

Edgar Filing: TRANSAX INTERNATIONAL LTD - Form 10-Q

TRANSAX INTERNATIONAL LTD  
Form 10-Q  
August 19, 2009

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 June 30, 2009

☐ 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.)

950 S. Pine Island Rd, Suite A-150, Plantation, Florida 33324  
-----

(Address of principal executive offices)

(888) 317-6984  
-----

(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 has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (ss.232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). 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 ☐

Accelerated filer ☐

Non-accelerated filer ☐

Smaller reporting company ☒

Indicate by checkmark whether the registrant is a shell company (as

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

defined in Rule 12b-2 of the Exchange Act). Yes [ ] No [X]

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the most practicable date: 87,402,089 shares of common stock are issued and outstanding as of August 14, 2009.

### TRANSAX INTERNATIONAL LIMITED AND SUBSIDIARIES FORM 10-Q JUNE 30, 2009

#### TABLE OF CONTENTS

|                                                                                                                      | Page<br>No.<br>---- |
|----------------------------------------------------------------------------------------------------------------------|---------------------|
| PART I - FINANCIAL INFORMATION                                                                                       |                     |
| Item 1. Financial Statements:                                                                                        |                     |
| Consolidated Balance Sheets as of June 30, 2009 (Unaudited)<br>and December 31, 2008 .....                           | 3                   |
| Consolidated Statements of Operations for the Three and<br>Six Months Ended June 30, 2009 and 2008 (unaudited) ..... | 4                   |
| Consolidated Statements of Cash Flows for the Six Months<br>Ended June 30, 2009 and 2008 (unaudited) .....           | 5                   |
| Notes to Unaudited Consolidated Financial Statements .....                                                           | 6                   |
| Item 2. Management's Discussion and Analysis of Financial Condition<br>and Results of Operations. ....               | 25                  |
| Item 3. Quantitative and Qualitative Disclosures About Market Risk. ....                                             | 37                  |
| Item 4. Controls and Procedures. ....                                                                                | 38                  |
| PART II - OTHER INFORMATION                                                                                          |                     |
| Item 1. Legal Proceedings. ....                                                                                      | 40                  |
| Item 1A. Risk Factors. ....                                                                                          | 40                  |
| Item 2. Unregistered Sales of Equity Securities and Use of Proceeds. ....                                            | 40                  |
| Item 3. Defaults Upon Senior Securities. ....                                                                        | 40                  |
| Item 4. Submission of Matters to a Vote of Security Holders. ....                                                    | 40                  |
| Item 5. Other Information. ....                                                                                      | 40                  |
| Item 6. Exhibits. ....                                                                                               | 40                  |

#### FORWARD LOOKING STATEMENTS

This report contains forward-looking statements regarding our business, financial condition, results of operations and prospects. Words such as "expects," "anticipates," "intends," "plans," "believes," "seeks," "estimates" and similar expressions or variations of such words are intended to identify forward-looking statements, but are not deemed to represent an all-inclusive means of identifying forward-looking statements as denoted in this report. Additionally, statements concerning future matters are forward-looking statements.

Although forward-looking statements in this report reflect the good faith judgment of our management, such statements can only be based on facts and factors currently known by us. Consequently, forward-looking statements are inherently subject to risks and uncertainties and actual results and outcomes may differ materially from the results and outcomes discussed in or anticipated by the forward-looking statements. Factors that could cause or contribute to such differences in results and outcomes include, without limitation, those specifically addressed under the headings "Risks Factors" and "Management's Discussion and Analysis of Financial Condition and Results of Operations" in our annual report on Form 10-K, in "Management's Discussion and Analysis of Financial Condition and Results of Operations" in this Form 10-Q and in other reports that we file with the SEC. You are urged not to place undue reliance on these forward-looking statements, which speak only as of the date of this

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

report. We file reports with the SEC. The SEC maintains a website ([www.sec.gov](http://www.sec.gov)) that contains reports, proxy and information statements, and other information regarding issuers that file electronically with the SEC, including us. You can also read and copy any materials we file with the SEC at the SEC's Public Reference Room at 100 F Street, NE, Washington, DC 20549. You can obtain additional information about the operation of the Public Reference Room by calling the SEC at 1-800-SEC-0330.

We undertake no obligation to revise or update any forward-looking statements in order to reflect any event or circumstance that may arise after the date of this report, except as required by law. Readers are urged to carefully review and consider the various disclosures made throughout the entirety of this Quarterly Report, which are designed to advise interested parties of the risks and factors that may affect our business, financial condition, results of operations and prospects.

2

### TRANSAX INTERNATIONAL LIMITED AND SUBSIDIARIES CONSOLIDATED BALANCE SHEETS

|                                                                     | June 30,<br>2009     | December 31,<br>2008 |
|---------------------------------------------------------------------|----------------------|----------------------|
|                                                                     | -----<br>(Unaudited) | -----                |
| ASSETS                                                              |                      |                      |
| CURRENT ASSETS:                                                     |                      |                      |
| Cash .....                                                          | \$ 15,631            | \$ 25,67             |
| Accounts receivable, net .....                                      | 417,674              | 374,53               |
| Prepaid expenses and other current assets .....                     | 345,550              | 279,08               |
|                                                                     | -----                | -----                |
| TOTAL CURRENT ASSETS .....                                          | 778,855              | 679,29               |
| SOFTWARE DEVELOPMENT COSTS, net .....                               | 82,264               | 147,89               |
| PROPERTY AND EQUIPMENT, net .....                                   | 798,476              | 456,84               |
|                                                                     | -----                | -----                |
| TOTAL ASSETS .....                                                  | \$ 1,659,595         | \$ 1,284,03          |
|                                                                     | =====                | =====                |
| LIABILITIES AND STOCKHOLDERS' DEFICIT                               |                      |                      |
| CURRENT LIABILITIES:                                                |                      |                      |
| Loans payable .....                                                 | \$ 836,753           | \$ 663,85            |
| Current portion of capital lease obligations .....                  | 423                  | 30,94                |
| Accounts payable and accrued expenses .....                         | 2,999,827            | 1,748,18             |
| Deferred gain on sale of minority interest in subsidiary .....      | 937,700              | 937,70               |
| Due to related parties .....                                        | 433,507              | 303,12               |
| Warrant liability .....                                             | 5,978                | 3,32                 |
| Convertible feature liability .....                                 | 3,610,472            | 1,007,47             |
| Loans payable - related party .....                                 | 353,448              | 306,21               |
| Convertible loan - related party .....                              | 270,093              | 259,67               |
|                                                                     | -----                | -----                |
| TOTAL CURRENT LIABILITIES .....                                     | 9,448,201            | 5,260,50             |
| CAPITAL LEASE OBLIGATION; NET OF CURRENT PORTION .....              | -                    | 37,10                |
| ACCOUNTS PAYABLE AND ACCRUED EXPENSES, NET OF CURRENT PORTION ..... | 207,342              | 160,84               |

Edgar Filing: TRANSAX INTERNATIONAL LTD - Form 10-Q

|                                                                                                                                                                                                                                               |              |             |
|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|--------------|-------------|
| TOTAL LIABILITIES .....                                                                                                                                                                                                                       | 9,655,543    | 5,458,44    |
| STOCKHOLDERS' DEFICIT:                                                                                                                                                                                                                        |              |             |
| Series A convertible preferred stock, no par value; 16,000 shares authorized; 14,410 and 14,460 shares issued and outstanding at June 30, 2009 and December 31, 2008, respectively; liquidation preference \$1,441,000 at June 30, 2009 ..... | 1,325,039    | 1,330,03    |
| Common stock \$.00001 par value; 100,000,000 shares authorized; 57,402,089 and 52,368,756 shares issued and outstanding at June 30, 2009 and December 31, 2008, respectively .....                                                            | 574          | 52          |
| Paid-in capital .....                                                                                                                                                                                                                         | 8,415,132    | 8,405,98    |
| Accumulated deficit .....                                                                                                                                                                                                                     | (18,131,892) | (14,410,07  |
| Accumulated other comprehensive income .....                                                                                                                                                                                                  | 395,199      | 499,12      |
| TOTAL STOCKHOLDERS' DEFICIT .....                                                                                                                                                                                                             | (7,995,948)  | (4,174,40   |
| TOTAL LIABILITIES AND STOCKHOLDERS' DEFICIT .....                                                                                                                                                                                             | \$ 1,659,595 | \$ 1,284,03 |

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<br>June 30, |              | For    |
|--------------------------------------------------------|----------------------------------------|--------------|--------|
|                                                        | 2009                                   | 2008         | 20     |
| REVENUES .....                                         | \$ 1,093,705                           | \$ 1,730,992 | \$ 2,0 |
| OPERATING EXPENSES:                                    |                                        |              |        |
| Cost of product support services .....                 | 417,686                                | 649,149      | 9      |
| Compensation and related benefits .....                | 452,642                                | 417,089      | 7      |
| Professional fees .....                                | 17,360                                 | 26,005       |        |
| Management and consulting fees - related parties ..... | 69,760                                 | 79,460       | 1      |
| Depreciation and amortization .....                    | 84,948                                 | 81,616       | 1      |
| General and administrative .....                       | 295,297                                | 579,234      | 5      |
| TOTAL OPERATING EXPENSES .....                         | 1,337,693                              | 1,832,553    | 2,6    |
| INCOME (LOSS) FROM OPERATIONS .....                    | (243,988)                              | (101,561)    | (5     |
| OTHER INCOME (EXPENSES):                               |                                        |              |        |
| Foreign currency exchange loss .....                   | (15,445)                               | -            |        |
| (Loss) gain from derivative liabilities .....          | (2,738,009)                            | (527,543)    | (2,6   |
| Interest expense, net .....                            | (436,162)                              | (165,232)    | (5     |

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

|                                                     |                |              |         |
|-----------------------------------------------------|----------------|--------------|---------|
| Interest expense - related party .....              | (8,984)        | (8,977)      | (       |
|                                                     | -----          | -----        | -----   |
| TOTAL OTHER INCOME (EXPENSES) .....                 | (3,198,600)    | (701,752)    | (3,1    |
|                                                     | -----          | -----        | -----   |
| LOSS BEFORE INCOME TAXES .....                      | (3,442,588)    | (803,313)    | (3,7    |
| PROVISION FOR INCOME TAXES .....                    | -              | (98,134)     |         |
|                                                     | -----          | -----        | -----   |
| NET LOSS .....                                      | (3,442,588)    | (901,447)    | (3,7    |
| CUMULATIVE PREFERRED STOCK DIVIDENDS .....          | (25,220)       | (25,498)     | (       |
|                                                     | -----          | -----        | -----   |
| NET LOSS ALLOCABLE TO COMMON STOCKHOLDERS .....     | \$ (3,467,808) | \$ (926,945) | \$ (3,7 |
|                                                     | =====          | =====        | =====   |
| COMPREHENSIVE LOSS:                                 |                |              |         |
| NET LOSS .....                                      | \$ (3,442,588) | \$ (901,447) | \$ (3,7 |
| OTHER COMPREHENSIVE INCOME (LOSS)                   |                |              |         |
| Unrealized foreign currency translation gain (loss) | (189,291)      | 304,987      | (1      |
|                                                     | -----          | -----        | -----   |
| COMPREHENSIVE INCOME (LOSS) .....                   | \$ (3,631,879) | \$ (596,460) | \$ (3,8 |
|                                                     | =====          | =====        | =====   |
| NET LOSS PER COMMON SHARE:                          |                |              |         |
| BASIC and DILUTED .....                             | \$ (0.06)      | \$ (0.02)    | \$      |
|                                                     | =====          | =====        | =====   |
| WEIGHTED AVERAGE SHARES OUTSTANDING:                |                |              |         |
| BASIC and DILUTED .....                             | 57,402,089     | 42,121,669   | 55,5    |
|                                                     | =====          | =====        | =====   |

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

4

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

|                                                                                             | For the Six Months Ende<br>June 30, |           |
|---------------------------------------------------------------------------------------------|-------------------------------------|-----------|
|                                                                                             | 2009                                | 2008      |
|                                                                                             | -----                               | -----     |
| CASH FLOWS FROM OPERATING ACTIVITIES:                                                       |                                     |           |
| Net loss .....                                                                              | \$ (3,721,815)                      | \$ (161,5 |
| Adjustments to reconcile net income (loss) to net cash<br>provided by operating activities: |                                     |           |
| Depreciation and amortization .....                                                         | 157,553                             | 173,4     |
| Amortization of software maintenance costs .....                                            | 65,632                              | 96,4      |
| Deposit on sale of minority interest applied to professional fees                           | -                                   | (20,0     |
| Loss (gain) from derivative liabilities .....                                               | 2,609,857                           | (211,6    |
| Foreign currency exchange gain .....                                                        | 5,221                               |           |

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

## Changes in assets and liabilities:

|                                                                   |            |          |
|-------------------------------------------------------------------|------------|----------|
| Accounts receivable .....                                         | 27,251     | (137,7   |
| Prepaid expenses and other current assets .....                   | (10,182)   | (128,5   |
| Other assets .....                                                | -          | 2,1      |
| Accounts payable and accrued expenses .....                       | 833,968    | (45,6    |
| Accrued interest payable, related party .....                     | 17,423     | 35,3     |
| Due to related parties .....                                      | 130,381    | (94,6    |
| Accounts payable and accrued expenses - long-term .....           | 13,029     | (57,4    |
|                                                                   | -----      | -----    |
| NET CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES .....         | 128,318    | (549,8   |
|                                                                   | -----      | -----    |
| CASH FLOWS FROM INVESTING ACTIVITIES:                             |            |          |
| Proceeds from sale of minority interest .....                     | -          | 978,6    |
| Acquisition of property and equipment .....                       | (146,907)  | (206,0   |
|                                                                   | -----      | -----    |
| NET CASH PROVIDED BY (USED IN) INVESTING ACTIVITIES .....         | (146,907)  | 772,5    |
|                                                                   | -----      | -----    |
| CASH FLOWS FROM FINANCING ACTIVITIES:                             |            |          |
| Proceeds from loans .....                                         | 36,952     | 215,2    |
| Proceeds from loans payable - related party .....                 | 35,000     |          |
| Repayment of convertible debt .....                               | -          | (225,0   |
| Payment of capital lease obligations .....                        | (71,654)   |          |
|                                                                   | -----      | -----    |
| NET CASH PROVIDED BY (USED IN) FINANCING ACTIVITIES .....         | 298        | (9,7     |
|                                                                   | -----      | -----    |
| EFFECT OF EXCHANGE RATE CHANGES ON CASH .....                     | 8,246      | 35,0     |
|                                                                   | -----      | -----    |
| NET INCREASE (DECREASE) IN CASH .....                             | (10,045)   | 247,9    |
| CASH, BEGINNING OF YEAR .....                                     | 25,676     | 175,9    |
|                                                                   | -----      | -----    |
| CASH, END OF PERIOD .....                                         | \$ 15,631  | \$ 423,8 |
|                                                                   | =====      | =====    |
| SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION:                 |            |          |
| Cash paid for interest .....                                      | \$ 212,805 | \$ 95,5  |
|                                                                   | =====      | =====    |
| Cash paid for income taxes .....                                  | \$ -       | \$       |
|                                                                   | =====      | =====    |
| NON-CASH INVESTING AND FINANCING ACTIVITIES:                      |            |          |
| Series A preferred stock converted to common stock .....          | \$ 5,000   | \$ 64,0  |
|                                                                   | =====      | =====    |
| Derivative liability reclassified to equity upon conversion ..... | \$ 4,200   | \$ 294,6 |
|                                                                   | =====      | =====    |

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

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

June 30, 2009

## 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 automation of routine patient eligibility, verification, authorizations, claims processing and payment functions. The Company has offices located in Plantation, 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 (the "Buyer") controlled and owned 20% by Americo de Castro, director and President of Medlink Conectividade, and 80% by Flavio Gonzalez Duarte or assignees. 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-K annual report for the year ended December 31, 2008.

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.

### Use of Estimates

The preparation of the financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenues, expenses, and the related disclosures at the date

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

of the financial statements and during the reporting period. Actual results could materially differ from these estimates.

6

### TRANSAX INTERNATIONAL LIMITED AND SUBSIDIARIES Notes to the Unaudited Consolidated Financial Statements June 30, 2009

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

Significant estimates 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

The Company accounts for financial assets in accordance with Statement of Financial Accounting Standards ("SFAS") 157, Fair Value Measurements. SFAS 157 establishes a fair value hierarchy to classify the inputs used in measuring fair value as follows:

Level 1 inputs which include quoted prices in active markets for identical assets or liabilities;

Level 2 inputs which include observable inputs other than Level 1 inputs such as 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 for the full term of the asset or liability; and

Level 3 inputs which include unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the underlying asset or liability. Level 3 assets and liabilities include those whose fair value measurements are determined using pricing models, discounted cash flow methodologies or similar valuation techniques, as well as significant management judgment or estimation.

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 3 inputs to value its derivative liabilities.

The following table provides a reconciliation of the beginning and ending balances for the major classes of assets and liabilities measured at fair value using significant unobservable inputs (Level 3). The following table reflects gains and losses for the quarter for all financial assets and liabilities categorized as Level 3 as of June 30, 2009.

#### Liabilities:

|                                                                                     |              |
|-------------------------------------------------------------------------------------|--------------|
| Balance of derivative liabilities as of January 1, 2009 .                           | \$ 1,010,793 |
| Reclassification of derivative liabilities to paid-in capital upon conversion ..... | (4,200)      |
| Increase in fair value of derivative liabilities .....                              | 2,609,857    |
|                                                                                     | -----        |
| Balance of derivative liabilities as of June 30, 2009 ...                           | \$ 3,616,450 |
|                                                                                     | =====        |

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

### 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 June 30, 2009 and December 31, 2008.

7

### TRANSAX INTERNATIONAL LIMITED AND SUBSIDIARIES Notes to the Unaudited Consolidated Financial Statements June 30, 2009

#### 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.

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 June 30, 2009 and December 31, 2008, the Company's allowance for doubtful accounts was \$0.

The Company's operations are carried out in Brazil. Accordingly, the Company's business, financial condition and results of operations may be influenced by the political, economic and legal environment in Brazil, and by the general state of Brazil's economy. The Company's operations in Brazil are subject to specific considerations and significant risks not typically associated with companies in North America. The Company's results may be adversely affected by changes in governmental policies with respect to laws and regulations, anti-inflationary measures, currency conversion and remittance abroad, and rates and methods of taxation, among other things.

The Company's revenues from two major customers for the six months ended June 30, 2009 accounted for approximately 75.6% or \$1,547,632 of the revenues. For the six months ended June 30, 2009, these two major customers accounted for 62.1% and 13.5% of revenues, respectively. At June 30, 2009, the two major customers accounted for 63.6% and 14.4%, respectively, of the total accounts receivable balance outstanding. The Company's revenues from two major customers for the six months ended June 30, 2008 accounted for approximately 81% or \$2,595,000 of the revenues. For the six months ended June 30, 2008, the two major customers accounted for 42% and 39% of revenues, respectively. At June 30, 2008, the two major customers accounted for 40% and 39%, respectively, of the total accounts receivable balance outstanding.

The Company maintains its cash in accounts with major financial institutions in

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

the United States and Brazil. Deposits in these banks may exceed the amounts of insurance provided on such deposits. As of June 30, 2009, bank deposits in the United States did not exceed federally insured limits. At June 30, 2009, the Company had deposits of \$15,398 in banks in Brazil which may not be insured. Historically, we have not experienced any losses on our deposits of cash.

### 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.

8

### TRANSAX INTERNATIONAL LIMITED AND SUBSIDIARIES Notes to the Unaudited Consolidated Financial Statements June 30, 2009

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

##### Impairment of Long-Lived Assets

In accordance with Statement of Financial Accounting Standards ("SFAS") No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets", the Company reviews long-lived assets for impairment whenever events or changes in circumstances indicate that the carrying amount of the assets may not be fully recoverable. The Company recognizes an impairment loss when the sum of expected undiscounted future cash flows is less than the carrying amount of the asset. The amount of impairment is measured as the difference between the asset's estimated fair value and its book value. The Company did not record any impairment charges during the six months ended June 30, 2009 and 2008.

##### 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 carry forwards 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.

The Company has 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

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

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.

### 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 (loss). The cumulative translation adjustment and effect of exchange rate

9

## TRANSAX INTERNATIONAL LIMITED AND SUBSIDIARIES

### Notes to the Unaudited Consolidated Financial Statements

June 30, 2009

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

changes on cash for the six months ended June 30, 2009 and 2008 was \$8,246 and \$35,028, 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 June 30, 2009 and December 31, 2008 were translated at 1.9516 R\$ to \$1.00 and at 2.337 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 earnings.

Although the Brazilian economy 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

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

arrangement exists; (2) delivery has occurred; (3) the Company's fee is fixed and determinable; and (4) collectability is probable.

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 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

In 2006, the Company issued 16,000 shares of convertible Series A preferred stock, (see 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.

10

### TRANSAX INTERNATIONAL LIMITED AND SUBSIDIARIES Notes to the Unaudited Consolidated Financial Statements June 30, 2009

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

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

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

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 are valued using the Black-Scholes-Merton option pricing model and are classified in the consolidated balance sheets as current liabilities at June 30, 2009 and December 31, 2008.

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

Basic earnings (loss) per share is computed by dividing net income (loss) allocable to common shareholders by the weighted average number of shares of common stock outstanding during the period. Diluted income per share is computed by dividing net income (loss) by the weighted average number of shares of common stock, common stock equivalents and potentially dilutive securities outstanding during each period. Potentially dilutive common shares consist of common shares issuable upon the conversion of series A preferred stock (using the if-converted method) and common stock warrants and options (using the treasury stock method). The following table presents a reconciliation of basic and diluted net income per share:

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<br>June 30, |              |                |
|-------------------------------------------------------------------------------------------------|--------------------------------|--------------|----------------|
|                                                                                                 | 2009                           | 2008         |                |
| Net loss allocable to common shareholders for basic and diluted net loss per common share ..... | \$ (3,467,808)                 | \$ (926,945) | \$ (3,467,808) |
| Weighted average common shares outstanding - basic ....                                         | 57,402,089                     | 42,121,669   | 55,500,000     |
| Effect of dilutive securities:                                                                  |                                |              |                |
| Convertible debt .....                                                                          | -                              | -            | -              |
| Series A convertible preferred stock .....                                                      | -                              | -            | -              |
| Weighted average common shares outstanding - diluted ..                                         | 57,402,089                     | 42,121,669   | 55,500,000     |
| Net loss per common share - basic .....                                                         | \$ (0.06)                      | \$ (0.02)    | \$ (0.06)      |
| Net loss per common share - diluted .....                                                       | \$ (0.06)                      | \$ (0.02)    | \$ (0.06)      |

### TRANSAX INTERNATIONAL LIMITED AND SUBSIDIARIES Notes to the Unaudited Consolidated Financial Statements June 30, 2009

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

The Company's aggregate common stock equivalents listed below are anti-dilutive and, as such, are not included above at June 30, 2009 and 2008.

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

|                                | Three Months Ended June 30, |             | Six Months Ended June 30, |             |
|--------------------------------|-----------------------------|-------------|---------------------------|-------------|
|                                | 2009                        | 2008        | 2009                      | 2008        |
| Stock options .....            | 2,375,000                   | 3,425,000   | 2,375,000                 | 3,425,000   |
| Stock warrants .....           | 7,402,500                   | 11,502,500  | 7,402,500                 | 11,502,500  |
| Convertible debt-related party | 1,400,000                   | 1,400,000   | 1,400,000                 | 1,400,000   |
| Convertible preferred stock .. | 1,501,041,667               | 183,625,000 | 1,501,041,667             | 183,625,000 |
| Total .....                    | 1,512,219,167               | 199,952,500 | 1,512,219,167             | 199,952,500 |

These common stock equivalents may be dilutive in the future.

## Stock Based Compensation

Stock based compensation is accounted for under SFAS 123R, "Share-Based Payment." SFAS 123R requires recognition in the financial statements of the cost of employee and director services received in exchange for an award of equity instruments over the period the employee or director is required to perform the services in exchange for the award (presumptively the vesting period). SFAS 123R also requires measurement of the cost of employee and director services received in exchange for an award based on the grant-date fair value of the award. The Company accounts for non-employee share-based awards in accordance with EITF No. 96-18, "Accounting for Equity Instruments That Are Issued to Other Than Employees for Acquisition, or in Conjunction with Selling, Goods or Services."

## Advertising

Advertising costs are expensed when incurred. For the three and six months ended June 30, 2009 and 2008, advertising expense was deemed to be immaterial.

## Comprehensive Income

The Company follows SFAS 130 "Reporting Comprehensive Income" to recognize the elements of comprehensive income. Comprehensive income is comprised of net income and all changes to the statements of stockholders' equity, except those due to investments by stockholders, changes in paid-in capital and distributions to stockholders. For the Company, comprehensive income for the six months ended June 30, 2009 and 2008 included net income and unrealized gains (losses) from foreign currency translation adjustments.

## Research and Development

Research and development costs are expensed as incurred. For the three and six months ended June 30, 2009 and 2008, research and development costs were immaterial.

## Recent Authoritative Pronouncements

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.

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

### TRANSAX INTERNATIONAL LIMITED AND SUBSIDIARIES Notes to the Unaudited Consolidated Financial Statements June 30, 2009

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

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 has adopted FSP APB 14-1 beginning January 1, 2009, and this standard must be applied on a retroactive basis. The adoption of FSP APB 14-1 did not have a material impact 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 adoption of FSP No. EITF 03-6-1 did not have an impact on our consolidated financial statements.

In June 2008, the FASB ratified Emerging Issues Task Force Issue No. 07-5, "Determining Whether an Instrument (or Embedded Feature) is Indexed to an Entity's Own Stock." EITF 07-5 mandates a two-step process for evaluating whether an equity-linked financial instrument or embedded feature is indexed to the entity's own stock. Warrants that a company issues that contain a strike price adjustment feature, upon the adoption of EITF 07-5, are no longer being considered indexed to the company's own stock. Accordingly, adoption of EITF 07-5 will change the current classification (from equity to liability) and the related accounting for such warrants outstanding at that date. EITF 07-5 is effective for fiscal years beginning after December 15, 2008, and interim periods within those fiscal years. The adoption of EITF 07-5 did not have a material impact on our consolidated financial statements.

On October 10, 2008, the FASB issued FSP 157-3, "Determining the Fair Value of a Financial Asset When the Market for That Asset Is Not Active," which clarifies the application of SFAS 157 when the market for a financial asset is inactive. Specifically, FSP 157-3 clarifies how (1) management's internal assumptions should be considered in measuring fair value when observable data are not present, (2) observable market information from an inactive market should be taken into account, and (3) the use of broker quotes or pricing services should be considered in assessing the relevance of observable and unobservable data to measure fair value. The Company is currently evaluating the impact of adoption of FSP 157-3 on the Company's consolidated financial statements.

In November 2008, the FASB issued EITF Issue No. 08-7, "Accounting for Defensive Intangible Assets," or EITF No. 08-7. EITF No. 08-7 discusses that when an entity acquired in a business combination or an asset acquisition an intangible asset that it did not intend to actively use, otherwise known as a defensive asset, the entity historically allocated little or no value to the defensive asset. However, with the issuance of SFAS No. 141(R) and SFAS No. 157 the entity must recognize a value for the defensive asset that reflects the asset's highest and best use based on market assumptions. Upon the effective date of both SFAS No. 141(R) and SFAS No. 157, acquirers will generally assign a greater value to a defensive asset than would typically have been assigned under SFAS No. 141.

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

EITF No. 08-7 will be effective for the first annual reporting period beginning on or after December 15, 2008. EITF No. 08-7 will apply prospectively to business combinations for which the acquisition date is after fiscal years beginning on or after December 15, 2008. The adoption of EITF No. 08-7 did not have a material impact on our results of operations or financial condition.

13

### TRANSAX INTERNATIONAL LIMITED AND SUBSIDIARIES Notes to the Unaudited Consolidated Financial Statements June 30, 2009

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

In April 2009, the FASB issued FSP SFAS No. 141 (R), "Accounting for Assets Acquired and Liabilities Assumed in a Business Combination That Arise from Contingencies," or FSP SFAS 141 (R). FSP SFAS 141 (R) amends and clarifies SFAS 141, "Business Combinations," in regards to the initial recognition and measurement, subsequent measurement and accounting, and disclosures of assets and liabilities arising from contingencies in a business combination. FSP SFAS 141 (R) applies to all assets acquired and liabilities assumed in a business combination that arise from contingencies that would be within the scope of SFAS 5, "Accounting for Contingencies", if not acquired or assumed in a business combination, except for assets or liabilities arising from contingencies that are subject to specific guidance in SFAS 141 (R). FSP SFAS 141 (R) will be effective for the first annual reporting period beginning on or after December 15, 2008. FSP SFAS 141(R) will apply prospectively to business combinations for which the acquisition date is after fiscal years beginning on or after December 15, 2008. The adoption of SFAS 141 (R) did not have a material impact on our results of operations or financial condition.

In April 2009, the FASB issued FSP FAS 157-4, which provides guidance on how to determine the fair value of assets and liabilities when the volume and level of activity for the asset or liability has significantly decreased when compared with normal market activity for the asset or liability as well as guidance on identifying circumstances that indicate a transaction is not orderly. FSP FAS 157-4 is effective for interim and annual periods ending after June 15, 2009. The adoption of FSP FAS. 157-4 did not have a material impact on our consolidated financial statements.

In April 2009, the FASB issued FSP FAS 115-2 and FAS 124-2, which amends the requirements for the recognition and measurement of other-than-temporary impairments for debt securities by modifying the current "intent and ability" indicator. Under FSP FAS 115-2 and FAS 124-2, an other-than-temporary impairment must be recognized if the Company has the intent to sell the debt security or the Company, more likely than not, will be required to sell the debt security before its anticipated recovery. In addition, FSP FAS 115-2 and FAS 124-2 requires impairments related to credit loss, which is the difference between the present value of the cash flows expected to be collected and the amortized cost basis for each security, to be recognized in earnings while impairments related to all other factors be recognized in other comprehensive income. FSP FAS 115-2 and FAS 124-2 are effective for interim and annual periods ending after June 15, 2009. The adoption of FSP FAS 115-2 and FAS 124-2 did not have a material impact on our consolidated financial statements.

In April 2009, the FASB issued FSP 107-1 and 28-1. This FSP amends SFAS 107, to require disclosures about fair value of financial instruments not measured on the balance sheet at fair value in interim financial statements as well as in annual financial statements. Prior to this FSP, fair values for these assets and liabilities were only disclosed annually. This FSP applies to all financial instruments within the scope of SFAS 107 and requires all entities to disclose

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

the method(s) and significant assumptions used to estimate the fair value of financial instruments. This FSP shall be effective for interim periods ending after June 15, 2009, with early adoption permitted for periods ending after March 15, 2009. An entity may adopt this FSP early only if it also elects an early adoption of FSP 157-4, 115-2 and 124-2. This FSP does not require disclosures for earlier periods presented for comparative purposes at initial adoption. In periods after initial adoption, this FSP requires comparative disclosures only for periods ending after initial adoption. The adoption of this FSP did not have a material effect on our consolidated financial statements.

14

### TRANSAX INTERNATIONAL LIMITED AND SUBSIDIARIES Notes to the Unaudited Consolidated Financial Statements June 30, 2009

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

Effective June 30, 2009, the Company adopted FASB Statement of Financial Accounting Standards No. 165, "Subsequent Events" ("SFAS 165"), which was issued by the FASB in May 2009 with required adoption for interim or annual periods ending after June 15, 2009. SFAS 165 establishes standards for accounting and disclosure for events occurring after the balance sheet date but before financial statements are issued. It defines the period after the balance sheet date during which events or transactions should be evaluated for potential recognition or disclosure, and it provides guidance on recognition and disclosure of actual transactions or events occurring after the balance sheet date. The adoption of SFAS 165 did not have a material effect on the Company's financial statements. Management has evaluated all subsequents through August 18, 2009 (see Note 11).

In June 2009, the FASB issued Statement of Financial Accounting Standards No. 168, "The FASB Accounting Standards Codification(TM) and the Hierarchy of Generally Accepted Accounting Principles - a replacement of FASB Statement No. 162" ("SFAS 168"). SFAS 168 establishes the FASB Accounting Standards Codification(TM) ("Codification") as the source of authoritative accounting principles recognized by the FASB to be applied by nongovernmental entities in preparing financial statements in conformity with generally accepted accounting principles in the United States. Once effective, all guidance in the Codification will carry the same level of authority, and all future changes or additions to U.S. generally accepted accounting principles will be issued as Accounting Standards Updates. SFAS 168 does not make any changes to existing accounting guidance that will impact the Company's accounting and financial reporting. It is effective for financial statements issued for interim and annual periods ending after September 15, 2009, which means that the Company will begin applying the guidance in its financial statements beginning with the interim period ending September 30, 2009.

#### NOTE 2 - GOING CONCERN

Since inception, the Company has incurred cumulative net losses of \$18,131,892, and has a stockholders' deficit of \$7,995,948 and a working capital deficit of \$8,669,346 at June 30, 2009. Since 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

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

distribution networks. Further, since fiscal 2000, the Company has been deficient in the payment of Brazilian payroll taxes and Social Security taxes. At June 30, 2009 and December 31, 2008, these deficiencies (including interest and penalties) amounted to approximately \$2,132,000 and \$1,180,000, respectively. This payroll liability is included as part of the accounts payable and accrued expenses (short-term and long-term) within the consolidated balance sheets. Additionally, the Company had sold 45% of its operating subsidiary and the Buyer had an option to acquire the remaining 55%. However, the Buyer has defaulted on payments and the Company is renegotiating with the Buyer and its assignee to restructure the contract. At June 30, 2009, the Company cannot determine the outcome of these negotiations. If the negotiations are successful, the Company may sell the remaining 55% of its operating subsidiary, at which point 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.

15

### TRANSAX INTERNATIONAL LIMITED AND SUBSIDIARIES Notes to the Unaudited Consolidated Financial Statements June 30, 2009

#### NOTE 3 - PROPERTY AND EQUIPMENT

Property and equipment consisted of the following at June 30, 2009 and December 31, 2008:

|                                  | 2009         | 2008         |
|----------------------------------|--------------|--------------|
|                                  | -----        | -----        |
| Computer Equipment .....         | \$ 1,580,108 | \$ 1,251,416 |
| Software .....                   | 541,471      | 379,107      |
| Office Furniture and Equipment . | 21,609       | 18,045       |
| Vehicle .....                    | 70,726       | 59,050       |
| Other .....                      | 20,527       | 17,142       |
|                                  | -----        | -----        |
|                                  | 2,234,440    | 1,724,760    |
| Accumulated Depreciation .....   | (1,435,964)  | (1,267,918)  |
|                                  | -----        | -----        |
|                                  | \$ 798,476   | \$ 456,842   |
|                                  | =====        | =====        |

For the six months ended June 30, 2009 and 2008, depreciation expense amounted to \$157,553 and \$173,419 respectively.

#### 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 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 June 30, 2009 and

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

December 31, 2008:

|                                  | 2009       | 2008       |
|----------------------------------|------------|------------|
|                                  | -----      | -----      |
| Software development costs ..... | \$ 471,419 | \$ 471,419 |
| Accumulated amortization .....   | (389,155)  | (323,523)  |
|                                  | -----      | -----      |
|                                  | \$ 82,264  | \$ 147,896 |
|                                  | =====      | =====      |

For the six months ended June 30, 2009 and 2008, amortization of development costs amounted to \$65,632 and \$96,439, respectively, and has been included in cost of product support services on the accompanying consolidated statements of operations.

16

## TRANSAX INTERNATIONAL LIMITED AND SUBSIDIARIES Notes to the Unaudited Consolidated Financial Statements June 30, 2009

### NOTE 5 - RELATED PARTY TRANSACTIONS

#### Convertible Loan - Related Party

-----

At June 30, 2009 and December 31, 2008, the Company had aggregate loans payable for \$175,000 to a related party company whose officer is an officer of the Company. 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 June 30, 2009 and December 31, 2008, interest due on these loans amounted to \$95,093 and \$84,679 and the aggregate principal amount due is \$175,000. During the six months ended June 30, 2009 and 2008, the Company incurred \$10,414 and \$10,471, respectively, in interest expense related to these two loans. These two loans are in default and are currently under re-negotiation with the lender.

#### Due to Related Parties

-----

For the six months ended June 30, 2009 and 2008, the Company incurred \$106,079 and \$109,251, 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 approved compensation for this officer/director of \$17,500 per month. At June 30, 2009 and December 31, 2008, \$386,087 and \$274,646 in management fees and other expenses are payable to this officer/director and are included in due to related parties on the accompanying consolidated balance sheets. The amount due is unsecured, non-interest bearing and payable on demand.

For the six months ended June 30, 2009 and 2008, the Company incurred \$28,940 and \$24,690, 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 June 30, 2009 and December 31, 2008, \$47,420 and \$28,480 in these fees is payable to this officer and are included in due to related parties on the accompanying consolidated balance sheets.

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

For the six months ended June 30, 2009 and 2008, the Company incurred \$0 and \$17,500, respectively, in consulting fees to an officer of the Company which has been included in management and consulting fees - related party on the accompanying consolidated statements of operations.

### Loans Payable - Related Party

On March 5, 2004, the Company borrowed 115,000 Euros (translated to \$161,552 and \$162,116 at June 30, 2009 and December 31, 2008, 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. This loan has not been repaid and is currently payable on demand. Additionally, during fiscal 2007 and during the six months ended June 30, 2008, the Company borrowed \$80,000 and \$35,000 from this officer, respectively. These loans accrue 1.0% non-compounding interest per month, (12% per annum), and are due on demand. For the six months ended June 30, 2009 and 2008, the Company incurred \$12,794 and \$12,554, respectively, in interest related to these loans. At June 30, 2009 and December 31, 2008, \$76,896 and \$64,102 in interest and loan fees was accrued on these loans and the aggregate principal and interest amount due is \$353,448 and \$306,218, 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

June 30, 2009

#### NOTE 6 - 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 28% to 42% per annum, are secured by certain receivables of Medlink Conectividade, and are due through October 2009. At June 30, 2009 and December 31, 2008, loans payable to these financial institutions aggregated \$836,753 and \$663,854, respectively.

#### NOTE 7 - STOCKHOLDERS' DEFICIT

##### Preferred stock

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

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

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. 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.
- (e) The Series A Preferred Shares shall not have any voting rights except as provided under the laws of the state of Colorado.

18

TRANSAX INTERNATIONAL LIMITED AND SUBSIDIARIES  
Notes to the Unaudited Consolidated Financial Statements  
June 30, 2009

NOTE 7 - STOCKHOLDERS' DEFICIT (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. Upon 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.

Initially, there was an automatic conversion clause associated with the Series A Preferred Shares which would cause them to automatically convert into shares of common stock at the Conversion Price then in effect upon the third anniversary of the date of the Investment Agreement. On January 8, 2009, the Company amended the certificate of designation for the Series A Preferred shares to eliminate this provision.

In accordance with SFAS 133, the Company is required to record the fair value of the ECF and warrants as a liability. At June 30, 2009 and 2008, the Company

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

revalued the ECF and warrants resulting in (loss) gains on derivative liability of \$(2,609,857) and \$211,642 for the six months ended June 30, 2009 and 2008, respectively.

At June 30, 2009, the estimated fair value of the ECF and warrants were liabilities of \$3,610,472 and \$5,978, respectively. At December 31, 2008, the estimated fair value of the ECF and warrants were liabilities of \$1,007,472 and \$3,321, 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 June 30, 2009, the fair value of the ECF and warrants were estimated using the Black-Scholes-Merton option pricing model with the following assumptions:

|                               |                   |
|-------------------------------|-------------------|
| Dividend rate .....           | 0%                |
| Term (in years) .....         | .50 to 1.53 years |
| Volatility .....              | 244%              |
| Risk-free interest rate ..... | 0.35% - 1.11%     |

For the six months ended June 30, 2009 and 2008, the related gain (loss) from derivative liabilities is as follows:

|                                                                          | Convertible<br>debt (a) | Preferred<br>stock | Total          |
|--------------------------------------------------------------------------|-------------------------|--------------------|----------------|
|                                                                          | -----                   | -----              | -----          |
| 2009                                                                     |                         |                    |                |
| ----                                                                     |                         |                    |                |
| Loss from change in fair value of<br>derivative liabilities .....        | \$ -                    | \$ (2,609,857)     | \$ (2,609,857) |
|                                                                          | -----                   | -----              | -----          |
| 2008                                                                     |                         |                    |                |
| ----                                                                     |                         |                    |                |
| (Loss) gain from change in fair value<br>of derivative liabilities ..... | \$ (41,939)             | \$ 253,581         | \$ 211,642     |
|                                                                          | -----                   | -----              | -----          |

19

### TRANSAX INTERNATIONAL LIMITED AND SUBSIDIARIES Notes to the Unaudited Consolidated Financial Statements June 30, 2009

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

- (a) At the end of each reporting period and through May 15, 2008, the Company revalued the convertible feature of derivative liabilities and the unexpired warrant relating to a previously outstanding convertible debt. For the six months ended June 30, 2008, the Company recorded a loss on valuation of the derivative liability and warrants of \$41,939. At May 15, 2008, pursuant to an agreement with the investor, the convertible debt was payable in cash. Accordingly, the remaining derivative liability at May 15, 2008 of \$257,058 was reclassified to paid-in capital. Prior to December 31, 2008, all remaining debt was paid in full.

#### Common Stock -----

On February 27, 2009, the Company issued 2,533,333 shares of its common stock upon conversion of 38 shares of Series A preferred stock.

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

On March 16, 2009, the Company issued 2,500,000 shares of its common stock upon conversion of 12 shares of Series A preferred stock.

### 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 June 30, 2009 and changes during the period ending on that date is as follows:

|                                                                           | For the Six Months Ended<br>June 30, 2009 |                                    |
|---------------------------------------------------------------------------|-------------------------------------------|------------------------------------|
|                                                                           | Number of<br>Options                      | Weighted Average<br>Exercise Price |
| Stock options                                                             |                                           |                                    |
| Balance at beginning of the period .....                                  | 2,375,000                                 | \$ 0.14                            |
| Granted .....                                                             | -                                         | -                                  |
| Exercised .....                                                           | -                                         | -                                  |
| Forfeited .....                                                           | -                                         | -                                  |
|                                                                           | -----                                     | -----                              |
| Balance at end of the period .....                                        | 2,375,000                                 | \$ 0.14                            |
|                                                                           | =====                                     | =====                              |
| Options exercisable at end of period .....                                | 2,375,000                                 | \$ 0.14                            |
|                                                                           | =====                                     | =====                              |
| Weighted average fair value of options<br>granted during the period ..... |                                           | \$ -                               |
|                                                                           |                                           | =====                              |

20

### TRANSAX INTERNATIONAL LIMITED AND SUBSIDIARIES Notes to the Unaudited Consolidated Financial Statements June 30, 2009

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

The following table summarizes information about employee and consultant stock options outstanding at June 30, 2009:

| Options Outstanding           |                                              |                                                                 |                                          | Options Exercisable                          |                                          |
|-------------------------------|----------------------------------------------|-----------------------------------------------------------------|------------------------------------------|----------------------------------------------|------------------------------------------|
| Range of<br>Exercise<br>Price | Number<br>Outstanding at<br>June 30,<br>2009 | Weighted<br>Average<br>Remaining<br>Contractual<br>Life (Years) | Weighted<br>Average<br>Exercise<br>Price | Number<br>Exercisable at<br>June 30,<br>2009 | Weighted<br>Average<br>Exercise<br>Price |
| \$ 0.20                       | 425,000                                      | 0.50                                                            | 0.20                                     | 425,000                                      | 0.20                                     |
| \$ 0.15                       | 1,350,000                                    | 1.25                                                            | 0.15                                     | 1,350,000                                    | 0.15                                     |

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

|         |           |       |         |           |         |
|---------|-----------|-------|---------|-----------|---------|
| \$ 0.06 | 600,000   | 3.40  | 0.06    | 600,000   | 0.06    |
| -----   | -----     | ----- | -----   | -----     | -----   |
|         | 2,375,000 |       | \$ 0.14 | 2,375,000 | \$ 0.14 |
| =====   | =====     | ===== | =====   | =====     | =====   |

As of June 30, 2009 and December 31, 2008, there are no unrecognized compensation costs since all options granted under the stock option plan are vested.

## Stock Warrants

-----

A summary of the status of the Company's outstanding stock warrants as of June 30, 2009 and activities during the period then ended is as follows:

|                                          | For the Six Months Ended<br>June 30, 2009 |                                    |
|------------------------------------------|-------------------------------------------|------------------------------------|
|                                          | Number of<br>Warrants                     | Weighted Average<br>Exercise Price |
| -----                                    | -----                                     | -----                              |
| Warrants                                 |                                           |                                    |
| -----                                    |                                           |                                    |
| Balance at beginning of the period ..... | 7,402,500                                 | \$ 0.23                            |
| Granted .....                            | -                                         | -                                  |
| Exercised .....                          | -                                         | -                                  |
| Forfeited .....                          | -                                         | -                                  |
|                                          | -----                                     | -----                              |
| Balance at end of the period             | 7,402,500                                 | \$ 0.23                            |
|                                          | =====                                     | =====                              |

The following information applies to all warrants outstanding at June 30, 2009:

| Warrants Outstanding          |           |                                                                 | Warrants Exercisable                     |           |                                          |
|-------------------------------|-----------|-----------------------------------------------------------------|------------------------------------------|-----------|------------------------------------------|
| -----                         |           |                                                                 | -----                                    |           |                                          |
| Range of<br>Exercise<br>Price | Shares    | Weighted<br>Average<br>Remaining<br>Contractual<br>Life (Years) | Weighted<br>Average<br>Exercise<br>Price | Shares    | Weighted<br>Average<br>Exercise<br>Price |
| -----                         | -----     | -----                                                           | -----                                    | -----     | -----                                    |
| \$ 0.30                       | 2,500,000 | 1.54                                                            | 0.30                                     | 2,500,000 | 0.30                                     |
| \$ 0.20                       | 4,902,500 | 0.91                                                            | 0.20                                     | 4,902,500 | 0.20                                     |
|                               | -----     | -----                                                           | -----                                    | -----     | -----                                    |
|                               | 7,402,500 |                                                                 | \$ 0.23                                  | 7,402,500 | \$ 0.23                                  |
|                               | =====     | =====                                                           | =====                                    | =====     | =====                                    |

## TRANSAX INTERNATIONAL LIMITED AND SUBSIDIARIES Notes to the Unaudited Consolidated Financial Statements June 30, 2009

### NOTE 8 - SALE OF NON-CONTROLLING 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 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 ("Transax Sub"). Transax Sub owns one hundred percent of the total issued and

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

outstanding shares of: (i) Medlink Conectividade and (ii) MTI.

The purchase price for the 45%, or 45 shares, ("Initial Shares") is \$3,200,000. Through December 31, 2008, the Company received proceeds towards the purchase price of \$937,700. The Company did not receive any proceeds during the six months ended June 30, 2009. 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 is in default on its payments of principal and interest. At June 30, 2009 and December 31, 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 June 30, 2009 and December 31, 2008, the Company's consolidated balance sheets reflect a deferred gain on the sale of non-controlling interest of \$937,700, which will be recognized as other income when collection is reasonably assured and when all of the risks and other incidents of ownership have been passed to the buyer. At June 30, 2009 and December 31, 2008, deferred gain on sale of non-controlling interest consists of the following:

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

As of the date of this report, the Buyer is in default on the remaining notes receivable balance of \$2,262,300. The Company has issued default notices to the buyer in respect of non-payment under the Agreement. The Company is currently in discussion with the Buyer and/or assignees and plans to conclude any renegotiation of contract terms by December 31, 2009.

22

### TRANSAX INTERNATIONAL LIMITED AND SUBSIDIARIES Notes to the Unaudited Consolidated Financial Statements June 30, 2009

#### NOTE 9 - FOREIGN OPERATIONS

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.

|                                     | Six Months ended<br>June 30, |              |
|-------------------------------------|------------------------------|--------------|
|                                     | 2009                         | 2008         |
|                                     | -----                        | -----        |
| Revenues to unaffiliated customers: |                              |              |
| Brazil .....                        | \$ 2,046,023                 | \$ 3,211,956 |
|                                     | -----                        | -----        |
| Operating Expenses:                 |                              |              |
| Brazil .....                        | 2,411,321                    | 2,807,460    |
| USA .....                           | 194,391                      | 379,395      |
| Mauritius .....                     | 1,482                        | 1,283        |
|                                     | -----                        | -----        |
| Total Operating Expenses .....      | 2,607,194                    | 3,188,138    |
|                                     | -----                        | -----        |

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

|                                           |                |              |
|-------------------------------------------|----------------|--------------|
| Income (Loss) from operations .....       | (561,171)      | 23,818       |
|                                           | -----          | -----        |
| Other income (expenses) and income taxes: |                |              |
| Brazil .....                              | (528,143)      | (357,538)    |
| USA .....                                 | (2,632,501)    | 172,136      |
|                                           | -----          | -----        |
|                                           | (3,160,644)    | (185,402)    |
|                                           | -----          | -----        |
| Net loss as reported .....                | \$ (3,721,815) | \$ (161,584) |
|                                           | -----          | -----        |

### NOTE 10 - COMMITMENTS AND CONTINGENCIES

#### Accrued Taxes and Social Contribution

Since 2000, the Company has been deficient in the payment of Brazilian payroll taxes and Social Security taxes. At June 30, 2009 and December 31, 2008, these deficiencies, plus interest and penalties, amounted to approximately \$2,132,000 and \$1,180,000, 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 taxes due, plus applicable penalties and interests are to be 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.

#### Legal Proceedings

The Company's subsidiary, Medlink Conectividade, is involved in litigation pertaining to a previous provider of consultancy services regarding breach of contract and two labor law suits involving employees for claims of unfair dismissal. At June 30, 2009 and December 31, 2008, the Company has accrued approximately \$180,900 and \$151,000, respectively, related to these lawsuits. The outcome of these claims is uncertain at this time.

23

### TRANSAX INTERNATIONAL LIMITED AND SUBSIDIARIES

#### Notes to the Unaudited Consolidated Financial Statements

June 30, 2009

### NOTE 11 - SUBSEQUENT EVENTS

On August 6, 2009, the Board of Directors of the Company, pursuant to unanimous written consent, authorized and approved the execution of a debt settlement agreement whereby the Company issued 30,000,000 shares of its restricted common stock in settlement of \$60,000 of outstanding debt and interest as discussed below.

The Company and Carlingford Investments Limited ("Carlingford"), a related party, entered into a settlement agreement dated August 5, 2009, (the "Carlingford Settlement Agreement"), regarding the settlement of an aggregate amount of \$60,000 due and owing to Carlingford by the Company relating to cash advances in the principal amount of \$175,000 and accrued interest thereon in the amount of \$95,093 (the "Debt"). Pursuant to the terms and provisions of the Carlingford Settlement Agreement: (i) the Company agreed to partially settle \$60,000 of the Debt by issuing to Carlingford an aggregate of 30,000,000 shares

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

of its restricted Common Stock at the rate of \$0.002 per share (which amount is based upon the weighted average close price of \$0.002 of the Company's shares of Common Stock traded on the OTC Bulletin Board between July 10, 2009 and August 4, 2009); and (ii) Carlingford agreed to convert the Debt and accept the issuance of an aggregate of 30,000,000 shares of restricted Common Stock as full and complete satisfaction of the Debt.

24

### 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 six months ended June 30, 2009 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 first half year of 2009, we had eleven signed contracts with Healthcare Insurance companies in Brazil to develop our solutions. Two of these contracts were signed during the first half year of 2009. Currently three of our eleven contracts are under development with our customers and awaiting final implementation. Transaction data under development is being collected in a test environment and will be subject to full roll out at a later date.

We processed 4.00 million transactions during the six month period ended June 30, 2009 compared to 4.30 million transactions during the same period in 2008. Significant new growth was achieved in the introduction of the company's WEB-based solution which increased to over 360,000 transactions per month in March 31, 2009 from 225,000 transactions in January 2009.

At the end of the six month period ended June 30, 2009, we had 14,628 solutions operational in Brazil compared with 6,688 solutions during the same period in 2008. Our installations at the end of the six month period ended June 30, 2009 included 3,475 POS solutions, 8,805 WEB solutions and 2,298 Interactive Voice Response (IVR) solutions with the balance of installations being Personal Computer (PC) and Server based solutions installed in major medical laboratories. During the six month period ending June 30, 2009 we installed over 5,000 new WEB solutions in Brazil.

During the six month period ended June 30, 2009, the Company maintained its current 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 environment.

#### STOCK PURCHASE AND OPTION AGREEMENT

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

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.

25

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 December 31, 2008. We did not receive any proceeds during the six months ended June 30, 2009. 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 six months ended June 30, 2009, we received \$15,000 of such reimbursement, and a total of \$0 of reimbursement was received during the six months ended June 30, 2008.

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 is default on its payments of principal and interest. At June 30, 2009, 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 June 30, 2009 and December 31, 2008, the Company's consolidated balance sheets reflect a deferred gain on the sale of non-controlling 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 or when the Company invalidates the Agreement due to breach of contract. At June 30, 2009 and December 31, 2008, the deferred gain on sale of non-controlling interest consists of the following:

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

As of the date of this quarterly report, the Buyer is in default by \$2,262,500 in periodic payments. We are currently in discussions with the buyer and plan to conclude any renegotiation of contract terms on or about December 31, 2009.

### CRITICAL ACCOUNTING POLICIES

Our discussion and analysis of our financial condition and results of operations are based upon our consolidated financial statements, which have been prepared in accordance with accounting principles generally accepted in the United States. The preparation of these financial statements requires us to make estimates and judgments that affect the reported amounts of assets, liabilities, revenues and expenses, and related disclosure of contingent assets and liabilities. We continually evaluate our estimates, including those related to bad debts, recovery of long-lived assets, income taxes, the change in fair value

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

of our derivatives, and the valuation of equity transactions. We base our estimates on historical experience and on various other assumptions that we believed to be reasonable under the circumstances, the results of which form the basis for making judgments about the carrying values of assets and liabilities that are not readily apparent from other sources. Any future changes to these estimates and assumptions could cause a material change to our reported amounts of revenues, expenses, assets and liabilities. Actual results may differ from these estimates under different assumptions or conditions. We believe the following critical accounting policies affect our more significant judgments and estimates used in the preparation of the financial statements

We review the carrying value of property and equipment for impairment at least annually or whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Recoverability of long-lived assets is measured by the comparison of its carrying amount to the undiscounted cash flows that the asset or asset group is expected to generate. 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.

26

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 economic life of the software not to exceed three years. We regularly review 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.

Revenue Recognition - Our revenues, which do not require any significant production, modification or customization for the Company's targeted customers and do not have multiple elements, is 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 patients for healthcare services 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 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

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

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 has adopted FSP APB 14-1 beginning January 1, 2009, and this standard must be applied on a retroactive basis. The adoption of FSP APB 14-1 did not have a material impact on our consolidated financial position and results of operations.

In May 2008, the FASB issued SFAS 162, "The Hierarchy of Generally Accepted Accounting Principles." This standard is intended to improve financial reporting by identifying a consistent framework, or hierarchy, for selecting accounting principles to be used in preparing financial statements that are presented in conformity with generally accepted accounting principles in the United States for non-governmental entities. SFAS 162 is effective 60 days following approval by the U.S. Securities and Exchange Commission of the Public Company Accounting Oversight Board's amendments to AU Section 411, "The Meaning of Present Fairly in Conformity with Generally Accepted Accounting Principles." The adoption of SFAS 162 did not have a material impact on the preparation of our consolidated financial statements.

27

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 adoption of FSP EITF 03-6-1 did not have an impact on our consolidated financial statements.

In June 2008, the FASB ratified Emerging Issues Task Force Issue No. 07-5, "Determining Whether an Instrument (or Embedded Feature) is Indexed to an Entity's Own Stock." EITF 07-5 mandates a two-step process for evaluating whether an equity-linked financial instrument or embedded feature is indexed to the entity's own stock. Warrants that a company issues that contain a strike price adjustment feature, upon the adoption of EITF 07-5, are no longer being considered indexed to the company's own stock. Accordingly, adoption of EITF 07-5 will change the current classification (from equity to liability) and the related accounting for such warrants outstanding at that date. EITF 07-5 is effective for fiscal years beginning after December 15, 2008, and interim periods within those fiscal years. The adoption of EITF 07-5 did not have a material impact on our consolidated financial statements.

On October 10, 2008, the FASB issued FSP 157-3, "Determining the Fair Value of a Financial Asset When the Market for That Asset Is Not Active," which clarifies the application of SFAS 157 when the market for a financial asset is inactive. Specifically, FSP 157-3 clarifies how (1) management's internal assumptions should be considered in measuring fair value when observable data are not present, (2) observable market information from an inactive market should be taken into account, and (3) the use of broker quotes or pricing services should be considered in assessing the relevance of observable and unobservable data to measure fair value. The Company is currently evaluating the impact of adoption of FSP 157-3 on the Company's consolidated financial.

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

In November 2008, the FASB issued EITF Issue No. 08-7, "Accounting for Defensive Intangible Assets," or EITF No. 08-7. EITF No. 08-7 discusses that when an entity acquired in a business combination or an asset acquisition an intangible asset that it did not intend to actively use, otherwise known as a defensive asset, the entity historically allocated little or no value to the defensive asset. However, with the issuance of SFAS No. 141(R) and SFAS No. 157 the entity must recognize a value for the defensive asset that reflects the asset's highest and best use based on market assumptions. Upon the effective date of both SFAS No. 141(R) and SFAS No. 157, acquirers will generally assign a greater value to a defensive asset than would typically have been assigned under SFAS No. 141. EITF No. 08-7 will be effective for the first annual reporting period beginning on or after December 15, 2008. EITF No. 08-7 will apply prospectively to business combinations for which the acquisition date is after fiscal years beginning on or after December 15, 2008. The adoption of EITF No. 08-7 did not have a material impact on our results of operations or financial condition.

In April 2009, the FASB issued FSP SFAS No. 141 (R), "Accounting for Assets Acquired and Liabilities Assumed in a Business Combination That Arise from Contingencies," or FSP SFAS 141 (R). FSP SFAS 141 (R) amends and clarifies SFAS 141, "Business Combinations," with regard to the initial recognition and measurement, subsequent measurement and accounting, and disclosures of assets and liabilities arising from contingencies in a business combination. FSP SFAS No. 141 (R) applies to all assets acquired and liabilities assumed in a business combination that arise from contingencies that would be within the scope of SFAS 5, "Accounting for Contingencies", if not acquired or assumed in a business combination, except for assets or liabilities arising from contingencies that are subject to specific guidance in SFAS 141 (R). FSP SFAS 141 (R) is effective for the first annual reporting period beginning on or after December 15, 2008. FSP SFAS 141(R) will apply prospectively to business combinations for which the acquisition date is after fiscal years beginning on or after December 15, 2008. The adoption of SFAS 141 (R) did not have a material impact on our results of operations or financial condition.

28

In April 2009, the FASB issued FSP FAS 157-4, which provides guidance on how to determine the fair value of assets and liabilities when the volume and level of activity for the asset or liability has significantly decreased when compared with normal market activity for the asset or liability as well as guidance on identifying circumstances that indicate a transaction is not orderly. FSP FAS 157-4 is effective for interim and annual periods ending after June 15, 2009. The adoption of FSP FAS. 157-4 did not have a material impact on our consolidated financial statements..

In April 2009, the FASB issued FSP FAS 115-2 and FAS 124-2, which amends the requirements for the recognition and measurement of other-than-temporary impairments for debt securities by modifying the current "intent and ability" indicator. Under FSP FAS 115-2 and FAS 124-2, an other-than-temporary impairment must be recognized if we have the intent to sell the debt security or, more likely than not, will be required to sell the debt security before its anticipated recovery. In addition, FSP FAS 115-2 and FAS 124-2 requires impairments related to credit loss, which is the difference between the present value of the cash flows expected to be collected and the amortized cost basis for each security, to be recognized in earnings while impairments related to all other factors to be recognized in other comprehensive income. FSP FAS 115-2 and FAS 124-2 are effective for interim and annual periods ending after June 15, 2009. The adoption of FSP FAS 115-2 and FAS 124-2 did not have a material impact on our consolidated financial statements.

In April 2009, the FASB issued FSP 107-1 and 28-1. This FSP amends SFAS 107, to

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

require disclosures about fair value of financial instruments not measured on the balance sheet at fair value in interim financial statements as well as in annual financial statements. Prior to this FSP, fair values for these assets and liabilities were only disclosed annually. This FSP applies to all financial instruments within the scope of SFAS 107 and requires all entities to disclose the method(s) and significant assumptions used to estimate the fair value of financial instruments. This FSP shall be effective for interim periods ending after June 15, 2009, with early adoption permitted for periods ending after March 15, 2009. An entity may adopt this FSP early only if it also elects to adopt FSP 157-4, 115-2 and 124-2 early. This FSP does not require disclosures for earlier periods presented for comparative purposes at initial adoption. In periods after initial adoption, this FSP requires comparative disclosures only for periods ending after initial adoption. The adoption of this FSP did not have a material effect on our consolidated financial statements.

Effective June 30, 2009, we adopted FASB Statement of Financial Accounting Standards No. 165, "Subsequent Events" ("SFAS 165"), which was issued by the FASB in May 2009 with required adoption for interim or annual periods ending after June 15, 2009. SFAS 165 establishes standards for accounting and disclosure for events occurring after the balance sheet date but before financial statements are issued. It defines the period after the balance sheet date during which events or transactions should be evaluated for potential recognition or disclosure, and it provides guidance on recognition and disclosure of actual transactions or events occurring after the balance sheet date. The adoption of SFAS 165 did not have a material effect on our consolidated financial statements.

In June 2009, the FASB issued Statement of Financial Accounting Standards No. 168, "The FASB Accounting Standards Codification(TM) and the Hierarchy of Generally Accepted Accounting Principles - a replacement of FASB Statement No. 162" ("SFAS 168"). SFAS 168 establishes the FASB Accounting Standards Codification(TM) ("Codification") as the source of authoritative accounting principles recognized by the FASB to be applied by nongovernmental entities in preparing financial statements in conformity with generally accepted accounting principles in the United States. Once effective, all guidance in the Codification will carry the same level of authority, and all future changes or additions to U.S. generally accepted accounting principles will be issued as Accounting Standards Updates. SFAS 168 does not make any changes to existing accounting guidance that will impact the Company's accounting and financial reporting. It is effective for financial statements issued for interim and annual periods ending after September 15, 2009. We will begin applying the guidance in our financial statements beginning with the interim period ending September 30, 2009.

29

### CONSOLIDATED STATEMENT OF OPERATIONS

SIX MONTHS ENDED JUNE 30, 2009 COMPARED TO SIX MONTHS ENDED JUNE 30, 2008

|                                                  | 2009         | 2008         |
|--------------------------------------------------|--------------|--------------|
|                                                  | -----        | -----        |
| REVENUES .....                                   | \$ 2,046,023 | \$ 3,211,956 |
|                                                  | -----        | -----        |
| OPERATING EXPENSES                               |              |              |
| Cost of product support services .....           | 924,824      | 1,099,645    |
| Compensation and related benefits .....          | 783,506      | 810,676      |
| Professional fees .....                          | 40,621       | 77,499       |
| Management and consulting fees - related parties | 135,019      | 154,441      |
| Depreciation and amortization .....              | 157,717      | 173,419      |

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

|                                                     |                |           |
|-----------------------------------------------------|----------------|-----------|
| General and administrative .....                    | 565,507        | 872,458   |
|                                                     | -----          | -----     |
| TOTAL OPERATING EXPENSES .....                      | 2,607,194      | 3,188,138 |
|                                                     | -----          | -----     |
| INCOME (LOSS) FROM OPERATIONS .....                 | (561,171)      | 23,818    |
|                                                     | -----          | -----     |
| OTHER INCOME (EXPENSES)                             |                |           |
| Foreign exchange loss .....                         | (5,221)        | (12,317)  |
| (Loss) gain from derivative liabilities .....       | (2,609,857)    | 211,642   |
| Interest expense .....                              | (528,143)      | (263,568) |
| Interest expense - related party .....              | (17,423)       | (23,025)  |
|                                                     | -----          | -----     |
|                                                     | (3,160,644)    | (87,268)  |
|                                                     | -----          | -----     |
| LOSS BEFORE INCOME TAXES .....                      | (3,721,815)    | (63,450)  |
| PROVISION FOR INCOME TAXES .....                    | -              | (98,134)  |
|                                                     | -----          | -----     |
| NET LOSS .....                                      | (3,721,815)    | (161,584) |
| OTHER COMPREHENSIVE (LOSS) INCOME                   |                |           |
| Unrealized foreign currency translation (loss) gain | (103,922)      | 244,452   |
|                                                     | -----          | -----     |
| COMPREHENSIVE (LOSS) INCOME .....                   | \$ (3,825,737) | \$ 82,868 |
|                                                     | -----          | -----     |

Our net loss for the six months ended June 30, 2009 was \$3,721,815 compared to net loss of \$161,584 for the six months ended June 30, 2008 (an increase of \$3,560,231 or 2,203.3%).

During the six months ended June 30, 2009, we generated \$2,046,023 in revenues compared to \$3,211,956 in revenues generated during the six-months ended June 30, 2008 (a decrease of \$1,165,933 or 36.3%). The significant decrease in revenues is due to the loss of a major customer, Bradesco. The decrease in revenues from the loss of Bradesco was approximately \$1,568,000 and was offset by an increase of revenues from new customers of approximately \$402,000 and increased revenues from existing customers. We continue the installation of our software and/or hardware devices containing our software at healthcare providers' locations in Brazil. Upon installation, we 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. We processed approximately 4,000,000 "real time"

30

transactions for the six months ended June 30, 2009, of which 1,350,000 were from POS terminals, 450,000 from PC and PC servers, 1,800,000 were via our proprietary WEB solution, and 400,000 from our Interactive Voice Response solution. We undertook approximately 4,300,000 "real time" transactions during the six months ended June 30, 2008, of which 2,500,000 were from POS terminals, 1,100,000 from PC servers, 450,000 from Interactive Voice Response and 250,000 from our proprietary WEB solution. The decrease in transaction volume for the six months ended June 30, 2009 compared with the six months ended June 30, 2008 was due to the non renewal of the Bradesco contract commencing January 1, 2009 being partially offset by new transactions from recently signed contracts and continued roll out of established contracts during the six months ended June 30,

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

2009.

During the six months ended June 30, 2009, we incurred operating expenses in the aggregate amount of \$2,607,194 compared to \$3,188,138 incurred during the six months ended June 30, 2008 (a decrease of \$580,944 or 18.2%). The decrease in operating expenses incurred during the six-month period ended June 30, 2009 compared to the six-month period ended June 30, 2008 resulted from: (i) a decrease of \$174,821 or 15.9% in cost of product support services resulting from the decrease in revenues; (ii) a decrease of \$27,170 or 3.4 % in compensation and related benefits; (iii) a decrease of \$36,878 or 47.6% based on a decrease in the amount of professional fees incurred; (iv) a decrease of \$19,422 or 12.6% 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 of \$15,702 or 9.1% in depreciation and amortization; and (vi) a decrease of \$306,951 or 35.2% in general and administrative expenses primarily resulting from a decrease in operating costs associated with our decreased business revenues in 2009.

We reported a loss from operations of \$(561,171) during the six months ended June 30, 2009 as compared to income from operations of \$23,818 during the six months ended June 30, 2008 due to the factors previously discussed.

During the six-month period ended June 30, 2009, we incurred other expense of \$3,160,644, compared to other expense of \$87,268 during the six-month period ended June 30, 2008 (an increase of \$3,073,376 or 3,521.8%). The variance change during for six-month period ended June 30, 2009, compared to the six-month period ended June 30, 2008 resulted primarily from the six-month period change in the fair value of the Company's derivative liabilities positions of \$2,609,857 loss in 2009, as compared to 2008 (\$211,642 gain). 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 six-month period ended June 30, 2009, our loss before income taxes was \$3,721,815 compared to loss before taxes of \$63,450 for the six-month period ended June 30, 2008. During the six-month period ended June 30, 2009, we did not record any tax provision for Brazilian income taxes (2008: \$98,134), resulting in a net loss of \$3,721,815 compared to net loss of \$161,584.

During the six-month period ended June 30, 2009, we recorded a deemed and cumulative preferred stock dividend of \$50,440 compared to \$51,920 during the six-month period ended June 30, 2008, which related to our cumulative dividends on the Series A Preferred Stock.

We reported net loss allocable to common shareholders of \$3,772,255 during the six-month period ended June 30, 2009 as compared to net loss allocable to common shareholders of \$213,504 during the six-month period ended June 30, 2008. This translates to an overall loss per-share available to shareholders of \$0.07 and \$0.01 for each of the six-month periods ended June 30, 2009 and 2008, respectively.

During the six-month period ended June 30, 2009 and 2008, we recorded an unrealized foreign currency translation loss of \$103,922 compared to a gain of \$244,452, respectively. This resulted in comprehensive loss for the six months ended June 30, 2009 of \$3,825,737 compared to comprehensive income of \$82,868 for the six months ended June 30, 2008.

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

|                                                     | For the Three Months Ended<br>June 30, |              |
|-----------------------------------------------------|----------------------------------------|--------------|
|                                                     | 2009                                   | 2008         |
| REVENUES .....                                      | \$ 1,093,705                           | \$ 1,730,992 |
| OPERATING EXPENSES                                  |                                        |              |
| Cost of product support services .....              | 417,686                                | 649,149      |
| Compensation and related benefits .....             | 452,642                                | 417,089      |
| Professional fees .....                             | 17,360                                 | 26,005       |
| Management and consulting fees - related parties .  | 69,760                                 | 79,460       |
| Depreciation and amortization .....                 | 84,948                                 | 81,616       |
| General and administrative .....                    | 295,297                                | 579,234      |
| TOTAL OPERATING EXPENSES .....                      | 1,337,693                              | 1,832,553    |
| LOSS FROM OPERATIONS .....                          | (243,988)                              | (101,561)    |
| OTHER (EXPENSES) INCOME                             |                                        |              |
| Foreign exchange gain (loss)                        | (15,445)                               | -            |
| Gain from derivative liabilities .....              | (2,738,009)                            | (527,543)    |
| Interest expense .....                              | (436,162)                              | (165,232)    |
| Interest expense -related party .....               | (8,984)                                | (8,977)      |
|                                                     | (3,198,600)                            | (701,752)    |
| LOSS BEFORE INCOME TAXES .....                      | (3,442,588)                            | (803,313)    |
| PROVISION FOR INCOME TAXES .....                    | -                                      | (98,134)     |
| NET LOSS .....                                      | (3,442,588)                            | (901,447)    |
| OTHER COMPREHENSIVE LOSS                            |                                        |              |
| Unrealized foreign currency translation gain (loss) | (189,291)                              | 304,987      |
| COMPREHENSIVE LOSS .....                            | \$ (3,631,879)                         | \$ (596,460) |

Our net loss for the three months ended June 30, 2009 was \$3,442,588 compared to net loss of \$901,447 for the three months ended June 30, 2008 (an increase of \$2,541,141 or 281.9%).

For the three months ended June 30, 2009, we generated \$1,093,705 in revenues compared to \$1,730,992 in revenues generated for the three months ended June 30, 2008 (a decrease of \$637,287 or 36.8%). The significant decrease in revenues is principally due to the loss of a major customer, Bradesco.

For the three months ended June 30, 2009, we incurred operating expenses in the aggregate amount of \$1,337,693 compared to \$1,832,553 incurred for the three months ended June 30, 2008 (a decrease of \$494,860 or 27.0%). The decrease in operating expenses incurred during the three months ended June 30, 2009 compared to the three months ended June 30, 2008 resulted from: (i) a decrease of \$231,463 or 35.7% in cost of product support services; (ii) an increase of

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

\$35,553 or 8.5% in compensation and related benefits associated with an increase

32

in compensation for our TDS operations; (iii) a decrease of \$8,645 or 33.2% based on a decrease in the amount of professional fees incurred; (iv) a decrease of \$9,700 or 12.2% 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) an increase of \$3,332 or 4.1% in depreciation and amortization; and (vi) a decrease of \$283,937 or 49.0% in general and administrative expenses primarily resulting from management's efforts to implement certain cost cutting measures.

We reported a loss from operations of \$243,988 for the three months ended June 30, 2009 as compared to a loss from operations of \$101,561 for the three months ended June 30, 2008 (an increase of \$142,427 or 140.2%).

For the three months ended June 30, 2009, we recorded other expenses of \$3,198,600, compared to other expenses of \$701,752 during the three months ended June 30, 2008 (an increase of \$2,496,848 or 355.8%). The variance for the three months ended June 30, 2009, compared to the three months ended June 30, 2008 resulted primarily from the change in the fair value of the Company's derivative liabilities which was a loss of \$2,738,009 in 2009, as compared to a loss in 2008 of \$527,543. 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 three months ended June 30, 2009, our net loss was \$3,442,588 compared to net loss \$901,447 for the three months ended June 30, 2008.

For the three months ended June 30, 2009, we recognized a cumulative preferred stock dividend of \$25,220 compared to \$25,498 for the three months ended June 30, 2008, which is related to our Series A Preferred Stock.

We reported a net loss allocable to common shareholders of \$3,467,808 for the three months ended June 30, 2009 as compared to net loss allocable to common shareholders of \$926,945 for the three months ended June 30, 2008. This translates to a basic net income (loss) per common share of \$(0.06) and \$(0.02) and diluted net income (loss) per common share \$(0.06) and \$(0.02) for the three months ended June 30, 2009 and 2008, respectively.

We recorded an unrealized foreign currency translation gain (loss) of (\$189,291) and \$304,987 for the three months ended June 30, 2009 and 2008, respectively. This resulted in comprehensive net loss during the three months ended June 30, 2009 of \$3,631,879 compared to \$596,460 during the three months ended June 30, 2008.

### LIQUIDITY AND CAPITAL RESOURCES

As of June 30, 2009, our current assets were \$778,855 and our current liabilities were \$9,448,201, which resulted in a working capital deficit of \$(8,669,346). As of June 30, 2009, our total assets were \$1,659,595 consisting of: (i) \$15,631 in cash; (ii) \$417,674 in accounts receivable; (iii) \$345,550 in prepaid expenses and other current assets; (iv) \$82,264 in net software development costs; and (v) \$798,476 in net property and equipment. As at June 30, 2009, our total assets were \$1,659,595 compared to \$1,284,033 at December 31, 2008.

As of June 30, 2009, our total liabilities were \$9,655,543 consisting of: (i) \$3,207,169 in long-term and current portion of accounts payable and accrued expenses; (ii) \$433,507 due to related parties; (iii) \$270,093 in convertible

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

loan to related party; (iv) \$353,448 in loan payable to related party; (v) \$836,753 in current portion of loans payable; (vi) \$5,978 in warrant liability; (vii) \$3,610,472 in convertible feature liability; (viii) current portion of capital lease obligations of \$423 and (ix) \$937,700 in deferred gain on sale of non-controlling interest in subsidiary. As at June 30, 2009, our total liabilities were \$9,655,543 compared to \$5,458,442 at December 31, 2008. Stockholders' deficit increased from (\$4,174,409) at December 31, 2008 to (\$7,995,948) at June 30, 2009.

33

For the six months ended June 30, 2009, net cash flow provided by operating activities was \$128,318 compared to net cash used in operating activities of (\$549,879) for the six months ended June 30, 2008. For the six months ended June 30, 2009, net cash flows provided by operating activities is principally due to our net loss of \$(3,721,815) adjusted for non-cash items of \$2,838,263 such as a loss from derivative liabilities of \$2,609,857, depreciation and amortization of \$157,553, the amortization of software maintenance costs of \$65,632, and a foreign currency loss of \$5,221, and a decrease in accounts receivable of \$27,251, an increase in accounts payable and accrued expenses of \$846,997, an increase in accrued interest payable-related party of \$17,423 and an increase in due to related parties of \$130,381, offset by a decrease in prepaid expense and other current assets of \$10,182. For the six months ended June 30, 2008, net cash flows used in operating activities is principally due to our net loss of \$(161,584) adjusted for non-cash items of \$38,216 such as the depreciation and amortization of \$173,419, the amortization of software maintenance costs of \$96,439, the deposit on sale of non-controlling interest applied to professional fees of \$(20,000) and a gain from derivative liabilities of \$(211,642) and an increase in accounts receivable of \$137,786, an increase in prepaid expenses and other current assets of \$128,522, a decrease in accounts payable and accrued expenses of \$45,696, a decrease in due to related parties of \$94,603, a decrease in accounts payable and accrued expenses-long-term of \$57,437 offset by a decrease in other assets of \$2,190 and an increase in accrued interest payable, related parties of \$35,343.

Net cash flows used in investing activities amounted to \$146,907 for the six months ended June 30, 2009 as compared to net cash provided by investing activities of \$772,568 for the six months ended June 30, 2008. During the six months ended June 30, 2009, we used cash for the acquisition of property and equipment of \$146,907. During the six months ended June 30, 2008, we received proceeds of \$978,607 from the sale of a non-controlling interest ownership offset by the acquisition of property and equipment of \$206,039.

Net cash flows provided by financing activities for six months ended June 30, 2009 were \$298 as compared to net cash flows used in financing activities of \$9,791 for six months ended June 30, 2008. For the six months ended June 30, 2009, cash flow provided by in financing activities was attributable to \$36,952 in proceeds from loans and \$35,000 in proceeds from loans-related party offset by the payment of capital lease obligations of \$71,654. During the six months ended June 30, 2008, net cash used in financing activities is primarily caused by the repayment of convertible debt of \$225,000 offset by the proceeds from loans of \$215,209.

### PLAN OF OPERATION

Since our inception, we have funded operations through borrowings and equity sales 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 be available from additional related party borrowings and private placements to meet our business objectives including anticipated cash needs for working capital, for a

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

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 are convertible, at YA Global's discretion, into shares of our common stock.

34

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"), then as relief for the damages to any holder of Registerable 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. 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 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 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

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

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 six months ended June 30, 2009, we issued 5,033,333 shares of our common stock to YA Global in connection with the conversion of 50 shares of Series A Preferred Stock.

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,

35

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.

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 Transax Limited's subsidiary, Medlink 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.

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

### MATERIAL COMMITMENTS

#### CONVERTIBLE LOANS - RELATED PARTY

A material liability for us at June 30, 2009 is the aggregate principal amount of \$175,000 and \$95,093 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 are convertible into shares of our common stock at \$0.125 per share together with a warrant to purchase our common stock at \$0.25 per share for a period of two years. As of June 30, 2009, an aggregate principal amount of \$175,000 and interest in the amount of \$95,093 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. On August 5, 2009, we entered into a settlement agreement with Carlingford Investments Limited, ("Carlingford"), regarding the settlement of an aggregate amount of \$60,000 of principal and \$89,857 of interest payable due and owing to Carlingford by issuing 30,000,000 common shares.

#### LOAN - RELATED PARTY

A material liability for us at June 30, 2009 is the aggregate amount of \$353,448 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 and are currently due on demand. For the six months ended June 30, 2009 and 2008, we incurred \$12,794 and \$12,554, respectively, in interest related to these loans. At June 30, 2009 and December 31, 2008, \$76,896 and \$64,102 in interest and loan fees was accrued on these loans and the aggregate principal and interest amount due is \$353,448 and \$306,218, respectively. During the six months ended June 30, 2009, we borrowed \$35,000 which was used for working capital purposes.

36

#### CONSULTING AGREEMENT

A material liability for us at June 30, 2009 is the amount due and owing as management fees to Stephen Walters, our Chief Executive Officer. For the six months ended June 30, 2009 and 2008, we incurred \$106,079 and \$109,251, respectively, in management fees. At June 30, 2009 and December 31, 2008, \$386,087 and \$274,646 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 2009 and 2008 is the amount due and owing for Brazilian payroll taxes and Social Security taxes. At June 30, 2009 and December 31, 2008, these deficiencies, plus interest and penalties, amounted to approximately \$2,132,000 and \$1,180,000, respectively.

We have entered into a payment program with the Brazilian authorities whereby the Social Security ("INSS") taxes due and applicable penalties and interests will be repaid over a period of time. At June 30, 2009, approximately \$2,126,000 of our INSS and other taxes are to be repaid within a 12 month period. At June 30, 2009, the future payments due to the Brazilian authorities are as follows: (i) 2009 - \$2,126,000; (ii) 2010 - \$5,800.

#### MEDLINK CONECTIVIDADE LOAN PAYABLE AND OTHER LOANS PAYABLE

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

At June 30, 2009, significant liabilities for us are the several loans and credit lines with financial institutions in Brazil. The Brazil loans require monthly installment payments, bear interest at rates ranging from 28% to 42% per annum, are secured by certain receivables of Medlink Connectividade, and are due through October 2009. As of June 30, 2009 and December 31, 2008, the loans payable to these financial institutions and others aggregated \$836,753 and \$663,854, 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

Not required for smaller reporting companies.

37

### 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, has 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

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

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.

### 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 June 30, 2009. 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 of June 30, 2009, 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 June 30, 2009, and (iv) a lack of segregation of duties within accounting functions. However, management believes that these deficiencies do not amount to a material weakness. Therefore, the Company's internal control over financial reporting were effective as of June 30, 2009.

38

We have begun preparing to be in compliance with the internal control obligations, including Section 404, in 2009. 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 June 30, 2009. 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.

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

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. Accordingly, our internal control over

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.

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 for the three months that has materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

39

## 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 June 30, 2009 and December 31, 2008, we have accrued approximately \$180,900 and \$151,000, 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.

During the six months ended June 30, 2009 and up to the date of this Quarterly Report, we have issued to YA Global Investments an aggregate of 5,033,333 shares of our common stock upon conversion of the Series A preferred stock.

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

On August 6, 2009, the Company and Carlingford Investments entered into a settlement agreement dated August 5, 2009, (the "Carlingford Settlement Agreement"), regarding the settlement of an aggregate amount of \$60,000 due and owing to Carlingford by the Company relating to prior cash advances in the principal amount of \$175,000 and accrued interest thereon in the amount of \$89,857 (the "Debt"). Pursuant to the terms and provisions of the Carlingford Settlement Agreement: (i) we agreed to partially settle \$60,000 of the Debt by issuing to Carlingford an aggregate of 30,000,000 shares of its restricted Common Stock at the rate of \$0.002 per share (which amount is based upon the weighted average close price of \$0.002 of the Company's shares of Common Stock traded on the OTC Bulletin Board between July 10, 2009 and August 4, 2009).

The issuances were exempt from registration under the Securities Act in reliance on an exemption provided by Section 4(2) of that Act. Each person to whom the shares were issued acquired the shares for investment and not with a view to the sale or distribution and received information concerning us, our business and our financial condition, and the stock certificates bear an investment legend. No brokerage fees were paid in connection with any of these stock issuances.

### 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

40

### 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: August 19, 2009

By: /s/ STEPHEN WALTERS

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

Dated: August 19, 2009

By: /s/ ADAM WASSERMAN

-----  
Adam Wasserman, Chief Financial Officer

41