the Company. Each share of Series A Preferred Shares shall automatically convert into shares of common stock at the Conversion Price then in effect immediately upon the third anniversary of the date of Investment Agreement.
- (e) The Series A Preferred Shares shall not have any voting rights except as provided under the laws of the state of Colorado.

20

TRANSAX INTERNATIONAL LIMITED AND SUBSIDIARIES  
Notes to the Unaudited Consolidated Financial Statements  
September 30, 2008

NOTE 7 - STOCKHOLDERS' DEFICIT (CONTINUED)

## Edgar Filing: TRANSAX INTERNATIONAL LTD - Form 10-Q

Preferred Stock (continued)  
-----

- (f) The Company has the right to redeem (unless otherwise prevented by law), with three (3) business days advance written notice (the "Redemption Notice"), any shares of Series A Preferred Shares provided that the closing bid price of the of the Company's common stock, as reported by Bloomberg, LP, is less than the Fixed Conversion Price at the time of the Redemption Notice. The Company shall pay an amount equal to One Hundred Fifteen percent (115%) of the Liquidation Amount, plus accrued but unpaid dividends thereon (the "Redemption Amount"). The Company shall deliver to the holder the Redemption Amount on the third (3rd) business day after the Redemption Notice. After receipt of a Redemption Notice, the holder shall be entitled to continue to convert outstanding shares of Series A Preferred Shares until the Redemption Price is received, subject to the conversion limitations as defined. The Company may not redeem these shares under any other circumstances.

On January 13, 2006, the Company entered into an Investment Agreement with YA Global Investments LP ("YA Global"), (the "Parties"), pursuant to which the Company agreed to sell to YA Global up to 16,000 shares of Series A Convertible Preferred Stock, no par value, (the "Series A Preferred Shares") which shall be convertible, at YA Global's discretion, into shares of the Company's common stock with a total market value of up to \$1,600,000.

Of the 16,000 Series A Preferred Shares to be sold 8,000 were sold to YA Global on January 13, 2006 and had a purchase price of \$800,000, which consisted of \$255,237 from the surrender of a pre-existing promissory note and \$544,763 of new funding, from which the Company received net proceeds of \$495,734 after the payment of placement fees of \$49,029. Additionally, the Company paid approximately \$25,000 in legal fees with the proceeds of this financing. On May 8, 2006, the Company sold the remaining 8,000 shares to YA Global, at the purchase price of \$800,000 and received proceeds of \$728,000 (net of placement fees of \$72,000).

On January 13, 2006, the Company also issued to YA Global warrants to purchase up to 5,000,000 shares of Common stock. The first warrant issued to YA Global is for 2,500,000 shares of common stock at an exercise price of \$0.30 per share and shall terminate after the five (5) year anniversary of the date of issuance. The second warrant issued to YA Global is for 2,500,000 shares of common stock at an exercise price of \$0.20 per share and shall terminate after the five (5) year anniversary of the date of issuance.

Subject to the terms and conditions of an Investor Registration Rights Agreement, the Company was required to prepare and file in 2006 and cause the Registration Statement to remain effective until all of the Registerable Securities have been sold. The Company filed its initial registration statement on Form SB-2 on May 9, 2006 and an amended SB-2/A registration statement on October 18, 2006. The registration statement was not declared effective. On November 13, 2008 the Company filed a Form RW withdrawing the registration statement.

In the event the Registration Statement is not declared effective by the SEC on or before the Scheduled Effective Deadline, or if after the Registration Statement has been declared effective by the SEC, sales cannot be made pursuant to the Registration Statement, the Company will pay as liquidated damages (the "Liquidated Damages") to the holder, at the holder's option, either a cash amount or shares of the Company's common stock equal to two percent (2%) of the Liquidation Amount (as defined in the Certificate of Designation of Series A Convertible Preferred Shares) outstanding as Liquidated Damages for each thirty

## Edgar Filing: TRANSAX INTERNATIONAL LTD - Form 10-Q

(30) day period or any part thereof after the Scheduled Filing Deadline or the Scheduled Effective Deadline as the case may be.

21

TRANSAX INTERNATIONAL LIMITED AND SUBSIDIARIES  
Notes to the Unaudited Consolidated Financial Statements  
September 30, 2008

NOTE 7 - STOCKHOLDERS' DEFICIT (CONTINUED)

Preferred Stock (continued)

-----  
In 2006, pursuant to FASB Staff Position, or FSP, EITF 00-19-2, "Accounting for Registration Payment Arrangements", the Company recorded a registration rights penalty expense of \$160,000 that is included in accrued expenses on the accompanying consolidated balance sheet. Based on management's analysis, the Company does not believe that any additional penalty is due under the Investor Registration Rights Agreement.

In accordance with SFAS No. 133, the Company is required to record the fair value of the ECF and warrants as a liability. At September 30, 2008 and 2007, the Company revalued the ECF and warrants resulting in gains on derivative liability of \$351,105 and \$625,486 for the nine months ended September 30, 2008 and 2007, respectively (See Note 6).

At September 30, 2008, the estimated fair value of the ECF and warrants were liabilities of \$817,254 and \$6,121, respectively. At December 31, 2007, the estimated fair value of the ECF and warrants were liabilities of \$1,064,981 and \$152,895, respectively. These derivative liabilities are reflected as a conversion feature liability and a warrant liability, respectively, on the accompanying consolidated balance sheets.

At the valuation date of September 30, 2008 and December 31, 2007, the fair value of the ECF and warrants were estimated using the Black-Scholes-Merton option pricing model with the following assumptions:

	2008	2007
	-----	-----
Dividend rate	0%	0%
Term (in years)	.30 to 2.28 years	1.05 to 3.05 years
Volatility	181%	114%
Risk-free interest rate	1.03% - 2.28%	3.05% - 4.03%

On January 17, 2008, the Company issued 245,098 shares of its common stock upon conversion of 100 shares of Series A preferred stock.

On January 24, 2008, the Company issued 1,388,889 shares of its common stock upon conversion of 250 shares of Series A preferred stock.

On March 4, 2008, the Company issued 1,712,121 shares of its common stock upon conversion of 113 shares of Series A preferred stock.

On April 7, 2008, the Company issued 1,795,455 shares of its common stock upon conversion of 79 shares of Series A preferred stock.

On April 18, 2008, the Company issued 1,875,000 shares of its common stock upon conversion of 60 shares of Series A preferred stock.

On May 14, 2008, the Company issued 1,900,000 shares of its common stock upon

## Edgar Filing: TRANSAX INTERNATIONAL LTD - Form 10-Q

conversion of 38 shares of Series A preferred stock.

In July 2008, the Company issued 4,168,622 shares of its common stock upon conversion of 173 shares of Series A preferred stock.

22

### TRANSAX INTERNATIONAL LIMITED AND SUBSIDIARIES Notes to the Unaudited Consolidated Financial Statements September 30, 2008

#### NOTE 7 - STOCKHOLDERS' DEFICIT (CONTINUED)

##### Stock Options

On November 28, 2004, the Company adopted a 2004 Incentive Stock Option Plan (the "Plan"). The Plan, as amended, provides options to be granted, exercisable for a maximum of 7,000,000 shares of common stock. Both incentive and nonqualified stock options may be granted under the Plan. The exercise price of options granted, the expiration date, and the vesting period, pursuant to this plan, are determined by a committee of the Board of Directors.

A summary of the status of the Company's outstanding stock options as of September 30, 2008 and changes during the period ending on that date is as follows:

	Nine months ended September 30, 2008	
	Number of Options	Weighted Average Exercise Price
Stock options		
Balance at beginning of year .....	3,425,000	\$0.25
Granted .....	-	-
Exercised .....	-	-
Forfeited .....	(1,050,000)	0.50
	2,375,000	\$0.14
Balance at September 30, 2008 .....	2,375,000	\$0.14
	2,375,000	\$0.14
Options exercisable at end of period ..	2,375,000	\$0.14
	2,375,000	\$0.14
Weighted average fair value of options granted during the year .....		\$ -
		\$ -

The following table summarizes information about employee and consultants stock options outstanding at September 30, 2008:

	Options Outstanding			Options Exercisable	
	Number Outstanding at September 30, 2008	Weighted Average Remaining Contractual Life (Years)	Weighted Average Exercise Price	Number Exercisable at September 30, 2008	Weighted Average Exercise Price
\$ 0.20	425,000	1.25	0.20	425,000	0.20



Edgar Filing: TRANSAX INTERNATIONAL LTD - Form 10-Q

\$ 0.15	1,350,000	2.00	0.15	1,350,000	0.15
\$ 0.06	600,000	4.16	0.06	600,000	0.06
	-----		-----	-----	-----
	2,375,000		\$ 0.14	2,375,000	\$ 0.14
	=====		=====	=====	=====

As of September 30, 2008 and December 31, 2007, there are no unrecognized compensation costs since all options granted under the stock option plans are vested.

23

TRANSAX INTERNATIONAL LIMITED AND SUBSIDIARIES  
Notes to the Unaudited Consolidated Financial Statements  
September 30, 2008

NOTE 7 - STOCKHOLDERS' DEFICIT (CONTINUED)

Stock Warrants

A summary of the status of the Company's outstanding stock warrants as of September 30, 2008 and activities during the period then ended is as follows:

	Nine months ended September 30, 2008	
	Number of Warrants	Weighted Average Exercise Price
	-----	-----
Warrants .....		
Balance at beginning of year ....	11,902,500	\$0.50
Granted .....	-	-
Exercised .....	-	-
Forfeited .....	(4,500,000)	0.93
	-----	-----
Balance at September 30, 2008	7,402,500	\$0.23
	=====	=====

The following information applies to all warrants outstanding at September 30, 2008:

Warrants Outstanding			Warrants Exercisable		
Range of Exercise Price	Shares	Weighted Average Remaining Contractual Life (Years)	Weighted Average Exercise Price	Shares	Weighted Average Exercise Price
-----	-----	-----	-----	-----	-----
\$ 0.30	2,500,000	2.29	0.30	2,500,000	0.30
\$ 0.20	4,902,500	1.66	0.20	4,902,500	0.20
	-----		-----	-----	-----
	7,402,500		\$ 0.23	7,402,500	\$ 0.23
	=====		=====	=====	=====

NOTE 8 - SALE OF MINORITY INTEREST IN SUBSIDIARY

On March 26, 2008, the board of directors of the Company, pursuant to unanimous written consent resolutions, approved the execution of a stock purchase and option agreement (the "Agreement") with Engetech, Inc., (the "Buyer"). In

**Edgar Filing: TRANSAX INTERNATIONAL LTD - Form 10-Q**

accordance with the terms and provisions of the Agreement, the Company sold to the Buyer 45% of the total issued and outstanding stock of its wholly-owned subsidiary, Transax Limited ("Transax Sub"). Transax Sub owns one hundred percent of the total issued and outstanding shares of: (i) Medlink Conectividade and (ii) MTI.

The purchase price for the 45%, or 45 shares, ("Initial Shares") is \$3,200,000, \$220,000 of which was to have been paid by December 31, 2007 as a deposit. Of this amount, approximately \$188,000 was received by the Company by December 31, 2007 and at December 31, 2007 was reflected as a liability on the accompanying consolidated balance sheet as a deposit on sale of minority interest. In March 2008, the Company collected an additional \$120,000 of the purchase price. The remaining balance was to be paid as follows i) \$32,000 of the initial deposit is due immediately; ii) \$480,000 was due on March 31, 2008 and was paid in May 2008, and iii) the balance of \$2,400,000 was due in twelve equal monthly payments of \$200,000 commencing April 2008.

24

TRANSAX INTERNATIONAL LIMITED AND SUBSIDIARIES  
Notes to the Unaudited Consolidated Financial Statements  
September 30, 2008

NOTE 8 - SALE OF MINORITY INTEREST IN SUBSIDIARY (CONTINUED)

In May 2008, the Agreement was amended. Accordingly, the remaining balance is due as follows:

May 2008 .....	\$ 120,000
June 2008 .....	\$ 150,000
July 2008 .....	\$ 200,000
August 2008 .....	\$ 200,000
September 2008 .....	\$ 250,000
October 2008 .....	\$ 280,000
Aggregate monthly payments from November 2008 to April 2009 .....	\$1,200,000

Through September 30, 2008, the Company received additional proceeds of \$175,000. The balance due and owing by the Buyer is evidenced by an installment note secured by a pledge of all of Initial Shares. As of the date of this report, the Buyer has not paid the remaining initial deposit and is default on its payments of principal and interest. At September 30, 2008, pursuant to the terms of the Agreement, as amended, the Company has a remaining note receivable of \$2,262,300 due from the Buyer. Since collection of the remaining purchase price is not reasonably assured, the Company recorded the full amount of the purchase price of \$3,200,000 as deferred revenue and is reflecting the deferred revenue net of the remaining note receivable on the accompanying consolidated balance sheets. Accordingly, at September 30, 2008, the Company's consolidated balance sheets reflect a deferred gain on the sale of minority interest of \$937,700, which will be recognized as other income when collection is reasonably assured and not until all of the risks and other incidents of ownership have been passed to the buyer. At September 30, 2008, deferred gain on sale of minority interest consists of the following:

Sale price of 45% interest in Transax Limited .....	\$ 3,200,000
Less: note receivable balance at September 30, 2008 .....	(2,262,300)
	-----
Deferred gain on sale of minority interest in subsidiary .....	\$ 937,700
	=====

The Buyer has an option to purchase the remaining 55% of Transax Sub. The Option

## Edgar Filing: TRANSAX INTERNATIONAL LTD - Form 10-Q

is exercisable by the Buyer during March and April 2009, subject to shareholder approval, to acquire the balance of the Company's Medlink Conectividade operations (and its corresponding debt) by way of acquisition of the remaining 55 shares of the Transax Sub and certain licensing rights for Latin America, Spain and Portugal in exchange for further payments to the Company of approximately \$2,400,000 in the form of twelve equal monthly payments of \$200,000

Pursuant to the amended agreement, interest shall accrue at an annual rate of 18% on past due amounts and the Buyer will be in default if payments are more than 15 days late from the payment due date. Additionally, the Buyer may use positive cash flows from the Medlink operations to pay down the note receivable balance, subject to certain restriction as defined in the amended agreement as contingent upon the Buyer's exercise of its option to acquire the remaining 55% of Transax Sub. If the Buyer does not exercise its option to acquire the balance of 55% of the Transax Sun shares, then the Company would reduce the Buyer's 45% ownership proportionally by the portion of shares paid by Medlink net income or the Buyer has a 60-day option to repay the amount due back to Medlink to maintain a 45% equity interest in Transax Sub.

In accordance with the further terms and provisions of the Agreement, a performance bonus shall also be payable by the Buyer to the Company (the "Bonus") equal to 50% of the revenues received by Medlink Conectividade (converted monthly to US Dollars at the monthly average exchange rate as provided by the Central Bank of Brazil) with respect to transactions in excess of an aggregate of 678,076 executed during 2008 for Medlink Conectividade's largest customer.

25

TRANSAX INTERNATIONAL LIMITED AND SUBSIDIARIES  
Notes to the Unaudited Consolidated Financial Statements  
September 30, 2008

NOTE 8 - SALE OF MINORITY INTEREST IN SUBSIDIARY (CONTINUED)

The Buyer shall pay the Bonus due as follows: 25% due on May 31, 2009, 25% on July 31, 2009, 25% on August 31, 2009, and 25% on October 31, 2009. The Bonus shall be payable regardless of whether or not the Buyer elects to exercise the Option. At September 30, 2008, the Company estimates that approximately \$890,000 of bonus payments are due to the Company. The Company has not recorded the bonus receivable since the collection of this receivable is not reasonably assured. Additionally, in accordance with the terms and provisions of the Agreement, MTI shall grant to the Company a perpetual, exclusive and sub-license to use all of the software and other intellectual property owned by MTI in all territories other than (i) Latin America (defined as all mainland countries in the Western Hemisphere south of the USA/Mexico border; and (ii) Spain and Portugal.

As of the date of this report, the Buyer is in default by approximately \$1,057,000 including \$32,000 from the initial payment due and \$1,025,000 in periodic payments.

The Company has issued default notices to the buyer in respect of non-payment under the Agreement. On November 6, 2008 the buyer forwarded a letter to the Company indicating a desire to restructure the payment term provided the Company forfeit the bonus due under the contract. The Company estimates the bonus due as of September 30, 2008 to be \$890,000. The Company is currently in discussion with the buyer and plans to conclude any renegotiation of contract terms by November 30, 2008.

NOTE 9 - FOREIGN OPERATIONS

## Edgar Filing: TRANSAX INTERNATIONAL LTD - Form 10-Q

The Company identifies its operating segments based on its geographical locations. The Company operates in the United States, Brazil and Mauritius. Substantially all of the Company's assets are located in Brazil.

	Nine Months ended September 30,	
	2008	2007
Revenues to unaffiliated customers:		
Brazil .....	\$ 4,986,507	\$ 3,852,538
Operating Expenses:		
Brazil .....	4,626,386	3,335,991
USA .....	426,063	533,953
Australia .....	-	-
Mauritius .....	1,283	28,945
Total Operating Expenses .....	5,053,732	3,898,889
Loss from operations .....	(67,225)	(46,351)
Other income (expenses) and income taxes:		
Brazil .....	(336,434)	(483,279)
USA .....	276,817	692,271
Australia .....	-	(9,799)
	(59,617)	199,193
Net (loss) income as reported .....	\$ (126,842)	\$ 152,842

26

TRANSAX INTERNATIONAL LIMITED AND SUBSIDIARIES  
Notes to the Unaudited Consolidated Financial Statements  
September 30, 2008

### NOTE 10 - COMMITMENTS AND CONTINGENCIES

#### Legal Proceedings

The Company's subsidiary, Medlink Conectividade, is involved litigation pertaining to a previous provider of consultancy services regarding "breach of contract" and two labor law suits involving employees for "unfair dismissal" claims. At September 30, 2008 and December 31, 2007, the Company has accrued approximately \$184,402 and \$199,000, respectively, related to these lawsuits. The outcome of these claims is uncertain at this time.

#### Accrued Taxes and Social Contribution

Since 2000, the Company has been deficient in the payment of Brazilian payroll taxes and Social Security taxes. At September 30, 2008 and December 31, 2007, these deficiencies, plus interest and penalties, amounted to approximately \$1,214,000 and \$1,080,000, respectively. This liability is included as part of the accounts payable and accrued expenses (short-term and long-term) within the consolidated balance sheet. During years 2006 and 2005, the Company entered into a number of payment programs with the Brazilian authorities whereby the Social Security ("INSS") taxes due, plus applicable penalties and interests are to be

## Edgar Filing: TRANSAX INTERNATIONAL LTD - Form 10-Q

repaid over a period of up to 60 months. However, there is no certainty that the Brazilian authorities will enter into similar plans in the future for the remaining non-negotiated balances due or any future taxes due. The current portion due, which is included in current liabilities, also includes amounts whose payment terms have not been negotiated with the Brazilian authorities.

### NOTE 11 - SUBSEQUENT EVENTS

On November 3, 2008, the Company issued 2,222,222 shares of its common stock upon conversion of 40 shares of Series A preferred stock.

On November 14, 2008, the Company issued 2,428,571 shares of its common stock upon conversion of 17 shares of Series A preferred stock.

27

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

The following analysis of the results of operations and financial condition should be read in conjunction with our unaudited consolidated financial statements for the nine months ended September 30, 2008 and notes thereto contained elsewhere in this report.

#### GENERAL

Transax International Limited is a Colorado corporation and currently trades on the OTC Bulletin Board under the symbol "TNSX.OB" and the Frankfurt and Berlin Stock Exchanges under the symbol "TX6". Please note that throughout this report, and unless otherwise noted, the words "we," "our," "us," or the "Company" refer to Transax International Limited. We are an international provider of information network solutions, products and services specifically designed for the healthcare providers and health insurance companies (collectively, the "Health Information Management Products").

#### CURRENT BUSINESS OPERATIONS

At the end of the third quarter, 2008, we had eight contracts to develop our solutions for new customers. Three of these contracts were signed during the first quarter of 2008 and are currently under development with our customers and awaiting implementation. Transaction data is being collected in a test environment and will be subject to full roll out at a later date.

We undertook 6.8 million transactions during the nine month period ended September 30, 2008 compared to 6.4 million transactions compared with the same period in 2008. Significant growth was achieved in the introduction of the company's web-based solution which increased to over 150,000 transactions per month in September 2008 from 22,000 transactions in January 2008.

At the end of the nine month period ended September 30, 2008, we had 7,664 solutions operational in Brazil compared with 7,250 solutions during the same period in 2007. During 2008 a total of 1,000 Interactive Voice Response Solutions (IVR) clients were converted onto the Company's web-based solution which allowed for greater operational flexibility and increased functionality for the client.

During the nine month period ended September 30, 2008, the Company increased its staffing levels in response to the development of the Company's HOSP solution, a solution which would allow real time, on-line healthcare transactions to be undertaken in an in-patient hospital environment. Current transactions are generally limited to real time, on-line transactions in the out-patient

Edgar Filing: TRANSAX INTERNATIONAL LTD - Form 10-Q

environment.

STOCK PURCHASE AND OPTION AGREEMENT

On March 26, 2008, our board of directors, pursuant to unanimous written consent resolutions approved the execution of a stock purchase and option agreement (the "Agreement") with Engetech, Inc., a Turks & Caicos corporation controlled and 20% owned by Americo de Castro, director and President of our subsidiary, Medlink Conectividade, and 80% owned by Flavio Gonzalez Duarte (the "Buyer"). In accordance with the terms and provisions of the Agreement, we sold to the Buyer 45% of the total issued and outstanding stock of our wholly-owned subsidiary, Transax Limited. Transax Limited owns 100% of the total issued and outstanding shares of: (i) Medlink Conectividade; and (ii) Medlink.

28

In accordance with further terms and provisions of the Agreement: (i) we sold 45 of the 100 shares of Transax Limited's issued and outstanding (the "Initial Shares") with an option to purchase the remaining 55 shares of Transax Limited (the "Option"); and (ii) the Buyer agreed to pay us an aggregate purchase price of \$3,200,000 for the Initial Shares. A total of \$937,700 was received through September 30, 2008. The Company also has received monies as reimbursement for legal fees which are excluded from these amounts as they were used to offset the associated expenses. For the nine months ended September 30, 2008, we received \$0 of such reimbursement, and a total of \$20,000 of reimbursement was received during the year ended December 31, 2007.

The remaining balance was to be paid as follows i) \$32,000 of the initial deposit is due immediately; ii) \$480,000 was due on March 31, 2008 and was paid in May 2008, and iii) the balance of \$2,400,000 was due in twelve equal monthly payments of \$200,000 commencing April 2008. Due to a default in payments by the Buyer, in May 2008, the Agreement was amended and, accordingly, the remaining balance is due as follows:

May 2008 .....	\$ 120,000
June 2008 .....	\$ 150,000
July 2008 .....	\$ 200,000
August 2008 .....	\$ 200,000
September 2008 .....	\$ 250,000
October 2008 .....	\$ 280,000
Monthly payments from November 2008 to April 2009 .....	\$1,200,000

Through September 30, 2008, the Company received additional proceeds of \$175,000. The balance due and owing by the Buyer is evidenced by an installment note secured by a pledge of all of Initial Shares. As of the date of this report, the Buyer has not paid the remaining initial deposit and is default on its payments of principal and interest. At September 30, 2008, pursuant to the terms of the Agreement, as amended, the Company has a remaining note receivable of \$2,262,300 due from the Buyer. Since collection of the remaining purchase price is not reasonably assured, the Company recorded the full amount of the purchase price of \$3,200,000 as deferred revenue and is reflecting the deferred revenue net of the remaining note receivable on the accompanying consolidated balance sheets. Accordingly, at September 30, 2008, the Company's consolidated balance sheets reflect a deferred gain on the sale of minority interest of \$937,700, which will be recognized as other income when collection is reasonably assured and not until all of the risks and other incidents of ownership have been passed to the buyer. At September 30, 2008, the deferred gain on sale of minority interest consists of the following:

Sale price of 45% interest in Transax Limited .....	\$ 3,200,000
---	--------------

## Edgar Filing: TRANSAX INTERNATIONAL LTD - Form 10-Q

Less: note receivable balance at September 30, 2008 .....	(2,262,300)
	-----
Deferred gain on sale of minority interest in subsidiary .....	\$ 937,700
	=====

Pursuant to the amended agreement, interest shall accrue at an annual rate of 18% on past due amounts and the Buyer will be in default if payments are more than 15 days late from the payment due date. Additionally, the Buyer may use positive cash flows from the Medlink operation to pay down the note receivable balance, subject to certain restriction as defined in the amended agreement as contingent upon the Buyer's exercise of its option to acquire the remaining 55% of Transax Sub. If the Buyer does not exercise its option to acquire the balance of 55% of the Transax Sub shares, then the Company would reduce the Buyer's 45% ownership proportionally by the portion of shares paid by Medlink net income or the Buyer has a 60-day option to repay the amount due back to Medlink to maintain a 45% equity interest in Transax Sub.

29

The Buyer has an option to purchase the remaining 55% of Transax Sub. The Option is exercisable by the Buyer during March and April 2009, subject to shareholder approval, to acquire the balance of the Company's Medlink Conectividade operations (and its corresponding debt) by way of acquisition of the remaining 55 shares of the Transax Sub and certain licensing rights for Latin America, Spain and Portugal in exchange for further payments to the Company of approximately \$2,400,000 in the form of twelve equal monthly payments of \$200,000

In accordance with the further terms and provisions of the Agreement, a performance bonus shall also be payable by the Buyer to the Company (the "Bonus") equal to 50% of the revenues received by Medlink Conectividade (converted monthly to US Dollars at the monthly average exchange rate as provided by the Central Bank of Brazil) with respect to transactions in excess of an aggregate of 678,076 executed during 2008 for Medlink Conectividade's largest customer. The Buyer shall pay the Bonus due as follows: 25% due on May 31, 2009, 25% on July 31, 2009, 25% on August 31, 2009, and 25% on October 31, 2009. The Bonus shall be payable regardless of whether or not the Buyer elects to exercise the Option. At September 30, 2008, the Company estimates that approximately \$890,000 of bonus payment are due to the Company. The Company has not recorded the amount of bonus receivable since the collection of this receivable is not reasonably assured. Additionally, in accordance with the terms and provisions of the Agreement, MTI shall grant to the Company a perpetual, exclusive and sub-license to use all of the software and other intellectual property owned by MTI in all territories other than (i) Latin America (defined as all mainland countries in the Western Hemisphere south of the USA/Mexico border; and (ii) Spain and Portugal.

As of the date of this quarterly report, the Buyer is in default by approximately \$1,057,000 including \$32,000 from the initial payment due and \$1,025,000 in periodic payments.

We issued default notices to the buyer in respect of non-payments under the Agreement. On November 6, 2008 the buyer forwarded a letter to us indicating a desire to restructure the payment term provided we forfeit the bonus due under the contract. We estimate the bonus due as of September 30, 2008 to be \$890,000. We are currently in discussions with the buyer and plan to conclude any renegotiation of contract terms on or about November 30, 2008.

CRITICAL ACCOUNTING POLICIES

## Edgar Filing: TRANSAX INTERNATIONAL LTD - Form 10-Q

Our financial statements and accompanying notes are prepared in accordance with generally accepted accounting principles in the United States. Preparing financial statements requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenue and expenses. These estimates and assumptions are affected by management's application of accounting policies. Our critical accounting policies include the following:

**Impairment** - We review the carrying value of property and equipment for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable, or, at least annually. Recoverability of long-lived assets is measured by the comparison of the carrying amount to the undiscounted cash flows that the asset or asset group is expected to generate, which is used to estimate the fair value. If such assets are considered to be impaired, the impairment to be recognized is measured by the amount by which the carrying amount of the property, if any, exceeds its fair market value.

**Accounting for Stock Based Compensation** - We have adopted SFAS 123(R), "Share Based Payment". SFAS 123(R) establishes the financial accounting and reporting standards for stock-based compensation plans. As required by SFAS 123(R), we recognize the cost resulting from all stock-based payment transactions including, shares issued under our stock option plans, in the financial statements over the term of the services being rendered to the Company.

30

**Revenue Recognition** - Our revenues, from agreements which do not require any significant production, modification or customization for the Company's targeted customers and that do not have multiple elements, are recognized when (1) persuasive evidence of an arrangement exists; (2) delivery has occurred; (3) the Company's fee is fixed and determinable, and; (4) collectability is probable.

Substantially all of our revenues are derived from the processing of applications by healthcare providers for approval of healthcare services for patients from insurance carriers. Our software, or hardware devices containing our software, are installed at the healthcare provider's location. We offer transaction services to authorize and adjudicate identity of the patient and obtain "real time" approval for any necessary medical procedure from the insurance carrier. Our transaction-based solutions provide remote access for healthcare providers to connect with contracted insurance carriers. Transaction services are provided through contracts with insurance carriers and others, which specify the services to be utilized and the markets to be served. Our clients are charged for these services on a per transaction basis. Pricing varies depending on the type of transactions being processed under the terms of the contract for which services are provided. Transaction revenues are recognized in the period in which the transactions are performed.

### RECENT ACCOUNTING PRONOUNCEMENTS

In December 2007, the FASB issued SFAS 141(R), "Business Combinations" and SFAS 160, "Accounting and Reporting of Non-controlling Interests in Consolidated Financial Statements, an amendment of ARB No. 51".." These two standards must be adopted in conjunction with each other on a prospective basis. The most significant changes to business combination accounting pursuant to SFAS 141R and SFAS 160 are the following: (a) recognize, with certain exceptions, 100 percent of the fair values of assets acquired, liabilities assumed and non-controlling interests in acquisitions of less than a 100 percent controlling interest when the acquisition constitutes a change in control of the acquired entity, (b) acquirers' shares issued in consideration for a business combination will be measured at fair value on the closing date, not the announcement date, (c) recognize contingent consideration arrangements at their acquisition date fair



## Edgar Filing: TRANSAX INTERNATIONAL LTD - Form 10-Q

values, with subsequent changes in fair value generally reflected in earnings, (d) the expensing of all transaction costs as incurred and most restructuring costs, (e) recognition of pre-acquisition loss and gain contingencies at their acquisition date fair values, with certain exceptions, (f) capitalization of acquired in-process research and development rather than expense recognition, (g) earn-out arrangements may be required to be re-measured at fair value and (h) recognize changes that result from a business combination transaction in an acquirer's existing income tax valuation allowances and tax uncertainty accruals as adjustments to income tax expense. The Company anticipates these new standards will significantly affect our accounting for future business combinations following adoption on January 1, 2009.

In March 2008, the FASB issued SFAS 161, "Disclosures about Derivative Instruments and Hedging Activities". The new standard is intended to improve financial reporting about derivative instruments and hedging activities by requiring enhanced disclosures to enable investors to better understand the effects of those instruments and activities on an entity's financial position, financial performance, and cash flows. It is effective for financial statements issued for fiscal years and interim periods beginning after November 5, 2008, with early application encouraged. We are currently evaluating the impact of adopting SFAS 161 on our consolidated financial statements.

31

In May 2008, the FASB issued FSP APB 14-1, "Accounting for Convertible Debt Instruments That May Be Settled in Cash upon Conversion (Including Partial Cash Settlement)". FSP APB 14-1 clarifies that convertible debt instruments that may be settled in cash upon either mandatory or optional conversion (including partial cash settlement) are not addressed by paragraph 12 of APB Opinion No. 14, "Accounting for Convertible Debt and Debt issued with Stock Purchase Warrants". Additionally, FSP APB 14-1 specifies that issuers of such instruments should separately account for the liability and equity components in a manner that will reflect the entity's non-convertible debt borrowing rate when interest cost is recognized in subsequent periods. FSP APB 14-1 is effective for financial statements issued for fiscal years beginning after December 15, 2008, and interim periods within those fiscal years. We will adopt FSP APB 14-1 beginning in the first quarter of fiscal 2009, and this standard must be applied on a retrospective basis. We are evaluating the impact the adoption of FSP APB 14-1 will have on our consolidated financial position and results of operations.

On June 16, 2008, the FASB issued FSP No. EITF 03-6-1, "Determining Whether Instruments Granted in Share-Based Payment Transactions Are Participating Securities," to address the question of whether instruments granted in share-based payment transactions are participating securities prior to vesting. The FSP determines that unvested share-based payment awards that contain rights to dividend payments should be included in earnings per share calculations. The guidance will be effective for fiscal years beginning after December 15, 2008. The Company is currently evaluating the requirements of FSP No. EITF 03-6-1 as well as the impact of the adoption on its consolidated financial statements.

### RESULTS OF OPERATIONS

NINE MONTHS ENDED SEPTEMBER 30, 2008 COMPARED TO NINE MONTHS ENDED SEPTEMBER 30, 2007

Our net loss for the nine-months ended September 30, 2008 was \$126,842 compared to net income of \$152,842 for the nine-month period ended September 30, 2007 (a decrease of \$279,684 or 183.0%).

During the nine-month period ended September 30, 2008, we generated \$4,986,507 in revenues compared to \$3,852,538 in revenues generated during the nine-month

## Edgar Filing: TRANSAX INTERNATIONAL LTD - Form 10-Q

period ended September 30, 2007 (an increase of \$1,133,969 or 29.4%). The increase in revenues is due to the continued installation of our software and/or hardware devices containing our software at five new healthcare providers' locations in Brazil. Upon installation, we will begin the processing of applications submitted by healthcare providers for approval of patients for healthcare services from the insurance carrier. We charge for these services on a per transaction basis.

During the nine-month period ended September 30, 2008, we incurred operating expenses in the aggregate amount of \$5,053,732 compared to \$3,898,889 incurred during the nine-month period ended September 30, 2007 (an increase of \$1,154,843 or 29.6%). The increase in operating expenses incurred during the nine-month period ended September 30, 2008 compared to the nine-month period ended September 30, 2007 resulted from: (i) an increase of \$298,047 or 19.4% in cost of product support services resulting from the increase in revenues; (ii) an increase of \$599,951 or 91.9 % in compensation and related benefits associated with the increased operations of our MedLink operations; (iii) a decrease of \$2,108 or 2.2% based on a decrease in the amount of professional fees incurred; (iv) a decrease of \$54,606 or 19.20% in management and consulting fees-related parties due to a decrease in use of certain management and a director/consultant needed to handle our operations; (v) a decrease in investor relations of \$26,978 or 96.4% in investor relations; (vi) a decrease of \$11,491 or 4.2% in depreciation and amortization; and (vii) an increase of \$352,028 or 34.3% in general and administrative expenses primarily resulting from an increase in operating costs associated with our increased business revenues in 2008.

32

We reported a loss from operations of \$67,225 during the nine-month period ended September 30, 2008 as compared to a loss from operations of \$46,351 during the nine-month period ended September 30, 2007 due to the factors previously discussed.

During the nine-month period ended September 30, 2008, we incurred other income of \$42,369, compared to other income of \$344,655 during the nine-month period ended September 30, 2007 (a decrease of \$302,286 or 87.7%). The variance for nine-month period ended September 30, 2008, compared to the nine-month period ended September 30, 2007 resulted primarily from the change in the fair value of the Company's derivative liabilities which was a gain of \$309,166 in 2008, as compared to a gain in 2007 of \$738,898. This change is related to the classification of the embedded conversion feature and related warrants issued in connection with our Series A Preferred Stock and debenture payable as derivative instruments.

For the nine-month period ended September 30, 2008, our loss before income taxes was \$24,856 compared to income before taxes of \$298,304 for the nine-month period ended September 30, 2007. During the nine-month period ended September 30, 2008, we recorded a tax provision of \$101,986 for Brazilian income taxes (2007: \$145,462), resulting in a net loss of \$(126,842) compared to net income of \$152,842.

During the nine-month period ended September 30, 2008, we recorded a deemed and cumulative preferred stock dividend of \$77,476 compared to \$83,790 during the nine-month period ended September 30, 2007, which is related to our cumulative dividends on the Series A Preferred Stock.

We reported net loss attributable to common shareholders of (\$204,318) during the nine-month period ended September 30, 2008 as compared to net income attributable to common shareholders of \$69,052 during the nine-month period ended September 30, 2007. This translates to an earnings per common share available to shareholders of \$0.00 for the nine-month periods ended September

## Edgar Filing: TRANSAX INTERNATIONAL LTD - Form 10-Q

30, 2008 and 2007.

During the nine-month period ended September 30, 2008 and 2007, we recorded an unrealized foreign currency translation gain of \$518,730 compared to a loss of \$317, respectively. This resulted in comprehensive income during the nine-month period ended September 30, 2008 and 2007 of \$391,888 compared to \$152,525, respectively.

### LIQUIDITY AND CAPITAL RESOURCES

As of September 30, 2008, our current assets were \$1,176,900 and our current liabilities were \$5,247,271, which resulted in a working capital deficit of \$4,070,371. As of September 30, 2008, our total assets were \$2,278,556 consisting of: (i) \$160,790 in cash; (ii) \$355,956 in prepaid expenses and other current assets; (iii) \$660,154 in accounts receivable; (iv) \$188,866 in net software development costs; (v) \$910,180 in net property and equipment; and (vii) \$2,610 in other assets. As at September 30, 2008, our total assets were \$2,278,556 compared to \$2,050,863 at December 31, 2007.

As of September 30, 2008, our total liabilities were \$5,443,030 consisting of: (i) \$2,139,230 in long-term and current portion of accounts payable and accrued expenses; (ii) \$305,116 due to related parties; (iii) \$254,386 in convertible loan to related party; (iv) \$304,896 in loan payable to related party; (v) \$678,327 in current portion of loans payable; (vi) \$6,121 in warrant liability; (vii) \$817,254 in convertible feature liability and (viii) \$937,700 in deferred gain on sale of minority interest in subsidiary. As at September 30, 2008, our total liabilities were \$5,443,030 compared to \$5,907,918 at December 31, 2007.

Stockholders' deficit decreased from \$3,857,055 at December 31, 2007 to \$3,164,474 at September 30, 2008.

33

For the nine-month period ended September 30, 2008, net cash flow used in operating activities was (\$594,588) compared to net cash provided by operating activities of \$307,359 for the nine-month period ended September 30, 2007. The change in cash flows provided by operating activities is principally due to funding our net loss of \$126,842 adjusted for the non-cash gain from derivative liabilities..

Net cash flows provided by investing activities amounted to \$439,776 for the nine-month period ended September 30, 2008 compared to net cash used in investing activities of (\$291,122) for the nine-month period ended September 30, 2007. During the nine-month period ended September 30, 2008, we received proceeds of \$937,700 from the sale of a minority interest ownership in Transax Limited offset by the acquisition of property and equipment of \$497,924. During the nine-month period ended September 30, 2007, we capitalized software development costs of \$254,409 and acquired property and equipment of \$36,713.

Net cash flows used in financing activities for the nine-month period ended September 30, 2008 were (\$140,800) compared to (\$45,205) for the nine-month period ended September 30, 2007. For the nine months ended September 30, 2008, cash used in financing activities was attributable to the higher repayment of debt in 2008 of \$100,000.

### PLAN OF OPERATION

Since our inception, we have funded operations through higher borrowings and equity investments in order to meet our strategic objectives. Our future operations are dependent upon external funding and our ability to increase revenues and reduce expenses. Management believes that sufficient funding will

## Edgar Filing: TRANSAX INTERNATIONAL LTD - Form 10-Q

be available from additional related party borrowings and private placements to meet our business objectives including anticipated cash needs for working capital, for a reasonable period of time. However, there can be no assurance that we will be able to obtain sufficient funds to continue the development of our software products and distribution networks.

### YA GLOBAL INVESTMENTS ("YA GLOBAL")

On January 13, 2006, we entered into an Investment Agreement with YA Global (collectively, the "Parties"), pursuant to which we sold YA Global up to 16,000 shares of Series A Convertible Preferred Stock, no par value, (the "Series A Preferred Shares") for a total price of up to \$1,600,000. The Series A Preferred Shares shall be convertible, at YA Global's discretion, into shares of our common stock.

In connection with the Investment Agreement, the Parties entered into an Investor Registration Rights Agreement (the "IRRA"), dated January 13, 2006, pursuant to which the Parties agreed that, in the event the Registration Statement is not filed within thirty (30) days from the date we file our Annual Report on Form 10-KSB for the year ended December 31, 2005 (the "Filing Deadline") or is not declared effective by the Securities and Exchange Commission within ninety (90) days of the date of the IRRA (the "Effective Deadline"), or if after the Registration Statement had been declared effective by the Securities and Exchange Commission, sales cannot be made pursuant to the Registration Statement, then as relief for the damages to any holder of Registrable Securities (as defined in the IRRA) by reason of any such delay in or reduction of its ability to sell the underlying shares of common stock (which remedy shall not be exclusive of any other remedies at law or in equity), we would pay as liquidated damages to the holder, at the holder's option, either a cash amount or shares of our common stock equal to two percent (2%) of the Liquidation Amount (as defined in the Certificate of Designation of Series A Convertible Preferred Shares) outstanding as liquidated damages for each thirty (30) day period or any part thereof after the Filing Deadline or the Effective Deadline as the case may be. Any liquidated damages payable hereunder shall not

34

limit, prohibit or preclude the holder from seeking any other remedy available to it under contract, at law or in equity. We shall pay any liquidated damages hereunder within three (3) business days of the holder making written demand. It shall also become an event of default under the IRRA if the Registration Statement is not declared effective by the Securities and Exchange Commission within one-hundred twenty (120) days from the date of the IRRA. We initially filed our Registration Statement with the Securities and Exchange Commission on May 9, 2006. As of the date of this Quarterly Report, the Registration Statement has not been declared effective by the Securities and Exchange Commission. We do not have any intent to re-file our Registration Statement and on November 13, 2008, we formally withdrew the Registration Statement by filing form RW with the Securities and Exchange Commission. In 2006, pursuant to FASB Staff Position, or FSP, EITF 00-19-2, "Accounting for Registration Payment Arrangements", the Company recorded a registration rights penalty expense of \$160,000 that is included in accrued expenses on the accompanying consolidated balance sheet. Based on management's analysis, the Company does not believe that any additional penalty is due under the Investor Registration Rights Agreement.

Certain negative covenants in the Investment Agreement could substantially impact our ability to raise funds from alternative sources in the future. For example, so long as any Series A Preferred Shares are outstanding, we shall not, without the prior written consent of YA Global (a) directly or indirectly consummate any merger, reorganization, restructuring, reverse stock split consolidation, sale of all or substantially all of our assets or any similar

## Edgar Filing: TRANSAX INTERNATIONAL LTD - Form 10-Q

transaction or related transactions; (b) incur any indebtedness for borrowed money or become a guarantor or otherwise contingently liable for any such indebtedness except for trade payables or purchase money obligations incurred in the ordinary course of business; (c) file any other registration statements on any form (including but not limited to forms S-1, SB-2, S-3 and S-8); (d) issue or sell shares of common stock or preferred stock without consideration or for a consideration per share less than the bid price of the common stock determined immediately prior to its issuance or issue any preferred stock, warrant, option, right, contract, call, or other security or instrument granting the holder thereof the right to acquire common stock without consideration or for a consideration per share less than the bid price of the common stock determined immediately prior to the issuance of such convertible security or (e) enter into any security instrument granting the holder a security interest in any and all of our assets.

During the nine-month period ended September 30, 2008, we issued 13,085,185 shares of our common stock to YA Global in connection with the conversion of 813 shares of Series A Preferred Stock. Subsequent to the nine-month period ended September 30, 2008, we issued a further 4,650,793 shares of our common stock to YA Global. See "Part II. Item 1. Unregistered Sales of Securities and Use of Proceeds.

As of the date of this Quarterly Report, there is substantial doubt regarding our ability to continue as a going concern as we have not generated sufficient cash flow to fund our business operations and material commitments. Our future success and viability, therefore, are dependent upon our ability to consummate the sale of our subsidiary, Medlink Connectividade and to subsequently further develop, provide and market our information network solutions to healthcare providers, health insurance companies and other end-users, and the continuing ability to generate capital financing. We are optimistic that we will be successful in our business operations and capital raising efforts; however, there can be no assurance that we will be successful in generating revenue or raising additional capital. The failure to generate sufficient revenues or raise additional capital may have a material and adverse effect upon us and our shareholders.

35

We anticipate an increase in operating expenses over the next three years to pay costs associated with such business operations. We may need to raise additional funds. We may finance these expenses with further issuances of our common stock. We believe that any anticipated private placements of equity capital and debt financing, if successful, may be adequate to fund our operations over the next twelve months. Thereafter, we expect we will need to raise additional capital to meet long-term operating requirements. If we raise additional funds through the issuance of equity or convertible debt securities other than to current shareholders, the percentage ownership of our current shareholders would be reduced, and such securities might have rights, preferences or privileges senior to our existing common stock. In addition, additional financing may not be available upon acceptable terms, or at all. If adequate funds are not available, or are not available with acceptable terms, we may not be able to conduct our business operations successfully. This eventuality could significantly and materially restrict our overall business operations.

Based upon a twelve (12) month work plan proposed by management, it is anticipated that such a work plan would require approximately \$1,000,000 to \$3,000,000 of financing designed to fund various commitments and business operations.

We believe that we can satisfy our cash requirements for the next twelve (12) months based on our ability to consummate the sale of our subsidiary, Medlink

## Edgar Filing: TRANSAX INTERNATIONAL LTD - Form 10-Q

Connectividade, and to enter into additional financing arrangements as necessary. Our future success and viability are primarily dependent upon our current management to generate revenues from business operations and raise additional capital through further private offerings of our stock or loans from private investors. There can be no assurance, however, that we will be able to raise additional capital. Our failure to successfully raise additional capital will have a material and adverse affect upon us and our shareholders.

### MATERIAL COMMITMENTS

#### CONVERTIBLE LOANS - RELATED PARTY

A material liability for us at September 30, 2008 is the aggregate principal amount of \$175,000 and \$79,386 in accrued interest due and owing to a related party in accordance with two convertible promissory notes (collectively, the "Convertible Promissory Note(s)"). The Convertible Promissory Notes were due on April 30, 2007 and convertible into shares of our common stock at \$0.125 per share together with a warrant per share to purchase our common stock at \$0.25 per share for a period of two years. As at September 30, 2008, an aggregate principal amount of \$175,000 and interest in the amount of \$79,386 remains due and owing under the Convertible Promissory Notes. As of the date of this Quarterly Report, the Convertible Promissory Notes are deemed in default and are under re-negotiation with the lender.

#### LOAN - RELATED PARTY

A material liability for us at September 30, 2008 is the aggregate amount of \$304,896 in principal and interest due and owing to Stephen Walters, our Chief Executive Officer (collectively, the "Loans"). The Loans are evidenced by a promissory note with an interest rate of 0.8% per month, had an initial term of twelve months and was repayable quarterly in arrears. On September 25, 2007, Mr. Walters agreed to extend the Loans for an additional twelve months until March 4, 2008. During the 2007 period, we incurred a loan fee of \$5,000 and an additional fee of approximately \$7,756, which has been included in interest expense. For the nine-month periods ended September 30, 2008 and 2007, we incurred \$15,640 and \$29,143, respectively, in interest related to these loans. At September 30, 2008 and December 31, 2007, \$58,732 and \$43,091 in interest and loan fees was accrued on these loans and the aggregate principal and interest amount due is \$304,896 and \$292,475, respectively.

36

### CONSULTING AGREEMENT

A material liability for us at September 30, 2008 is the amounts due and owing as management fees to Stephen Walters, our Chief Executive Officer. For the nine-month periods ended September 30, 2008 and 2007, we incurred \$162,411 and \$144,405, respectively, in management fees. At September 30, 2008 and December 31, 2007, \$274,481 and \$371,932 in management fees and other expenses are payable to Mr. Walters. In accordance with the terms of an agreement effective July 2007, we pay monthly to Mr. Walters an aggregate amount of \$17,500 as compensation for managerial and consulting services he provides.

### ACCRUED TAXES AND RELATED EXPENSES

A material estimated liability for us for fiscal year 2008 is the amount due and owing for Brazilian payroll taxes and Social Security taxes. At September 30, 2008 and December 31, 2007, these deficiencies, plus interest and penalties, amounted to approximately \$1,214,000 and \$1,080,000, respectively.

Effective April 1, 2004, we entered into a payment program with the Brazilian

## Edgar Filing: TRANSAX INTERNATIONAL LTD - Form 10-Q

authorities whereby the Social Security ("INSS") taxes due and applicable penalties and interests will be repaid over a period of up to sixty months. At September 30, 2008, approximately \$1,204,464 of our INSS and other taxes are to be repaid within a 12 month period. At September 30, 2008, the future payments due to the Brazilian authorities are as follows: (i) 2009 - \$1,204,464; (ii) 2010 - \$8,056.

### MEDLINK CONNECTIVIDADE LOAN PAYABLE AND OTHER LOANS PAYABLE

At September 30, 2008, significant liabilities for us are the several loans and credit lines with financial institutions in Brazil and a \$100,000 loan outstanding related to our previous outstanding convertible debt. The Brazil loans require monthly installment payments, bear interest at rates ranging from 30% to 50% per annum, are secured by certain receivables of Medlink Connectividade, and are due through July 2009. As at September 30, 2008 and December 31, 2007, the loans payable to these financial institutions and others aggregated \$678,327 and \$652,804, respectively.

### PURCHASE OF SIGNIFICANT EQUIPMENT

We do not intend to purchase any significant equipment during the next twelve months.

### OFF-BALANCE SHEET ARRANGEMENTS

As of the date of this Quarterly Report, we do not have any off-balance sheet arrangements that have or are reasonably like to have a current or future effect on our financial condition, changes in financial condition, revenues or expenses, results of operations, liquidity, capital expenditures or capital resources that are material to investors. The term "off-balance sheet arrangement" generally means any transaction, agreement or other contractual arrangement to which an entity unconsolidated with us is a party, under which we have: (i) any obligation arising under a guarantee contract, derivative instrument or variable interest; or (ii) a retained or contingent interest in assets transferred to such entity or similar arrangement that serves as credit, liquidity or market risk support for such assets.

### ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Market risk represents the risk of loss that may impact our financial position, results of operations or cash flows due to adverse change in foreign currency and interest rates.

37

### EXCHANGE RATE

Our reporting currency is United States Dollars ("USD"). The Brazilian Real is the functional currency of our subsidiary. The fluctuation of exchange rates of the Real may have positive or negative impacts on our results of operations. However, since all revenue and expenses of our subsidiary company is denominated in Real, the net income effect of appreciation and devaluation of the currency against the US Dollar will be limited to the net operating results of the subsidiary company attributable to us.

### INTEREST RATE AND INFLATION

Interest rates in Brazil were unstable and Brazil has suffered from very high inflation rates during the 1980s, which led the country to change currency several times. Since 1994, inflation has been maintained at normalized levels (2003: consumer prices rose by about 8%; in 2008, the inflation target is around

## Edgar Filing: TRANSAX INTERNATIONAL LTD - Form 10-Q

9%), and the Brazilian citizen has had the opportunity for the first time in a long period to get accustomed to a stable currency. Any loans in Brazil would relate mainly to trade payables and would be short-term. However, were interest rates to rise, any debt incurred in Brazil could have a significant impact on our operating and financing activities.

We have not entered into derivative contracts either to hedge existing risks or for speculative purposes.

### ITEM 4. CONTROLS AND PROCEDURES

#### FINANCIAL DISCLOSURE CONTROLS AND PROCEDURES

#### EVALUATION OF DISCLOSURE CONTROLS AND PROCEDURES

We maintain "disclosure controls and procedures" as such term is defined in Rule 13a-15(e) under the Securities Exchange Act of 1934. In designing and evaluating our disclosure controls and procedures, our management recognized that disclosure controls and procedures, no matter how well conceived and operated, can provide only reasonable, not absolute, assurance that the objectives of disclosure controls and procedures are met. Additionally, in designing disclosure controls and procedures, our management was necessarily required to apply its judgment in evaluating the cost-benefit relationship of possible disclosure controls and procedures. The design of any disclosure controls and procedures is also based in part upon certain assumptions about the likelihood of future events, and there can be no assurance that any design will succeed in achieving its stated goals under all potential future conditions.

Our management, including our Chief Executive Officer and our Chief Financial Officer, have evaluated the effectiveness of our disclosure controls and procedures as of the end of the period covered by this Quarterly Report. Based on such evaluation, and as described in greater detail below, our CEO and CFO have concluded that, as of the end of the period covered by this Quarterly Report on Form 10-Q, our disclosure controls and procedures were not effective:

- o to give reasonable assurance that the information required to be disclosed by us in reports that we file under the Securities Exchange Act of 1934 is recorded, processed, summarized and reported within the time periods specified in the Securities and Exchange Commission's rules and forms, and
- o to ensure that information required to be disclosed in the reports that we file or submit under the Securities Exchange Act of 1934 is accumulated and communicated to our management, including our Chief Executive Officer and our Chief Financial Officer, to allow timely decisions regarding required disclosure.

38

#### MANAGEMENT'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING

Our management is responsible for establishing and maintaining adequate internal control over financial reporting as defined in Rules 13a-15(f) and 15d-15(f) under the Securities Exchange Act. Our management is also required to assess and report on the effectiveness of our internal control over financial reporting in accordance with Section 404 of the Sarbanes-Oxley Act of 2002 ("Section 404"). Management assessed the effectiveness of our internal control over financial reporting as of September 30, 2008. In making this assessment, we used the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) in Internal Control - Integrated Framework. During our assessment of the effectiveness of internal control over financial reporting as



## Edgar Filing: TRANSAX INTERNATIONAL LTD - Form 10-Q

of September 30, 2008, management identified significant deficiencies related to (i) the U.S. GAAP expertise of our internal accounting staff, (ii) our internal audit functions; (iii) the absence of an Audit Committee as of September 30, 2008, and (iv) a lack of segregation of duties within accounting functions.

We began preparing to be in compliance with the internal control obligations, including Section 404, for our fiscal year ending December 31, 2007. Our internal accounting staff was primarily engaged in ensuring compliance with Brazil's accounting and reporting requirements for our operating subsidiary and their U.S. GAAP knowledge was limited. As a result, the majority of our internal accounting staff, on a consolidated basis, is relatively inexperienced with U.S. GAAP and the related internal control procedures required of U.S. public companies. Although our accounting staff is professional and experienced in accounting requirements and procedures generally accepted in Brazil, management has determined that they require additional training and assistance in U.S. GAAP matters. Management has determined that our internal audit function is also significantly deficient due to insufficient qualified resources to perform internal audit functions. Finally, management determined that the lack of an Audit Committee of our Board of Directors also contributed to insufficient oversight of our accounting and audit functions.

In order to correct the foregoing weaknesses, we have taken the following remediation measures:

- o We have committed to the establishment of effective internal audit functions, however, due to the scarcity of qualified candidates with extensive experience in U.S. GAAP reporting and accounting in Brazil, we were not able to hire sufficient internal audit resources before September 30, 2008. However, we will increase our search for qualified candidates with assistance from recruiters and through referrals.
- o We will consider searching for independent directors, with one qualified to serve on an audit committee to be established by our Board of Directors and we anticipate that our Board of Directors will also establish a compensation committee to be headed by one of the independent directors.

Due to our size and nature, segregation of all conflicting duties may not always be possible and may not be economically feasible. However, to the extent possible, we will implement procedures to assure that the initiation of transactions, the custody of assets and the recording of transactions will be performed by separate individuals.

We believe that the foregoing steps will remediate the significant deficiencies identified above, and we will continue to monitor the effectiveness of these steps and make any changes that our management deems appropriate. Due to the nature of these significant deficiencies in our internal control over financial reporting, there is a remote likelihood that misstatements which could be material to our annual or interim financial statements could occur that would not be prevented or detected.

A material weakness (within the meaning of PCAOB Auditing Standard No. 5) is a deficiency, or a combination of deficiencies, in internal control over financial reporting, such that there is a reasonable possibility that a material misstatement of our annual or interim financial statements will not be prevented or detected on a timely basis. A significant deficiency is a deficiency, or a combination of deficiencies, in internal control over financial reporting that is less severe than a material weakness, yet important enough to merit attention by those responsible for oversight of the company's financial reporting.

## Edgar Filing: TRANSAX INTERNATIONAL LTD - Form 10-Q

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies and procedures may deteriorate.

### CHANGES IN INTERNAL CONTROL OVER FINANCIAL REPORTING

There have been no changes in our internal control over financial reporting during first nine months of our fiscal year that has materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

### AUDIT COMMITTEE

As of the date of this Quarterly Report, we have not appointed members to an audit committee and, therefore, the respective role of an audit committee has been conducted by our Board of Directors. When established, the audit committee's primary function will be to provide advice with respect to our financial matters and to assist our Board of Directors in fulfilling its oversight responsibilities regarding finance, accounting, tax and legal compliance. The audit committee's primary duties and responsibilities will be to: (i) serve as an independent and objective party to monitor our financial reporting process and internal control system; (ii) review and appraise the audit efforts of our independent accountants; (iii) evaluate our quarterly financial performance as well as its compliance with laws and regulations; (iv) oversee management's establishment and enforcement of financial policies and business practices; and (v) provide an open avenue of communication among the independent accountants, management and our Board.

Our Board has considered whether the regulatory provision of non-audit services is compatible with maintaining the principal independent accountant's independence.

### AUDIT COMMITTEE FINANCIAL EXPERT

As of the date of this Quarterly Report, our Board has determined that we do not have an audit committee financial expert nor do we have an audit committee.

40

## PART II - OTHER INFORMATION

### ITEM 1. LEGAL PROCEEDINGS

Our subsidiary, Medlink Connectividade, is involved in litigation pertaining to a previous provider of consultant services regarding "breach of contract" and two labor law suits involving employees for "unfair dismissal" claims. At September 30, 2008 and December 31, 2007, we have accrued approximately \$184,000 and \$199,000, respectively, related to these lawsuits. The outcome of these claims is uncertain at this time.

Management is not aware of any other legal proceedings contemplated by any governmental authority or any other party involving us or our properties. As of the date of this Quarterly Report, no director, officer or affiliate is (i) a party adverse to us in any legal proceeding, or (ii) has an adverse interest to us in any legal proceedings. Management is not aware of any other legal proceedings pending or that have been threatened against us or our properties.

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

Edgar Filing: TRANSAX INTERNATIONAL LTD - Form 10-Q

During the nine-month period ended September 30, 2008 and subsequent up to the date of this Quarterly Report, we have issued to YA Global Investments an aggregate of 17,735,978 shares of our common stock upon conversion of the Series A preferred stock.

ITEM 3. DEFAULTS UPON SENIOR SECURITIES

None.

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

None.

ITEM 5. OTHER INFORMATION

None.

ITEM 6. EXHIBITS

- 31.1 Rule 13a-14(a)/15d-14(a) certification of Chief Executive Officer
- 31.2 Rule 13a-14(a)/15d-14(a) certificate of Chief Financial Officer
- 32.1 Section 1350 certification of Chief Executive Officer
- 32.2 Section 1350 certification of Chief Financial Officer

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.

TRANSAX INTERNATIONAL LIMITED

Dated: November 19, 2008

By: /s/ STEPHEN WALTERS

-----  
Stephen Walters, President/Chief  
Executive Officer and Director

Dated: November 19, 2008

By: /s/ ADAM WASSERMAN

-----  
Adam Wasserman, Chief Financial Officer