TRANSAX INTERNATIONAL LTD
Form 10-Q
November 13, 2012

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

Form 10-Q

(Mark One)

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

For the period ended September 30, 2012

[ ] 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.)

South Part 1-101, Nanshe Area, Pengnan Industrial Park on North Yingbinbei Road in Waisha Town of Longhu District in Shantou, Guangdong, China	515023
(Address of principal executive offices)	(Zip Code)

(86)-754-8323888
(Registrant’s telephone number, including area code)

not applicable
(Former name, former address and former fiscal year, if changed since last report)

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 [X] 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 (§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 [X] No [ ]

Indicate by check mark whether the registrant is a large accelerated filed, 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	[X]

Indicate by checkmark whether the registrant is a shell company (as 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: 96,078,960 shares of common stock are issued and outstanding as of November 5, 2012.

TRANSAX INTERNATIONAL LIMITED AND SUBSIDIARIES
FORM 10-Q
September 30, 2012

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We used in this report, the terms “Transax," "we," "our," and "us" or the “Company” refers to Transax International Limited, a Colorado corporation and its wholly-owned subsidiaries Big Tree International Co., Ltd., a Brunei company, ("BT Brunei") and Shantou Big Tree Toys Co., Ltd., a Chinese company (“BT Shantou”).

CAUTIONARY STATEMENT REGARDING FORWARD-LOOKING INFORMATION

This report includes forward-looking statements that relate to future events or our future financial performance and involve known and unknown risks, uncertainties and other factors that may cause our actual results, levels of activity, performance or achievements to differ materially from any future results, levels of activity, performance or achievements expressed or implied by these forward-looking statements. Words such as, but not limited to, “believe, “expect," “anticipate," “estimate," “intend," “plan," “targets," “likely," “aim," “will," “would," “could," and similar expressions phrases identify forward-looking statements. We have based these forward-looking statements largely on our current expectations and future events and financial trends that we believe may affect our financial condition, results of operation, business strategy and financial needs. Forward-looking statements include, but are not limited to, statements about:

- Factors affecting consumer preferences and customer acceptance of new products;
- Competition in the toy industry;
- Loss of one or more key customers;
- Dependence on third-party contract manufacturers;
- Dependence on certain key personnel;
- Inability to manage our business expansion;
- Infringement by third parties on our intellectual property rights;
- Our inadvertent infringement of third-party intellectual property rights;
- PRC government fiscal policy that affect real estate development and consumer demand;
- Availability of skilled and unskilled labor and increasing labor costs;
- Lack of insurance coverage and the impact of any loss resulting from product liability or third party liability claims or casualty losses;
- Violation of Foreign Corrupt Practices Act or China anti-corruption laws;
- Economic, legal restrictions and business conditions in China;
- Dilution attributable to our convertible preferred stock;
- Impact of proposed one for 700 reverse stock split of our outstanding common stock;
- Limited public market for our common stock; and
- Potential conflicts of interest between our controlling shareholders and our shareholders.

You should read thoroughly this report and the documents that we refer to herein with the understanding that our actual future results may be materially different from and/or worse than what we expect. We qualify all of our forward-looking statements by these cautionary statements including those made in Item 1A. Risk Factors of our Annual Report on Form 10-K for the year ended December 31, 2011, as amended, and our other filings with the Securities and Exchange Commission. Other sections of this report include additional factors which could adversely impact our business and financial performance. Moreover, we operate in an evolving environment. New risk factors emerge from time to time and it is not possible for our management to predict all risk factors, nor can we assess the impact of all factors on our business or the extent to which any factor, or combination of factors, may cause actual results to differ materially from those contained in any forward-looking statements. Except for our ongoing obligations to disclose material information under the Federal securities laws, we undertake no obligation to release publicly any revisions to any forward-looking statements, to report events or to report the occurrence of unanticipated events. These forward-looking statements speak only as of the date of this report, and you should not rely on these statements without also considering the risks and uncertainties associated with these statements and our business.

PART 1 – FINANCIAL INFORMATION

Item 1. Financial Statements.

TRANSAX INTERNATIONAL LIMITED AND SUBSIDIARIES
CONSOLIDATED STATEMENT OF BALANCE SHEETS

	September 30, 2012 (Unaudited)	December 31, 2011
ASSETS		
CURRENT ASSETS:		
Cash	$ 33,915	$ 246,720
Accounts receivable (net of allowance of $26,718 and $26,578, respectively)	6,230,598	2,987,379
Advance to suppliers and prepaid expenses	372,220	80,978
Inventories	587,175	699
Due from related parties	54,083	66,597
Other receivable	558,965	266,318
Total Current Assets	7,836,956	3,648,691
NON-CURRENT ASSETS:		
Property, plant and equipment, net	205,186	131,812
Intangible assets, net	11,329	13,558
Total Assets	$ 8,053,471	$ 3,794,061
LIABILITIES AND SHAREHOLDERS' EQUITY		
CURRENT LIABILITIES:		
Accounts payable and accrued expenses	$ 1,527,413	$ 935,666
Advance from customers	63,376	941,750
Salaries payable	55,178	23,330
Taxes payable	4,060	2,123
Due to related parties	2,630,710	138,814
Other payable	211,888	-
Total Current Liabilities	4,492,625	2,041,683
Total Liabilities	4,492,625	2,041,683
SHAREHOLDERS' EQUITY:		
Series B convertible preferred stock (No par value, 5,000,000 shares authorized, 3,362,760 and 0 shares issued and outstanding at September 30, 2012 and December 31, 2011, respectively)	-	-

Series C convertible preferred stock (No par value, 6,500,000 shares authorized, 6,500,000 and 0 shares issued and outstanding at September 30, 2012 and December 31, 2011, respectively)	-	-
Common stock ($0.00001 par value; 100,000,000 shares authorized; 96,078,960 shares issued and outstanding at September 30, 2012 and December 31, 2011, respectively)	961	961
Additional paid-in capital	691,748	691,748
Retained earnings	2,761,356	1,072,327
Accumulated other comprehensive income (loss)	106,781	(12,658)
Total Shareholders' Equity	3,560,846	1,752,378
Total Liabilities and Shareholders' Equity	$ 8,053,471	$ 3,794,061

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

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2012	2011	2012	2011
Revenues	$ 8,608,084	$ 6,835,803	$ 19,320,911	$ 11,146,095
Cost of revenues	7,325,288	5,932,644	16,711,046	9,506,542
Gross profit	1,282,796	903,159	2,609,865	1,639,553
Operating expenses:				
Selling expenses	141,300	45,600	399,563	91,529
General and administrative	203,247	278,155	556,653	330,584
Total operating expenses	344,547	323,755	956,216	422,113
Operating income	938,249	579,404	1,653,649	1,217,440
Other income (expenses):				
Other income	5,148	1,385	36,836	17,088
Interest (expenses) income	(172)	73	(383)	194
Total other income	4,976	1,458	36,453	17,282
Net income before income taxes	943,225	580,862	1,690,102	1,234,722
Income taxes	1,075	9,572	1,075	20,199
Net income	$ 942,150	$ 571,290	$ 1,689,027	$ 1,214,523
Comprehensive Income:				
Net income	$ 942,150	$ 571,290	$ 1,689,027	$ 1,214,523
Foreign currency translation (loss) gain	(5,160)	22,116	119,439	25,471
Comprehensive income	$ 936,990	$ 593,406	$ 1,808,466	$ 1,239,994
Basic and diluted income per common share				
Basic	$ 0.01	-	$ 0.02	-
Diluted	$ 0.01	-	$ 0.02	-
Basic weighted average common shares outstanding	96,078,960	-	96,078,960	-
Diluted weighted average common shares outstanding	96,078,960	-	96,078,960	-

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

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

	Nine Months Ended September 30, 2012	Nine Months Ended September 30, 2011
OPERATING ACTIVITIES:		
Net income	$ 1,689,027	$ 1,214,523
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization expense	41,785	7,804
Gain on disposition of property, plant and equipment	-	(29,036)
Changes in current assets and liabilities:		
Accounts receivable	(3,232,848)	(3,783,351)
Advance to suppliers	(31,546)	192,924
Prepaid expenses and other current assets	(551,482)	(77,469)
Inventories	(587,448)	(94,097)
Accounts payable and accrued expenses	625,185	124,337
Due to related party	2,034,707	596,078
Due from related party	12,887	-
Other payables	206,564	392,286
Taxes payable	1,930	21,442
Advance from customers	(884,807)	871,323
NET CASH USED IN OPERATING ACTIVITIES	(676,046)	(563,236)
INVESTING ACTIVITIES:		
Purchase of intangible assets (software)	-	(14,020)
Proceeds from disposition of property, plant and equipment	-	301,648
Purchase of property, plant and equipment	(112,351)	-
NET CASH (USED IN) PROVIDED BY INVESTING ACTIVITIES	(112,351)	287,628
FINANCING ACTIVITIES:		
Increase in due to related party	551,225	384,868
NET CASH PROVIDED BY FINANCING ACTIVITIES	551,225	384,868
EFFECT OF EXCHANGE RATE CHANGES ON CASH	24,367	(13,895)
NET (DECREASE) INCREASE IN CASH	(212,805)	95,365
CASH - beginning of period	246,720	44,377
CASH - end of period	$ 33,915	$ 139,742
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION:		
Cash paid for taxes	$ 11,316	$ 20,199

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

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TRANSAX INTERNATIONAL LIMITED AND SUBSIDIARIES
Notes to Unaudited Consolidated Financial Statements
September 30, 2012

NOTE 1 – ORGANIZATION AND OPERATIONS

Transax International Limited (“we”, “us”, “our,” or the "Company") was incorporated in the State of Colorado in 1987. Prior to December 2011, the Company, through its subsidiary, Medlink Conectividade em Saude Ltda (“Medlink Conectividade”) was an international provider of information network solutions specifically designed for healthcare providers and health insurance companies. On March 26, 2008, the Company executed a stock purchase and option agreement with Engetech, Inc., a Turks & Caicos corporation (controlled and owned 20% by Americo de Castro, director and President of Medlink Conectividade, and 80% by Flavio Gonzalez Duarte 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 owned 100% of the total issued and outstanding shares of: (i) Medlink Conectividade, and (ii) Medlink Technologies, Inc., (“MTI”) a Mauritius corporation. However, the buyer defaulted on payments and on November 24, 2010, pursuant to an agreement, the buyer returned the 45 shares of Transax Limited held in escrow and forfeited its initial deposit of $937,700 in full and complete satisfaction of any amounts due to the Company.

On April 4, 2011, pursuant to a Quota Purchase and Sale Agreement amongst Transax Limited, QC Holding I Participacoes S.A., a corporation organized under the laws of Brazil (“QC Holding”), and Medlink Conectividade, the Company sold 100% of its interest in Medlink Conectividade to QC Holding.

On December 30, 2011, the Company entered into a Share Exchange Agreement (the “Share Exchange Agreement") with Big Tree International Co., Ltd., a Brunei company (“BT Brunei”) and its shareholder Lins (HK) International Trading Limited (“BT Hong Kong”). Under the Share Exchange Agreement, we exchanged 6,500,000 shares of our Series C Convertible Preferred Stock (the "Series C Preferred Stock") to acquire 100% of the issued and outstanding shares of BT Brunei from its sole shareholder BT Hong Kong. Each share of the Series C Preferred Stock is convertible into one share of our common stock after giving effect to a pending 1 for 700 reverse stock split (the “Reverse Stock Split”) and will represent approximately 65% of the issued and outstanding shares of our common stock, and is hereinafter referred to as the “Exchange”. On December 30, 2011, BT Hong Kong became a shareholder of the Company. The Share Exchange Agreement was approved by our Board of Directors on December 30, 2011 and no approval of our shareholders was necessary under Colorado law. The transaction will be accounted for as a reverse merger and recapitalization of BT Brunei whereby BT Brunei is considered the acquirer for accounting purposes and the 6,500,000 shares of our Series C Preferred Stock were accounted for as paid in capital of our company. As a result of the consummation of the Share Exchange, BT Brunei and its subsidiary, Shantou Big Tree Toys Co., Ltd., a Chinese company (“BT Shantou”), are now our wholly-owned subsidiaries.

After the acquisition of BT Brunei, we are in the business of toys sourcing, distribution and contractual manufacturing targeting international and domestic distributors and customers in the toys industry. Our main business focus is to function as a “one stop shop” for the sourcing, distribution and specialty manufacturing of toys and related products. The Company conducts these operations through both BT Brunei and our BT Shantou subsidiary. We are located in Shantou City of Guangdong province, the geographical region well-known for toys manufacturing and exporting in China. We are not a manufacturer. We provide procurement services for international toy distributors and wholesalers, including identifying, evaluating, and engaging one or more local manufacturers, trading companies or distributors for the requested supply of toys, as well as original equipment manufacturing (“OEM”) services. The OEM services include engaging toy manufacturers directly or through other toy trading companies or distributors to either manufacture toys to specific specifications requested by our customers, or customize an existing toy product to meet our customer’s request such as through changes in mechanical functionality, appearance, physical dimension, and materials. For the first nine months of 2012, our OEM services generated about 30.5% of our total sales and procurement services accounted for approximately 69.5% of our total sales. We sources a wide variety of 800,000 toys made of plastic, wood, metal, wool, and electronic materials, primarily targeting children from infants to teenagers. We enable our customers to view these toys either through our website or at our extensive toy showroom of approximately 21,528 square feet located in Shantou, China. Customers can easily contact our online representatives for inquiry and place orders, or visit the toy showroom and choose from the displayed toy samples provided by our manufacturing partners.

In 2009, BT Shantou developed a proprietary construction toy consisting of plastic pieces that can plug-in together to make a wide variety of objects, and which we refer to as the Big Tree Magic Puzzle (3D). We registered the patents for its utility model and appearance design in Hong Kong and mainland China during 2010 and 2011. On June 1, 2010, BT Shantou entered into a 10-year contract manufacturing agreement with a local toy manufacturer Shantou Xinzhongyang Toy Industrial Co., Ltd. ("Xinzhongyang") to produce this proprietary toy under the name of Big Tree Educational Magic Puzzle (the "Big Tree Magic Puzzle").

TRANSAX INTERNATIONAL LIMITED AND SUBSIDIARIES
Notes to Unaudited Consolidated Financial Statements
September 30, 2012

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of presentation

The accompanying financial statements and related notes were prepared in accordance with accounting principles generally accepted in the United States of America ("U.S. GAAP").

The accompanying financial statements as of and for the nine months ended September 30, 2012 and 2011, reflect the consolidated financial position and result of operations of BT Brunei and BT Shantou, as BT Shantou became the wholly-owned subsidiary of BT Brunei in 2011.

Foreign Currency Translation

Our functional currency is the Chinese Renminbi ("RMB"). In accordance with Financial Accounting Standards Board ("FASB") Accounting Standards Codification ("ASC") Section 830-20-35, the financial statements were translated into United States dollars using balance sheet date rates of exchange for assets and liabilities, and average rates of exchange for the period for the income statements. Net gains and losses resulting from foreign exchange transactions were included in the consolidated statements of operations and comprehensive income. Translation adjustments resulting from the process of translating the local currency financial statements into U.S. dollars are included in other comprehensive income or loss.

RMB is not a fully convertible currency. All foreign exchange transactions involving RMB must take place either through the People's Bank of China (the "PBOC") or other institutions authorized to buy and sell foreign exchange. The exchange rate adopted for the foreign exchange transactions are the rates of exchange quoted by the PBOC, which are determined largely by supply and demand. Translation of amounts from RMB into United States dollars ("$") was made at the following exchange rates for the respective periods:

As of September 30, 2012	RMB 6.3190 to $1.00
As of December 31, 2011	RMB 6.3523 to $1.00
Three months ended September 30, 2012	RMB 6.3200 to $1.00
Three months ended September 30, 2011	RMB 6.4034 to $1.00
Nine months ended September 30, 2012	RMB 6.3085 to $1.00
Nine months ended September 30, 2011	RMB 6.4884 to $1.00

Use of estimates

The preparation of financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Significant estimates include the estimated useful lives of property and equipment. Actual results could differ from those estimates.

Cash and equivalents

We consider all highly liquid investments with maturities of three months or less to be cash and equivalents.

Accounts receivable

Accounts receivable are recorded at the invoiced amount, net of an allowance for doubtful accounts. The allowance for doubtful accounts reflects our best estimate of the amount of probable credit losses in our existing accounts receivable. We determined the allowance based on historical write-off experience, customer specific facts and economic conditions. Bad debt expense is included in general and administrative expense, if any.

Outstanding account balances are reviewed individually for collectability. Account balances are charged off against the allowance after all means of collection have been exhausted and the potential for recovery is considered remote.

Inventory

We value inventories, consisting of finished goods only, at the lower of cost or market value. Cost is determined on the first in-first out method. We regularly review our inventories on hand and, when necessary, record a provision for excess or obsolete inventories based primarily on the current selling price. As of September 30, 2012 and December 31, 2011, there were no charges for inventory reserve provision.

TRANSAX INTERNATIONAL LIMITED AND SUBSIDIARIES
Notes to Unaudited Consolidated Financial Statements
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Advance to suppliers and prepaid expenses

Advance to suppliers and other prepaid expenses consist of (i) advance to suppliers for merchandise that had not yet been shipped, and (ii) prepaid advertising expenses.

Property, Plant and equipment

Property, plant and equipment are recorded at cost. Expenditures for major additions and betterments are capitalized. Maintenance and repairs are expensed as incurred. Depreciation of property and equipment is computed by the straight-line method (after taking into account their respective estimated residual values) over the assets estimated useful lives. Upon sale or retirement of property, plant and equipment, the related cost and accumulated depreciation are removed from the accounts and any gain or loss is reflected in operations. Leasehold improvements, if any, are amortized on a straight-line basis over the lease period or the estimated useful life, whichever is shorter. Upon becoming fully amortized, the related cost and accumulated amortization are removed from the accounts.

Impairment of long-lived assets

In accordance with ASC 360, “Property, Plant and Equipment”, our long-lived assets, which include property, equipment and automobiles are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable.

We assess the recoverability of our long-lived assets by comparing the projected undiscounted net cash flows associated with the related long-lived asset or group of long-lived assets over their remaining estimated useful lives against their respective carrying amounts. Impairment, if any, is based on the excess of the carrying amount over the fair value of those assets. Fair value is generally determined using the asset’s expected future discounted cash flows or market value, if readily determinable. If long-lived assets are determined to be recoverable, but the newly determined remaining estimated useful lives are shorter than originally estimated, the net book values of the long-lived assets are depreciated over the newly determined remaining estimated useful lives. We determined there were no impairments of long-lived assets as of September 30, 2012 and December 31, 2011.

Advance from customers

Advance from customers represent prepayments to us for merchandise that had not yet been shipped to customers.

Fair value of financial instruments

We adopted ASC Topic 820, “Fair Value Measurements”, for our financial instruments. The fair value of a financial instrument is the amount at which the instrument could be exchanged in a current transaction between willing parties. The carrying amounts of our financial assets and liabilities, such as cash, accounts receivable, prepayments and other current assets, accounts payable, accrued expenses and other current liabilities, approximate their fair values because of the short maturity of these instruments.

Revenue Recognition Policy and Presentation:

We follow the guidance of ASC 605, "Revenue Recognition," and the Securities and Exchange Commission's Staff Accounting Bulletin ("SAB") No. 104 and SAB Topic 13 for revenue recognition. In general, we record revenue when persuasive evidence of an arrangement exists, services have been rendered or product delivery has occurred, the sales price to the customer is fixed or determinable, and collectability is reasonably assured.

Revenues for our product sales are recognized when all four of the following criteria are met: (i) persuasive evidence of an arrangement exists through a formal purchase order or contract; (ii) delivery of the products has occurred and risks and rewards of ownership have passed to the customer; (iii) the selling price is both fixed and determinable based on agreement between us and our customer; and (iv) collectability is reasonably assured. For any advance payments from customers, revenues are deferred until such a time when all the four criteria mentioned above are fully met.

TRANSAX INTERNATIONAL LIMITED AND SUBSIDIARIES
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Revenue is accounted for in accordance with the ASC 605-45, reporting revenue either gross as a principal or net as an agent depending upon the nature of the sales transaction. Revenue is recognized on a gross basis when the Company determines the sale meets the conditions of ASC 605-45, "Reporting Revenue Gross as a Principal versus Net as an Agent." When the Company does not meet the criteria for gross revenue recognition under ASC 605-45, the Company reports the revenue on a net basis.

In accordance with ASC 605-45-45, "Principal Considerations - Other Presentation Matters", we report our revenues from sales of toys as follows:

	Revenue Recognition (1)					
	For the Third Quarter of 2012			For the Third Quarter of 2011		
Allocation of Revenues	Gross Method	Net Method	Total	Gross Method	Net Method	Total
Revenues, excluding sales reported on net basis	$ 8,013,313	-	$ 8,013,313	$ 6,490,856	-	$ 6,490,856
Net Revenues from sales reported on net basis	-	$ 594,771	$ 594,771	-	$ 344,947	$ 344,947
Total Revenues	$ 8,013,313	$ 594,771	$ 8,608,084	$ 6,490,856	$ 344,947	$ 6,835,803

	Revenue Recognition (1)					
	For the Nine Months Ended September 30, 2012			For the Nine Months Ended September 30, 2011		
Allocation of Revenues	Gross Method	Net Method	Total	Gross Method	Net Method	Total
Revenues, excluding sales reported on net basis	$ 18,212,143	-	$ 18,212,143	$ 10,490,933	-	$ 10,490,933
Net Revenues from sales reported on net basis	-	$ 1,108,768	$ 1,108,768	-	$ 655,162	$ 655,162
Total Revenues	$ 18,212,143	$ 1,108,768	$			