TRANSAX INTERNATIONAL LTD
Form SB-2/A
October 18, 2006

As filed with the U.S. Securities and Exchange Commission on October 18, 2006

Registration No. 333-133937

SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

AMENDMENT NO. 2
TO
FORM SB-2
REGISTRATION STATEMENT UNDER THE SECURITIES ACT OF 1933, AS AMENDED

COLORADO	TRANSAX INTERNATIONAL LIMITED	84-1304106
(State or Other Jurisdiction of Incorporation or Organization)	(Name of Registrant in Our Charter)	(I.R.S. Employer Identification No.)

5201 BLUE LAGOON DRIVE, 8TH FLOOR MIAMI, FLORIDA, 33126 (305) 629-3090	1040	STEPHEN WALTERS 5201 BLUE LAGOON DRIVE, 8TH FLO MIAMI, FLORIDA, 33126 (305) 629-3090
(Address and telephone number of Principal Executive Offices and Principal Place of Business)	(Primary Standard Industrial Classification Code Number)	(Name, address and telephone num of agent for service)

Copies to:

Clayton E. Parker, Esq. Kirkpatrick & Lockhart Nicholson Graham LLP 201 S. Biscayne Boulevard, Suite 2000 Miami, Florida 33131 Telephone: (305) 539-3300 Telecopier: (305) 358-7095	Matthew L. Ogurick, Esq. Kirkpatrick & Lockhart Nicholson Graham 201 S. Biscayne Boulevard, Suite 2000 Miami, Florida 33131 Telephone: (305) 539-3300 Telecopier: (305) 358-7095

Approximate date of commencement of proposed sale to the public: AS SOON AS PRACTICABLE AFTER THIS REGISTRATION STATEMENT (THE "REGISTRATION STATEMENT") BECOMES EFFECTIVE.

If any of the securities being registered on this Form SB-2 are to be offered on a delayed or continuous basis pursuant to Rule 415 under the Securities Act of 1933, as amended (the "Securities Act") check the following box

If this Form is filed to register additional securities for an offering pursuant to Rule 462(b) under the Securities Act, please check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering.

If this Form is a post-effective amendment filed pursuant to Rule 462(c) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering.

If delivery of the prospectus is expected to be made pursuant to Rule 434, please check the following box.

CALCULATION OF REGISTRATION FEE

TITLE OF EACH CLASS OF REGISTRATION SECURITIES TO BE REGISTERED	PROPOSED MAXIMUM AMOUNT TO BE REGISTERED	PROPOSED MAXIMUM AGGREGATE OFFERING PRICE PER SHARE(1)	AMOUNT PRI
Common stock, par value $0.00001 per share	33,631,429 shares (3)	$0.12	$4,0
TOTAL	33,631,429 shares (3)	$0.12	$4,0

(1) Estimated solely for the purpose of calculating the registration fee pursuant to Rule 457(c) under the Securities Act. For the purposes of this table, we have used the average of the bid and asking prices of our common stock on October 16, 2006.

(2) Of this amount, $543.46 has previously been paid.

(3) Includes 25,000,000 shares being registered pursuant to an investment agreement with Cornell Capital Partners, LP, 3,171,429 shares underlying a convertible debenture, 5,400,000 shares underlying warrants and 60,000 shares previously issued as a one-time commitment fee to Cornell Capital Partners, LP in connection with a now terminated Standby Equity Distribution Agreement.

THE REGISTRANT HEREBY AMENDS THIS REGISTRATION STATEMENT ON SUCH DATE OR DATES AS MAY BE NECESSARY TO DELAY ITS EFFECTIVE DATE UNTIL THE REGISTRANT SHALL FILE A FURTHER AMENDMENT WHICH SPECIFICALLY STATES THAT THIS REGISTRATION STATEMENT SHALL THEREAFTER BECOME EFFECTIVE IN ACCORDANCE WITH SECTION 8(A) OF THE SECURITIES ACT OR UNTIL THIS REGISTRATION STATEMENT SHALL BECOME EFFECTIVE ON SUCH DATE AS THE U.S. SECURITIES AND EXCHANGE COMMISSION, ACTING PURSUANT TO SAID SECTION 8(A), MAY DETERMINE.

PROSPECTUS

Subject to completion, dated October 18, 2006

TRANSAX INTERNATIONAL LIMITED
33,631,429 SHARES OF COMMON STOCK

This prospectus (this "Prospectus") relates to the sale of up to 33,631,429 shares of common stock, par value $0.0001 per share, of Transax International Limited ("Transax" or the "Company") by certain persons who are stockholders of Transax, including Cornell Capital Partners, LP ("Cornell Capital Partners") and Scott and Heather Grimes - Joint Tenants with Rights of Survivorship ("Investor"). Please refer to the Section herein entitled "Selling Stockholders" beginning on page 15. Transax is not selling any shares of common stock in this offering and therefore will not receive any proceeds from this offering.

The shares of common stock are being offered for sale by the selling stockholders at prices established on the Over-the-Counter Bulletin Board during the term of this offering. On October 16, 2006, average of the bid and asking prices of our common stock was $0.12 per share. Our common stock is quoted on the Over-the-Counter Bulletin Board under the symbol "TNSX.OB". These prices will fluctuate based on the demand for the shares of common stock.

The selling stockholders consist of (i) Cornell Capital Partners, who intends to sell up to 25,000,000 shares of common stock which may be issued from time to time upon the conversion of shares of preferred stock held by Cornell Capital Partners pursuant to the Investment Agreement, dated January 13, 2006, up to 5,000,000 shares of common stock which may be issued upon the exercise of two (2) common stock purchase warrants (the "Warrants", and together with the Investment Agreement, the "Cornell Financing") and 60,000 shares previously issued to Cornell Capital Partners in connection with a now terminated Standby Equity Distribution Agreement; (ii) Investor, who may sell up to 3,171,429 shares of common stock which may be issued upon the conversion of a $250,000 convertible debenture (the "Debenture") and 400,000 shares underlying a warrant, dated February 1, 2006 (the "SHG Warrant").

The holders of Series A Preferred Shares are entitled to receive dividends or distribution on a pro rata basis in the amount of seven percent (7%) per year. Dividends shall be paid in cash and shall be cumulative.

At the holders' election, the conversion price of the convertible instruments will be at a fixed percentage of the market price at the time of conversion. Please refer to the Section entitled "Selling Shareholders" beginning on page 16 for a detailed description of all conversion terms.

Brokers or dealers effecting transactions in these shares should confirm that the shares are registered under the applicable state law or that an exemption from registration is available.

THESE SECURITIES ARE SPECULATIVE AND INVOLVE A HIGH DEGREE OF RISK.

PLEASE REFER TO "RISK FACTORS" BEGINNING ON PAGE 8.

THE INFORMATION IN THIS PROSPECTUS IS NOT COMPLETE AND MAY BE CHANGED.

THE SELLING STOCKHOLDERS MAY NOT SELL THESE SECURITIES UNTIL THE REGISTRATION STATEMENT FILED WITH THE U.S. SECURITIES AND EXCHANGE COMMISSION (THE "SEC") IS EFFECTIVE. THIS PROSPECTUS IS NOT AN OFFER OF THESE SECURITIES IN ANY STATE WHERE THE OFFER OR SALE IS NOT PERMITTED.

NO UNDERWRITER OR PERSON HAS BEEN ENGAGED TO FACILITATE THE SALE OF SHARES OF COMMON STOCK IN THIS OFFERING. THIS OFFERING WILL TERMINATE TWENTY-FOUR (24) MONTHS AFTER THE ACCOMPANYING REGISTRATION STATEMENT IS DECLARED EFFECTIVE BY THE SEC. NONE OF THE PROCEEDS FROM THE SALE OF STOCK BY THE SELLING STOCKHOLDERS WILL BE PLACED IN ESCROW, TRUST OR ANY SIMILAR ACCOUNT.

THE SEC AND STATE SECURITIES REGULATORS HAVE NOT APPROVED OR DISAPPROVED OF THESE SECURITIES, OR DETERMINED IF THIS PROSPECTUS IS TRUTHFUL OR COMPLETE. ANY REPRESENTATION TO THE CONTRARY IS A CRIMINAL OFFENSE.

The date of this Prospectus is ___________ __, 2006.

TABLE OF CONTENTS

PROSPECTUS SUMMARY

The following is only a summary of the information, financial statements and the notes included in this Prospectus. You should read the entire Prospectus carefully, including "Risk Factors" and our Financial Statements and the Notes thereto before making any investment decision.

OUR COMPANY

BUSINESS HISTORY AND DEVELOPMENT

Transax International Limited, was incorporated under the laws of the State of Colorado in 1999 under the name "Vega-Atlantic Corporation".

Previously, we were engaged in the business of minerals and oil and gas exploration, acquisition and development within the United States and worldwide.

During August 2003, we completed the acquisition of Transax Limited, a Colorado private-held corporation ("Transax Limited"), pursuant to a reverse merger and changed our name to "Transax International Limited" by filing an amendment to our Articles of Incorporation.

Together with our wholly-owned subsidiary, Medlink Conectividade em Saude Ltda. f/k/a TDS Telecommunication Data Systems LTDA and referred to herein as "Medlink"), 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").

SUBSIDIARIES

Our wholly-owned subsidiary Medlink was incorporated under the laws of Brazil on May 2, 1998. Medlink assists us in providing information network solutions, products and services within Brazil.

Our wholly-owned subsidiary Transax Australia Pty Ltd. ("Transax Australia") was incorporated under the laws of New South Wales, Australia on January 19, 2003. Transax Australia assists us in seeking marketing opportunities to provide information network solutions, products and services within Australia and regionally.

Our wholly-owned subsidiary MedLink Technologies, Inc. ("MedLink Tech") was incorporated under the laws of Mauritius on January 17, 2003. MedLink Tech holds the intellectual property developed by us and is responsible for initiating research and development.

CURRENT BUSINESS OPERATIONS

As of the date of this Prospectus, through Medlink, we are an international provider of health information management products (collectively, the "Health Information Management Products"), as described below, which are specifically designed for the healthcare providers and health insurance companies. We are dedicated to improving healthcare delivery by providing to hospitals, physician practices and health insurance companies with innovative health information management systems to manage coding, compliance, abstracting and record management's processes.

Our strategic focus is to become a premier international provider of health information management network solutions for the healthcare providers and health insurance companies, enabling the real time automation of routine patient transactions. We believe that our unique combination of complimentary solutions is designed to significantly improve the business of healthcare. Our Health Information Management Products and software solutions are designed to generate operational efficiencies, improve cash flow and measure the cost and quality of care. In general, the Health Information Management Products and software solutions, including the MedLink Solution, fall into four (4) main areas: (i) compliance management; (ii) coding and reimbursement management; (iii) abstracting; and (iv) record management.

We believe that hospitals and other healthcare providers must implement comprehensive coding and compliance programs in order to minimize payer submission errors and assure the receipt of anticipated revenues. We believe that an effective program should include clear, defined guidelines and procedures, which combined with our Health Information Management Products, will enhance an organization's system and effectively increase revenues and reduce costs. Our Health Information Management Products will include compliance management and coding and reimbursement products and software, which are designed to conduct automated prospective and retrospective reviews of all in-patient and out-patient claims data. Management tools include internally designed targets aimed to provide data quality, coding accuracy and appropriate reimbursement. These tools work in conjunction with an organization's coding and billing compliance program to (i) identify claims with potential errors prior to billing; (ii) screen professional fees and services; and (iii) identify patterns in coding and physician documentation. Results of the auditing and monitoring activities are represented in executive reports summarizing clinical and financial results as well as detailed reports providing information needed to target specific areas for review. Billing practices for health care services are under close scrutiny by governmental agencies as high-risk areas for Medicare fraud and abuse. We believe that the Health Information Management Products will increase an organization's progress in reducing improper payments and ensuring that medical record documentation support services are provided.

The Health Information Management Products are also designed to include abstracting solutions, which enable healthcare facilities to accurately collect and report patient demographic and clinical information. We believe that the Health Information Management Products will provide the organization with the ability to calculate in-patient and out-patient hospital reimbursements and customize data fields needed for state, federal or foreign governmental regulatory requirements. Standard and custom reports will provide the customer with the ability to generate facility-specific statistical reporting used for benchmarking, outcomes and performance improvement, marketing and planning. We believe that the Health Information Management Products will further provide healthcare organizations the flexibility to customize abstracting workflow to meet data collection reporting and analysis needs. The Health Information Management Products will provide the organization with the ability to customize workflow by creating fields and rules and designing screen navigation.

We also believe that the Health Information Management Products will provide record management, which will automate the record tracking and location functions, monitor record completeness and facilitate the release of information process within health information management departments. The Health Information Management Products will assist healthcare organizations in properly completing records pursuant to state, federal, foreign governmental and medical staff requirements. The management tools are designed to monitor a facility's adherence to patient privacy, disclosure and patient bill of rights requirements, if applicable.

GOING CONCERN

Since inception, the Company has incurred cumulative net losses of $12,872,724, and at June 30, 2006 has a stockholders' deficit of $3,717,316 and has a working capital deficit of $3,858,138. Since its inception, the Company has funded operations through short-term borrowings and equity investments in order to meet its strategic objectives. The Company's future operations are dependent upon external funding and its ability to increase revenues and reduce expenses. Management believes that sufficient funding will be available from additional related party borrowings and private placements to meet its business objectives, including anticipated cash needs for working capital, for a reasonable period of time. Additionally, under the current roll out schedules with its clients, the Company expects to increase its revenues significantly during 2006 with the expectation of the Company becoming a profitable entity. However, there can be no assurance that the Company will be able to obtain sufficient funds to continue the development of its software products and distribution networks. Further, since fiscal 2000, the Company has been deficient in the payment of Brazilian payroll taxes and Social Security taxes. At June 30, 2006, these deficiencies (including interest and fines) amounted to approximately $816,000. This payroll liability is included as part of the accounts payable and accrued expenses (short-term and long-term) within the consolidated balance sheet. 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.

ABOUT US

Our principal executive offices are located at 5201 Blue Lagoon Drive, 8th Floor, Miami, Florida, 33126. Our telephone number is (305) 629-3090.

2

FORWARD-LOOKING STATEMENTS

This Prospectus contains certain forward-looking statements regarding management's plans and objectives for future operations including plans and objectives relating to our planned marketing efforts and future economic performance. The forward-looking statements and associated risks set forth in this Prospectus include or relate to, among other things, (a) our projected sales and profitability, (b) our growth strategies, (c) anticipated trends in our industry, (d) our ability to obtain and retain sufficient capital for future operations, and (e) our anticipated needs for working capital. These statements may be found under "Management's Discussion and Analysis Plan of Operation" and "Business", as well as in this Prospectus generally. Actual events or results may differ materially from those discussed in forward-looking statements as a result of various factors, including, without limitation, the risks outlined under "Risk Factors" and matters described in this Prospectus generally. In light of these risks and uncertainties, there can be no assurance that the forward-looking statements contained in this Prospectus will in fact occur.

The forward-looking statements herein are based on current expectations that involve a number of risks and uncertainties. Such forward-looking statements are based on assumptions that there will be no material adverse competitive or technological change in conditions in our business, that demand for our products and services will significantly increase, that our President and Chief Executive Officer (one individual) will remain employed as such, that our forecasts accurately anticipate market demand and that there will be no material adverse change in our operations or business or in governmental regulations affecting us or our manufacturers and/or suppliers. The foregoing assumptions are based on judgments with respect to, among other things, future economic, competitive and market conditions, and future business decisions, all of which are difficult or impossible to predict accurately and many of which are beyond our control. Accordingly, although we believe that the assumptions underlying the forward-looking statements are reasonable, any such assumption could prove to be inaccurate and therefore there can be no assurance that the results contemplated in forward-looking statements will be realized. In addition, as disclosed elsewhere in the "Risk Factors" section of this Prospectus, there are a number of other risks inherent in our business and operations which could cause our operating results to vary markedly and adversely from prior results or the results contemplated by the forward-looking statements. Growth in absolute and relative amounts of cost of goods sold and selling, general and administrative expenses or the occurrence of extraordinary events could cause actual results to vary materially from the results contemplated by the forward-looking statements. Management decisions, including budgeting, are subjective in many respects and periodic revisions must be made to reflect actual conditions and business developments, the impact of which may cause us to alter marketing, capital investment and other expenditures, which may also materially adversely affect our results of operations. In light of significant uncertainties inherent in the forward-looking information included in this Prospectus, the inclusion of such information should not be regarded as a representation by us or any other person that our objectives or plans will be achieved.

Some of the information in this Prospectus contains forward-looking statements that involve substantial risks and uncertainties. Any statement in this Prospectus and in the documents incorporated by reference into this Prospectus that is not a statement of an historical fact constitutes a "forward-looking statement". Further, when we use the words "may", "expect", "anticipate", "plan", "believe", "seek", "estimate", "internal", and similar words, we intend to identify statements and expressions that may be forward-looking statements. We believe it is important to communicate certain of our expectations to our investors. Forward-looking statements are not guarantees of future performance. They involve risks, uncertainties and assumptions that could cause our future results to differ materially from those expressed in any forward-looking statements. Many factors are beyond our ability to control or predict. You are accordingly cautioned not to place undue reliance on such forward-looking statements. Important factors that may cause our actual results to differ from such forward-looking statements include, but are not limited to, the risk factors discussed below. Before you invest in our common stock, you should be aware that the occurrence of any of the events described under "Risk Factors" below or elsewhere in this Prospectus could have a material adverse effect on our business, financial condition and results of operation. In such a case, the trading price of our common stock could decline and you could lose all or part of your investment.

3

THE OFFERING

This offering relates to the sale of 33,631,429 shares of our common stock by certain persons who are selling stockholders, consisting of (1) Cornell Capital Partners, who intends to sell up to 30,060,000, shares of common stock, 25,000,000 of which may be issued from time to time upon the conversion of shares of preferred stock held by Cornell Capital Partners pursuant to the Investment Agreement and up to 5,000,000 shares of common stock of which may be issued upon the exercise of the Warrants; and (2) Investor, who may sell up to 3,571,429 shares of common stock, 3,171,429 of which may be issued upon the conversion of the Debenture and 400,000 shares underlying the SHG Warrant.

On January 13, 2006, Transax entered into an Investment Agreement with Cornell Capital Partners (Cornell Capital Partners and the Company are also collectively referred to herein as the "Parties"), pursuant to which the Company sold to Cornell Capital Partners up to 16,000 shares of Series A Convertible Preferred Stock, no par value per share ("Series A Preferred Shares") which shall be convertible, at Cornell Capital Partners' discretion, into shares of the Company's common stock, par value $0.00001 per share, for a total price of up to $1,600,000. The Series A Preferred Shares are senior to all common stock and all series of preferred stock of the Company. The holders of Series A Preferred Shares are entitled to receive dividends or distribution on a pro rata basis in the amount of seven percent (7%) per year. Dividends shall be paid in cash and shall be cumulative. Each share of Series A Preferred Shares may be converted into shares of the Company's common stock equal to the sum of the Liquidation Amount, defined as an amount equal to $100 per share of Series A Preferred Shares, plus accrued but unpaid dividends thereon, divided by the Conversion Price. The Conversion Price is defined to be equal to the lower of (i) $0.192 or (ii) eighty percent (80%) of the lowest daily volume weighted average price of the Company's common stock, as determined by price quotations from Bloomberg, LP, during the ten (10) trading days immediately preceding the date of conversion. Of the 16,000 Series A Preferred Shares sold to Cornell Capital Partners, 8,000 Series A Preferred Shares equal a purchase price of $800,000, which consists of $255,237 from the surrender of a promissory note (the "Promissory Note") and $544,763 consisting of new funding.

The Company completed the Closing (as such term is defined in the Investment Agreement) by issuing to Cornell Capital Partners the remaining 8,000 Series A Preferred Shares for a purchase price equal to $800,000 on May 8, 2006, prior to the date that the registration statement of which this Prospectus is made a part was initially filed with the SEC (the "Registration Statement").

In connection with the Investment Agreement, the Company and Cornell Capital Partners 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 the Company files its Annual Report 10-KSB for the year ended December 31, 2005 (the "Filing Deadline") or is not declared effective by the SEC within ninety (90) days of the date of the IRRA (the "Effective Deadline"), or if after the Registration Statement has been declared effective by the SEC, sales cannot be made pursuant to the Registration Statement, then as relief for the damages to any holder of Registrable Securities (as defined in the IRRA) by reason of any such delay in or reduction of its ability to sell the underlying shares of common stock (which remedy shall not be exclusive of any other remedies at law or in equity), the Company will pay as liquidated damages to the holder, at the holder's option, either a cash amount or shares of the Company's common stock equal to two percent (2%) of the Liquidation Amount (as defined above) outstanding as liquidated damages for each thirty (30) day period or any part thereof after the Filing Deadline or the Effective Deadline as the case may be. Any liquidated damages payable hereunder shall not limit, prohibit or preclude the Investor from seeking any other remedy available to it under contract, at law or in equity. The Company shall pay any liquidated damages hereunder within three (3) business days of Cornell Capital Partners making written demand. It shall also become an event of default under the IRRA if the Registration Statement is not declared effective by the SEC within one-hundred twenty (120) days from the date of the IRRA. The Company initially filed its Registration Statement (of which this Prospectus is made a part) on May 9, 2006.

In connection with the sale of the Series A Preferred Shares, on January 13, 2006, Cornell Capital Partners surrendered the Promissory Note issued by the Company to Cornell Capital Partners on May 17, 2005, in the principal amount of $255,237, in exchange for $255,237 of Series A Preferred Shares. As of January 13, 2006, the full amount outstanding under the Promissory Note was $255,237, plus accrued and unpaid interest of zero dollars ($0). As a result, the Promissory Note was retired and cancelled. The Parties also agreed to terminate the Securities Purchase Agreement and the Investor Registration Rights Agreement, each dated as of October 25, 2004, as well as the Pledge and Escrow Agreements, each dated as of October 21, 2004, that were entered into by the Parties in connection with the issuance of the Promissory Note.

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

On January 13, 2006, the Company also issued to Cornell Capital Partners the Warrants to purchase up to 5,000,000 shares of common stock. The first Warrant issued to Cornell Capital Partners for 2,500,000 shares of common stock, at an exercise price of $0.30, shall terminate after the five (5) year anniversary of the date of issuance. The second Warrant issued to Cornell Capital Partners for 2,500,000 shares of common stock, at exercise price of $0.20, shall terminate after the five (5) year anniversary of the date of issuance.

On April 1, 2005, Company entered into a Securities Purchase Agreement (the "Securities Purchase Agreement") with Scott and Heather Grimes, Joint Tenants - with Rights of Survivorship (the "Investor"). Pursuant to the Securities Purchase Agreement, the Company issued a convertible debenture to the Investor in the original principal amount of $250,000 (the "Debenture"). The Debenture is convertible at the holder's option any time up to maturity at a conversion price equal to the lower of: (i) one hundred twenty percent (120%) of the closing bid price of the common stock on the date of the Debenture or (ii) eighty percent (80%) of the lowest closing bid price of the Company's common stock for the five (5) trading days immediately preceding the conversion date. The Debenture has a two (2) year term and accrues interest at five percent (5%) per year. At maturity, the Debentures will automatically convert into shares of common stock at a conversion price equal to the lower of: (i) one hundred twenty percent (120%) of the closing bid price of the Company's common stock on the date of the Debenture or (ii) eighty percent (80%) of the lowest closing bid price of the common stock for five (5) trading days immediately preceding the conversion date. On July 17, 2006, the Investor converted $15,000 of the Debenture into 104,167 shares of the Company's common stock.

Certain negative covenants in the Securities Purchase Agreement could substantially impact our ability to raise funds from alternative sources in the future. For example, for as long as the convertible debenture remains outstanding and without the written consent of the debenture holder, the Company (a) shall not directly or indirectly consummate any merger, reorganization, restructuring, reverse stock split consolidation, sale of all or substantially all of the Company's assets or any similar transaction or related transactions; (b) shall not issue or sell shares of common stock or preferred stock without consideration or for a consideration per share less than the bid price of the common stock determined immediately prior to its issuance or issue any 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; (c) shall not enter into any security instrument granting the holder a security interest in any or all assets of the Company; (d) shall not file any registration statement on Form S-8 except the Company may file one registration statement on Form S-8 for up to 2,500,000 shares of common stock and provided however, anyone receiving shares pursuant to such permitted Form S-8 registration shall be restricted from selling such shares for a period of ninety (90) days after the registration statement becomes effective and (e) shall not, and shall cause each of its subsidiaries not to, enter into, amend, modify or supplement, or permit any subsidiary to enter into, amend, modify or supplement any agreement, transaction, commitment, or arrangement with any of its or any of its subsidiary's officers, directors, person who were officers or directors at any time during the previous two years, stockholders who beneficially own five percent (5%) or more of the Company's common stock, or Affiliates (as defined in the Securities Purchase Agreement) or with any individual related by blood, marriage, or adoption to any such individual or with any entity in which any such entity or individual owns a five percent (5%) or more beneficial interest, except for (i) customary employment arrangements and benefit programs on reasonable terms, (ii) any investment in an Affiliate of the Company, (iii) any

agreement, transaction, commitment, or arrangement on an arms-length basis on terms no less favorable than terms which would have been obtainable from a person other than such related party and (iv) any agreement transaction, commitment, or arrangement which is approved by a majority of the disinterested directors of the Company.

On February 1, 2006, the Company and the Investor mutually agreed to extend the term of the Debentures until December 1, 2007. In addition, the Company issued the SHG Warrant to purchase 400,000 shares of the Company's common stock. The SHG Warrant has a term of two (2) years and is exercisable at $0.20 per share. The Company is registering 3,171,429 shares of its common stock underlying the conversion of the Debenture and 400,000 shares underlying the SHG Warrant.

Cornell Capital Partners may from time to time convert its shares of preferred stock under the Investment Agreement and Investors may from time to time convert the Debenture into shares of our common stock at a discount to the market price and each may, in turn, sell their shares of common stock to investors in the market at the market price. This will likely cause our stock price to decline and would result in substantial dilution to the interests of other holders of common stock.

COMMON STOCK OFFERED	33,631,429 shares by selling stockholders
OFFERING PRICE	Market price
COMMON STOCK OUTSTANDING BEFORE THE OFFERING(1)	31,980,726 shares as of October 4, 2006
USE OF PROCEEDS	We will not receive any proceeds of the shares offered by the selling stockholders except that we may receive proceeds from the exercise of the Warrants and the SHG Warrant. See "Use of Proceeds".
RISK FACTORS	The securities offered hereby involve a high degree of risk and immediate substantial dilution. See "Risk Factors" and "Dilution".
OVER-THE-COUNTER BULLETIN BOARD SYMBOL	TNSX.OB

----

(1) Excludes 3,171,429 shares underlying the Debenture, up to 25,000,000 shares of common stock to be issued pursuant to the Investment Agreement with Cornell Capital Partners, up to 14,501,010 shares underlying warrants and up to 3,175,000 shares underlying options.

SUMMARY CONSOLIDATED FINANCIAL INFORMATION

	FOR THE THREE MONTHS ENDED JUNE 30,		FOR THE FISCAL
STATEMENT OF OPERATIONS DATA:	2006	2005	2005

	(Unaudited)	(Unaudited)	
Revenues			
	$ 1,034,844	$ 861,023	$ 3,380,150
Total operating expenses	1,258,835	916,787	3,543,534
Loss from operations	(223,991)	(55,764)	(163,384
Total other expenses	(1,078,268)	(111,277)	(601,101
Net loss	$ (1,302,259)	$ (167,041)	$ (764,484
Net loss per share: Basic and diluted	$ (0.04)	$ (0.01)	$ (0.03

BALANCE SHEET DATA:	AS OF JUNE 30, 2006	2005	AS OF DECEMBER 31, 2005
	(Unaudited)	(Unaudited)	
Cash	$ 482,813	$ 64,221	$ 7,875
Accounts receivable - net	399,824	369,726	321,240
Prepaid expenses and other current assets	202,893	100,578	165,129
Total assets	2,196,551	1,737,561	1,693,656
Total liabilities	5,913,867	3,209,118	3,321,296
Common stock and Paid in capital	7,865,779	7,353,088	7,602,629
Accumulated deficit	$ (12,872,724)	$ 8,761,242	$ (9,244,420
Total stockholders' deficit	$ (3,717,316)	$ 1,471,557	$ (1,627,640

6

RISK FACTORS

WE ARE SUBJECT TO VARIOUS RISKS THAT MAY MATERIALLY HARM OUR BUSINESS, FINANCIAL CONDITION AND RESULTS OF OPERATIONS. YOU SHOULD CAREFULLY CONSIDER THE RISKS AND UNCERTAINTIES DESCRIBED BELOW AND THE OTHER INFORMATION IN THIS FILING BEFORE DECIDING TO PURCHASE OUR COMMON STOCK. IF ANY OF THESE RISKS OR UNCERTAINTIES ACTUALLY OCCURS, OUR BUSINESS, FINANCIAL CONDITION OR OPERATING RESULTS COULD BE MATERIALLY HARMED. IN THAT CASE, THE TRADING PRICE OF OUR COMMON STOCK COULD DECLINE AND YOU COULD LOSE ALL OR PART OF YOUR INVESTMENT.

RISKS RELATING TO OUR BUSINESS

TRANSAX HAS BEEN THE SUBJECT OF A GOING CONCERN OPINION FROM ITS INDEPENDENT AUDITORS, WHICH MEANS THAT TRANSAX MAY NOT BE ABLE TO CONTINUE OPERATIONS UNLESS TRANSAX OBTAINS ADDITIONAL FUNDING

Our independent auditors have added a "going concern" statement to their audit report for fiscal years ended December 31, 2005 and 2004, which states that we will need additional working capital to be successful and to service our current debt for the coming year and, therefore, our continuation as a going concern is dependent upon obtaining the additional working capital necessary to accomplish our objectives. Our inability to obtain adequate financing will result in the need to curtail business operations and you could lose your entire investment. Our financial statements do not include any adjustments that might result from the outcome of this uncertainty.

Our management anticipates that we will incur net losses for the immediate future, and expect our operating expenses to increase significantly, and, as a result, we will need to generate monthly revenue if we are to continue as a going concern. To the extent that we do not generate revenue, that we do not obtain additional funding, that our stock price does not increase, and that we are unable to adjust operating expense levels accordingly, we may not have the ability to continue on as a going concern.

TRANSAX HAS A WORKING CAPITAL DEFICIT AND IF WE ARE UNABLE TO RAISE ADDITIONAL CAPITAL WE WILL NEED TO CURTAIL BUSINESS OPERATIONS

We had a working capital deficit of $2,068,956 and $3,858,138 at December 31, 2005 and June 30, 2006, respectively, and continue to need cash for operations. We have relied on significant external financing to fund our operations. As of June 30, 2006, we had $482,813 of cash on hand and total current assets were $1,085,530, and our total current liabilities were $4,943,668. We will need to raise additional capital to fund our anticipated operating expenses and future expansion. Among other things, external financing may be required to cover our operating costs. Unless we achieve profitable operations, it is unlikely that we will be able to secure additional financing from external sources. If we are unable to secure additional financing, we believe that we will not have sufficient funds to continue operations. We estimate that we will require $1,000,000 to $3,000,000 of financing to fund our anticipated operating expenses for the next twelve (12) months. The sale of our common stock to raise capital may cause dilution to our existing shareholders. Our inability to obtain adequate financing will result in the need to curtail business operations. Any of these events would be materially harmful to our business and may result in a lower stock price. Our inability to obtain adequate financing will result in the need to curtail business operations and you could lose your entire investment. Our financial statements do not include any adjustments that might result from the outcome of this uncertainty.

TRANSAX WILL REQUIRE ADDITIONAL FUNDING, AND FUTURE ACCESS TO CAPITAL IS UNCERTAIN AND TRANSAX MAY HAVE TO DELAY, REDUCE OR ELIMINATE CERTAIN BUSINESS OPERATIONS

It is expensive to develop and commercialize Health Information Management Products. Transax plans to continue to conduct research and development, which is costly. Transax's product development efforts may not lead to new commercial products, either because Transax's products fail to be found effective or because Transax lacks the necessary financial or other resources or relationships to pursue commercialization. Transax's capital and future revenues may not be sufficient to support the expenses of its business operations and the development of commercial infrastructure. Transax may need to raise additional capital to: (i) fund operations; (ii) continue the research and development of Health Information Management Products; and (iii) commercialize its products.

Management believes that the Standby Equity Distribution Agreement will provide some of the necessary capital. However, Transax may need additional financing within this time frame depending on a number of factors. Transax may not be able to obtain additional financing on favorable terms or at all. If Transax is unable to raise additional funds, Transax may have to delay, reduce or eliminate certain business operations. If Transax raises additional funds by issuing equity securities, further dilution to Transax's existing stockholders will result.

MEDLINK, A WHOLLY-OWNED SUBSIDIARY OF THE COMPANY, OWES TO THE BRAZILIAN GOVERNMENT MONEY FOR PAYROLL TAXES AND SOCIAL SECURITY TAXES. FAILURE TO PAY SUCH PAYROLL AND SOCIAL SECURITY TAXES TO THE BRAZILIAN AUTHORITIES

WHEN REQUIRED TO DO SO COULD RESULT IN LIABILITY

Since fiscal 2000, the Company has been deficient in the payment of Brazilian payroll taxes and social security taxes. At December 31, 2005, these deficiencies (including interest and fines) amounted to approximately $755,100.

This payroll liability is included as part of the accounts payable and accrued expenses (short-term and long-term) within the consolidated balance sheet.

During 2004 and 2005, the Company entered into a number of payment programs with the Brazilian authorities whereby the social security taxes due, Severance Fund Taxes due, plus other taxes and applicable penalties and interest will be repaid over periods of between eighteen (18) and sixty (60) months. At December 31, 2005, the Company's has negotiated approximately $546,400 of tax liabilities under these programs. The payment program requires the Company to pay a monthly fixed amount of the four taxes negotiated. Discussions are currently ongoing for the Company to enter into a similar payment plan for the remainder of the payroll tax liabilities. The Company made the first payment as per the plan in April 2004 and continues to make the required payments. However, there is no certainty that the Brazilian authorities will enter into a similar plan in the future.

TRANSAX MAY EXPERIENCE PRICE REDUCTIONS, REDUCED GROSS MARGINS AND LOSS OF MARKET SHARE IF TRANSAX IS UNABLE TO SUCCESSFULLY COMPETE

Competition for Transax's products and services is intense and is expected to increase. Increased competition could result in reductions in Transax's prices, gross margins and market share, and could have a material adverse effect on Transax's business, financial condition and results of operations. Transax competes with other providers of healthcare information software and services, as well as healthcare consulting firms. Some competitors may have formed business alliances with other competitors that may affect Transax's ability to work with some potential customers. In addition, if some of Transax's competitors merge, a stronger competitor may emerge. Some principal competitors include: Polimed, Connectmed and Salutia, major software information systems companies, including those specializing in the healthcare industry, may not presently offer competing products but may in the future enter Transax's market. Many of Transax's competitors and potential competitors have significantly greater financial, technical, product development, marketing and other resources, and market recognition than Transax has. Many of these competitors also have, or may develop or acquire, substantial installed customer bases in the healthcare industry. As a result of these factors, our competitors may be able to respond more quickly to new or emerging technologies, changes in customer requirements, and changes in the political, economic or regulatory environment in the healthcare industry. These competitors may be in a position to devote greater resources to the development, promotion and sale of their products than Transax can. Transax may not be able to compete successfully against current and future competitors, and such competitive pressures could materially adversely affect Transax's business, financial condition and operating results.

MARKET VOLATILITY MAY AFFECT TRANSAX'S STOCK PRICE, AND THE VALUE OF A SHAREHOLDER'S INVESTMENT IN TRANSAX'S COMMON STOCK MAY BE SUBJECT TO SUDDEN DECREASES

The trading price for the shares of common stock of Transax has been, and Transax expects it to continue to be, volatile. The price at which Transax's common stock trades depends on a number of factors, including the following, many of which are beyond Transax's control: (i) Transax's historical and anticipated operating results, including fluctuations in financial and operating results; (ii) the market perception of the prospects for health information management network solutions companies as an industry sector; (iii) general market and economic conditions; (iv) changes in government regulations affecting product approvals, reimbursement or other aspects of Transax's and/or competitors' businesses; (v) announcements of technological innovations or new commercial products by Transax or its competitors; (vi) developments concerning Transax's contractual relations with its executive officers, executive management and intellectual property rights; and (vii) announcements regarding significant collaborations or strategic alliances.

In addition, the stock market has from time to time experienced extreme price and volume fluctuations. These broad market fluctuations may lower the market price of Transax's common stock and affect the volume of trading in the stock. During periods of stock market price volatility, share prices of many health information management network solution companies have often fluctuated in a manner not necessarily related to their individual operating performance.

Accordingly, Transax's common stock may be subject to greater price volatility than the stock market as a whole.

THE HEALTHCARE INFORMATION MANAGEMENT AND TECHNOLOGY MARKET IS HIGHLY FRAGMENTED AND CHARACTERIZED BY ON-GOING TECHNOLOGICAL DEVELOPMENTS, EVOLVING INDUSTRY STANDARDS AND RAPID CHANGES IN CUSTOMER REQUIREMENTS AND TRANSAX MAY NOT SUCCESSFULLY, OR IN A TIMELY MANNER, DEVELOP, ACQUIRE, INTEGRATE, INTRODUCE OR MARKET NEW PRODUCTS OR PRODUCT ENHANCEMENTS

The healthcare information management and technology market is highly fragmented and characterized by on-going technological developments, evolving industry standards and rapid changes in customer requirements. Transax's success depends on its ability to timely and effectively: (i) offer a broad range of software products; (ii) enhance existing products and expand product offerings; (iii) respond promptly to new customer requirements and industry standards; (iv) remain compatible with popular operating systems and develop products that are compatible with the new or otherwise emerging operating systems; and (v) develop new interfaces with healthcare provider organizations to fully integrate Transax's products and services in order to maximize features and functionality.

Transax's performance depends in large part on its ability to provide the increasing functionality required by its customers through the timely development and successful introduction of new products and enhancements to existing products. Transax may not successfully, or in a timely manner, develop, acquire, integrate, introduce or market new products or product enhancements.

Product enhancements or new products developed by Transax may not meet the requirements of hospital or other healthcare providers or health insurance companies or achieve or sustain market acceptance. Transax's failure to either estimate accurately the resources and related expenses required for a project, or to complete its contractual obligations in a manner consistent with the project plan upon which a contract is based, could have a material adverse effect on Transax's business, financial condition, and results of operations. In addition, Transax's failure to meet a customer's expectations in the performance of its services and products could damage Transax's reputation and adversely affect its ability to attract new business.

FAILURE TO ACCURATELY ASSESS, PROCESS OR COLLECT HEALTHCARE CLAIMS OR ADMINISTER CONTRACTS COULD SUBJECT TRANSAX TO COSTLY LITIGATION AND FORCE TRANSAX TO MAKE COSTLY CHANGES TO PRODUCTS

It is anticipated that some of Transax's products and services will be used in the payment, collection, coding and billing of healthcare claims and the administration of managed care contracts. If Transax's products and services fail to accurately assess, possess or collect these claims, customers could file claims against Transax. As of the date of this Prospectus, Transax does not carry insurance coverage to cover such claims or, if it does carry such insurance coverage in the future, such insurance coverage may not be adequate to cover such claims. A successful claim that is not covered by or is in excess of insurance coverage could adversely affect Transax's business, financial condition, and results of operations. Even a claim without merit could result in significant legal defense costs and could consume management time and resources.

In addition, claims could increase insurance premiums such that appropriate insurance cannot be found at commercially reasonable rates. Furthermore, if Transax were found liable, Transax may have to significantly alter one or more of its products, possibly resulting in additional unanticipated research and development expenses.

THE NATURE OF OUR PRODUCTS MAKES OUR COMPANY VULNERABLE TO UNDETECTED ERRORS THAT COULD REDUCE REVENUES, MARKET SHARE OR DEMAND

Health Information Management Products may contain errors or failures, especially when initially introduced or when new versions are released. Although Transax conducts extensive testing of its products and services, software errors could be discovered in certain enhancements and products after their introduction. Despite such testing by Transax and by its current and potential customers, products under development, enhancements or shipped products may contain errors or performance failures resulting in, among other things: (i) loss of customers and revenue; (ii) delay in market acceptance; (iii) diversion of resources; (iv) damage to Transax's reputation; or (v) increased service costs. Any of these consequences could have a material adverse effect on Transax's business, financial condition and results of operations.

TRANSAX MAY BE REQUIRED TO MAKE SUBSTANTIAL CHANGES TO ITS PRODUCTS IF THEY BECOME SUBJECT TO GOVERNMENTAL REGULATION

None of Transax's Health Information Management Products are subject to regulation by the United States' federal government. Computer products used or intended for use in the diagnosis, cure, mitigation, treatment or prevention of disease or other conditions or that affect the structure or function of the body are subject to regulation by the U.S. Department of Health. In the future, however, the U.S. Department of Health could determine that some of Transax's products (because of their predictive aspects) may be clinical decision tools and subject them to regulation. Compliance with U.S. Department of Health regulations such as HIPPA could be burdensome, time consuming and expensive.

Other new laws and regulations affecting healthcare software development and marketing could also be enacted in the future. If so, it is possible that Transax's costs and the length of time for product development and marketing could increase and that other unforeseeable consequences could arise.

GOVERNMENT REGULATION OF CONFIDENTIALITY OF PATIENT HEALTH INFORMATION COULD RESULT IN REQUIRED PRODUCT MODIFICATIONS WHICH WOULD REQUIRE SIGNIFICANT EXPENDITURE OF CAPITAL RESOURCES

There is substantial U.S. federal and state and foreign regulation of confidentiality of patient health information and the circumstances under which such information may be used by, disclosed to or processed by Transax as a consequence of any contracts with various health care providers or insurance companies. Although compliance with these laws and regulations is presently the principal responsibility of the hospital, physician or other healthcare provider, regulations governing patient confidentiality rights are dynamic and rapidly evolving. Changes may be made which would require Transax to change its products and systems and methods which could require significant expenditures of capital and decrease future business prospects. Additional federal and state legislation governing the dissemination of individually identifiable information have been proposed in the United States and may be adopted, which may also significantly affect Transax's business.

GOVERNMENT REGULATION OF HEALTHCARE INFORMATION DELIVERY SYSTEMS MAY AFFECT HEALTHCARE PROVIDERS' DECISIONS WHICH COULD RESULT IN UNPLANNED PRODUCT ENHANCEMENTS, DELAYS, OR CANCELLATIONS OF PRODUCT ORDERS OR SHIPMENTS, OR REDUCE THE NEED FOR CERTAIN SYSTEMS

During the past several years, the healthcare industry within the United States and other countries has been subject to changing political, economic and regulatory influences and to increasing levels of governmental regulation. Certain proposals to reform the U.S. healthcare systems have been and are being considered by Congress. These proposals, if enacted, could change the operating environment for any of Transax's customers within the United States that could have a negative impact on Transax's business, financial condition and results of operations. However, the U.S. federal government recently mandated the use of electronic transmissions for large Medicare providers, which may positively affect the marketability of Transax's products in the U.S. Transax is unable to predict what, if any, changes will occur.

Changes in current healthcare financing, reimbursement systems and procurement practices could result in unplanned product enhancements, delays, or cancellations of product orders or shipments, or reduce the need for certain systems. A portion of Transax's revenues is expected to be derived from sales of its Health Information Management Products to hospitals in the United States.

Consolidation in the healthcare industry, particularly in the hospital and managed care markets, could decrease the number of potential purchasers of Transax's Health Information Management Products and adversely affect Transax's business. In addition, the decision to purchase such products generally involves a committee approval. Consequently, it is difficult for Transax to predict the timing or outcome of the buying decisions of Transax's potential customers.

THERE ARE POLITICAL AND ECONOMIC RISKS IN FOREIGN MARKETPLACES WHICH COULD AFFECT THE OPERATIONS OF TRANSAX

As of the date of this Prospectus, the Health Information Management Products are sold by Transax principally in Brazil. Transax intends to enter the global marketplace which includes, but is not limited to, the marketplaces within the United States, Australia, South America and Europe. During the fiscal year ended December 31, 2005 and 2004, international sales accounted for one hundred percent (100%) of Transax's total revenue. As a result, Transax faces certain risks associated with international sales. International sales may be subject to political, economic, legal and other uncertainties occurring within these countries. Changes in policies by the respective governments may result in changes in laws, regulations or the interpretation thereof, confiscatory taxation, restrictions on imports and sources of supply, import duties, corruption, economic reforms, and currency revaluation, all of which may materially and adversely affect Transax. The continuation or increase of any such disparities could affect the political and social stability of the country, and thus the operations of Transax. Moreover, future controversies could arise which would threaten trade relations between the United States and the respective country. In any of such eventualities, the business of Transax could be adversely affected.

TRANSAX MAY FACE SCRUTINY FROM GOVERNMENTAL AGENCIES

As a result of the rising healthcare costs, U.S. federal and state governments and foreign governments have placed an increased emphasis on detecting and eliminating fraud and abuse in healthcare programs. Numerous laws and regulations now exist within the U.S. and other foreign countries to prevent fraudulent or abusive billing, to protect patients' privacy rights, and to ensure patients' access to healthcare. Violation of the laws or regulations governing Transax's operations could result in the imposition of civil or criminal penalties, including temporary or permanent exclusion from participation in government healthcare programs, such as Medicare and Medicaid in the U.S., the cancellation of any contracts with Transax to provide managed care services, and the suspension or revocation of any of Transax's governmental licenses. Transax intends to conduct routine internal audits in an effort to ensure compliance with all applicable laws and regulations. If errors, discrepancies or violations of laws are discovered in the course of these internal audits or otherwise, Transax may be required by law to disclose the relevant facts, once known, to the appropriate authorities.

THE INABILITY TO PROTECT INTELLECTUAL PROPERTY COULD LEAD TO UNAUTHORIZED USE OF TRANSAX'S PRODUCTS

Transax relies on a combination of trade secrets, copyright and trademark laws, nondisclosure, non-compete and other contractual provisions to protect its proprietary rights. Measures taken by Transax to protect its intellectual property may not be adequate, and its competitors could independently develop products and services that are substantially equivalent or superior to Transax's products and services. Any infringement or misappropriation of Transax's proprietary software and databases could put Transax at a competitive disadvantage in a highly competitive market and could cause Transax to lose revenues, incur substantial litigation expense, and divert management's attention from other operations. Intellectual property litigation is increasingly common in the software industry. Therefore, the risk of an infringement claim against Transax may increase over time as the number of competitors in the industry segment grows and the functionality of products overlaps. Third parties could asset infringement claims against Transax in the future. Regardless of the merits, Transax could incur substantial litigation expenses in defending any such asserted claim. In the event of an unfavorable ruling on any such claim, such an infringement may result in significant monetary liabilities that could have a material adverse effect on the business.

In the event of an unfavorable ruling on any such claim, a license or similar agreement may also not be available to use on reasonable terms, if at all.

Transax may not be successful in the defense of these or similar claims.

TRANSAX IS DEPENDENT UPON THE LICENSE AGREEMENT TO FURTHER DEVELOP AND COMMERCIALIZE ITS PRODUCTS EFFECTIVELY OR AT ALL

To further develop and successfully commercialize the Health Information Management Products and related services, Transax and Medlink entered into a license agreement (the "License Agreement") to carry out development and commercialization of the MedLink Solution within Brazil. Under the terms of the License Agreement, Transax will receive certain royalties once its subsidiary in Brazil has entered cash flow status.

The risks associated with the License Agreement include, but are not limited to, the following: (i) Medlink may not apply the expected resources or required expertise in developing the MedLink Solution resources and systems or other systems necessary to successfully commercialize the MedLink Solution products; and (ii) disputes may arise between Transax and Medlink that delay the commercialization of the MedLink Solution or adversely affect its sales or profitability. Transax's success will depend on the successful introduction and marketing of the MedLink Solution and other products which, in turn, is dependent on the continued existence of favorable contractual relations with Medlink. Transax's business operations may be materially affected in the event Medlink fails to honor the terms and provisions of License Agreement.

11

FAILURE TO RETAIN KEY PERSONNEL COULD IMPEDE TRANSAX'S ABILITY TO COMMERCIALIZE ITS PRODUCTS, MAINTAIN THE LICENSE AGREEMENT OR OBTAIN SOURCES OF FUNDS

Transax depends, to a significant extent, on the efforts of Mr. Stephen Walters, our President, Chief Executive Officer and a director, and on the efforts of its research and development personnel. The development of Health Information Management Products requires expertise from a number of different disciplines, some of which are not widely available. The quality and reputation of Transax's research and development personnel, including its executive officers, and their success in performing their responsibilities, may directly influence the success of Transax. In addition, Mr. Walters is involved in a broad range of critical activities, including providing strategic and operational guidance. The loss of Mr. Walters, or Transax's inability to retain or recruit other key management and research and development personnel, may delay or prevent Transax from achieving its business objectives. Transax faces intense competition for personnel from other companies, public and private research institutions, government entities and other organizations. Transax does not employ management on a full-time or part-time basis and does not have a written employment agreement with Mr. Walters. In addition, Transax does not maintain any key man life insurance policies on Mr. Walters.

RISKS RELATED TO THIS OFFERING

FUTURE SALES BY OUR STOCKHOLDERS MAY ADVERSELY AFFECT OUR STOCK PRICE AND OUR ABILITY TO RAISE FUNDS IN NEW STOCK OFFERINGS

Sales of our common stock in the public market following this offering could lower the market price of our common stock. Sales may also make it more difficult for us to sell equity securities or equity-related securities in the future at a time and price that our management deems acceptable or at all. Of the 31,980,726 shares of common stock outstanding as of October 4, 2006, 11,465,112 shares are, or will be, freely tradable without restriction, unless held by our "affiliates". The remaining 20,515,614 shares of common stock which will be held by existing stockholders, including the officers and directors, are "restricted securities" and may be resold in the public market only if registered or pursuant to an exemption from registration. Some of these shares may be resold under Rule 144. In addition, we shall issue 3,171,429 shares underlying the Debenture, up to 5,400,000 shares underlying warrants (including the SHG Warrant and the Warrants) and up to 25,000,000 shares pursuant to the Investment Agreement with Cornell Capital Partners.

THE SELLING STOCKHOLDERS INTEND TO SELL THEIR SHARES OF COMMON STOCK IN THE MARKET, WHICH SALES MAY CAUSE OUR STOCK PRICE TO DECLINE

The selling stockholders intend to sell in the public market 33,631,429 shares of common stock being registered in this offering. That means that up to 33,631,429 shares may be sold pursuant to this Registration Statement. Such sales may cause our stock price to decline. The officers and directors of Transax and those shareholders who are significant shareholders as defined by the SEC will continue to be subject to the provisions of various insider trading and rule 144 regulations.

THE PRICE YOU PAY IN THIS OFFERING WILL FLUCTUATE AND MAY BE HIGHER OR LOWER THAN THE PRICES PAID BY OTHER PEOPLE PARTICIPATING IN THIS OFFERING

The price in this offering will fluctuate based on the prevailing market price of the common stock on the Over-the-Counter Bulletin Board.

Accordingly, the price you pay in this offering may be higher or lower than the prices paid by other people participating in this offering.

THERE ARE A LARGE NUMBER OF SHARES UNDERLYING OUR SERIES A PREFERRED SHARES THAT MAY BE AVAILABLE FOR FUTURE SALE AND THE SALE OF THESE SHARES MAY DEPRESS THE MARKET PRICE OF OUR COMMON STOCK

As of October 4, 2006, we had 31,980,726 shares of common stock issued and outstanding and 16,000 Series A Preferred Shares outstanding. In addition, the number of shares of common stock issuable upon conversion of the outstanding Series A Preferred Shares may increase if the market price of our stock declines. All of the shares, including all of the shares issuable upon conversion of the Series A Preferred Shares, may be sold without restriction. The sale of these shares may adversely affect the market price of our common stock.

THE CONTINUOUSLY ADJUSTABLE CONVERSION PRICE FEATURE OF OUR SERIES A PREFERRED SHARES COULD REQUIRE US TO ISSUE A SUBSTANTIALLY GREATER NUMBER OF SHARES, WHICH WILL CAUSE DILUTION TO OUR EXISTING STOCKHOLDERS

The number of shares of common stock issuable upon conversion of our Series A Preferred Shares will increase if the market price of our stock declines, which will cause dilution to our existing stockholders. Our obligation to issue shares upon conversion of our Series A Preferred Shares is essentially limitless if the trading price per common share declines towards zero as the number of Series A Preferred Shares convertible into common stock is based on the trading price per common share of our Company.

THE CONTINUOUSLY ADJUSTABLE CONVERSION PRICE FEATURE OF OUR SERIES A PREFERRED SHARES MAY ENCOURAGE INVESTORS TO MAKE SHORT SALES IN OUR COMMON STOCK, WHICH COULD HAVE A DEPRESSIVE EFFECT ON THE PRICE OF OUR COMMON STOCK

The Series A Preferred Shares are convertible into common stock at any time by dividing the dollar amount being converted by the lower of $0.192 or eighty percent (80%) of the lowest daily volume weighted average of the Company's common stock, as determined by price quotations from Bloomberg, LP, during the ten (10) trading days immediately preceding the date of conversion.

The significant downward pressure on the price of the common stock as the selling stockholder converts and sells material amounts of common stock could encourage short sales by investors. This could place further downward pressure on the price of the common stock. In addition, not only the sale of shares issued upon conversion of preferred stock, but also the mere perception that these sales could occur, may adversely affect the market price of the common stock.

THE HOLDER OF THE DEBENTURE HAS THE OPTION OF CONVERTING THE PRINCIPAL OUTSTANDING UNDER THE DEBENTURE INTO SHARES OF OUR COMMON STOCK. IF THE HOLDER CONVERTS THE DEBENTURE, THERE WILL BE DILUTION OF YOUR SHARES OF OUR COMMON STOCK

The conversion of the Debenture will result in dilution to the interests of other holders of our common stock since the holder may ultimately convert the full amount of the Debenture and sell all of these shares into the public market.

The following table sets forth the number and percentage of shares of our common stock that would be issuable if the holder of the Debenture converted at conversion prices of $0.25, $0.20, $0.15, $0.10 and $0.05 (the conversion price shall be equal to the lesser of (i) one hundred twenty percent (120%) of the closing bid price of the Company's common stock on April 1, 2005 and (ii) eighty percent (80%) of the lowest closing bid price of the common stock for five (5) trading days immediately preceding the conversion date):

CONVERSION PRICE	NUMBER OF SHARES ISSUABLE ON CONVERSION OF DEBENTURE(1)	PERCENTAGE OF ISSUED AND OUTSTANDING(2)
$0.25	1,000,000	3.13%
$0.20	1,250,000	3.91%
$0.15	1,666,667	5.21%
$0.10	2,500,000	7.82%
$0.05	5,000,000	15.69%

----

(1) Represents the number of shares issuable if the principal amount of the Debenture was converted at the corresponding conversion price.

(2) Represents the percentage of the total outstanding common stock that the shares issuable on conversion of the Debenture without regard to any contractual or other restriction on the number of securities the stockholder may own at any point in time (including a 4.99% ownership limitation set forth in the Debenture). Based on 31,980,726 shares issued and outstanding on October 4, 2006.

OUR COMMON STOCK IS SUBJECT TO THE "PENNY STOCK" RULES OF THE SEC AND THE TRADING MARKET IN OUR SECURITIES IS LIMITED, WHICH MAKES TRANSACTIONS IN OUR STOCK CUMBERSOME AND MAY REDUCE THE VALUE OF AN INVESTMENT IN OUR STOCK

The SEC has adopted Rule 15g-9 which establishes the definition of a "penny stock", for the purposes relevant to us, as any equity security that has a market price of less than $5.00 per share or with an exercise price of less than $5.00 per share, subject to certain exceptions. For any transaction involving a penny stock, unless exempt, the rules require:

- o that a broker or dealer approve a person's account for transactions in penny stocks; and
- o the broker or dealer receive from the investor a written agreement to the transaction, setting forth the identity and quantity of the penny stock to be purchased.

In order to approve a person's account for transactions in penny stocks, the broker or dealer must:

- o obtain financial information and investment experience objectives of the person; and

- make a reasonable determination that the transactions in penny stocks are suitable for that person and the person has sufficient knowledge and experience in financial matters to be capable of evaluating the risks of transactions in penny stocks.

The broker or dealer must also deliver, prior to any transaction in a penny stock, a disclosure schedule prescribed by the SEC relating to the penny stock market, which, in highlight form:

- sets forth the basis on which the broker or dealer made the suitability determination; and

- that the broker or dealer received a signed, written agreement from the investor prior to the transaction.

Generally, brokers may be less willing to execute transactions in securities subject to the "penny stock" rules. This may make it more difficult for investors to dispose of our common stock and cause a decline in the market value of our stock.

Disclosure also has to be made about the risks of investing in penny stocks in both public offerings and in secondary trading and about the commissions payable to both the broker-dealer and the registered representative, current quotations for the securities and the rights and remedies available to an investor in cases of fraud in penny stock transactions. Finally, monthly statements have to be sent disclosing recent price information for the penny stock held in the account and information on the limited market in penny stocks.

HISTORICAL DEFICIENCIES IN THE EFFECTIVENESS OF OUR DISCLOSURE CONTROLS AND PROCEDURES MAY POSE A MATERIAL RISK TO INVESTORS

On July 6, 2006, we announced that we were restating our Consolidated Balance Sheets at June 30, 2005, September 30, 2005, December 31, 2005 and March 31, 2006 and our Consolidated Statements of Operations and Statements of Stockholders' Deficit as of and for the year ended December 31, 2005 and for the periods ended June 30, 2005, September 30, 2005 and March 31, 2006 to properly reflect an embedded derivative conversion liability related to our debenture payable. The change in presentation of the Company's embedded derivative feature associated with its debenture payable had the effect of increasing assets by $19,131, increasing liabilities by $208,117, increasing the stockholders' deficit by $188,986 as of March 31, 2006, and increasing the Company's net loss by $30,038 for the three (3) months ended March 31, 2006. This change in presentation of the Company's embedded derivative feature affected some of the items within the Company's consolidated statement of cash flows for the three (3) months ended March 31, 2006 but did not impact cash at the end of the year.

As a result of the restatement of our Consolidated Balance Sheet, Consolidated Statement of operations and the Consolidated Statements of Stockholders' Deficit, our management determined that there had been a significant deficiency in our internal control over financial reporting as of December 31, 2005 and March 31, 2006 related to the presentation of derivative liabilities.. Although management believes that the Company has corrected our presentation and recording of the derivative liabilities and have determined that such significant deficiency did not rise to the level of a material weakness in our internal control over financial reporting, a material risk to investors may exist due to the fact that recent changes have been made to our disclosure controls and procedures to address such significant deficiencies.

We have implemented additional measures as part of changes to our internal controls to determine and ensure that information required to be disclosed in reports filed under the exchange Act was recorded, processed, summarized and reported within the time periods specified in the rules and forms including, but not limited to, the following: (i) documentation of processes, performing testing and reviewing our internal control over financial reporting in connection with our assessment under Section 404 of the Sarbanes-Oxley Act; (ii) evaluation and implementation of improvements to our accounting and management information systems; and (iii) development and implementation of a remediation plan to address any perceived deficiencies identified in our internal control over financial reporting. The costs of these additional measures did not have a material impact on our future results or operations liquidity.

Our management, including our CEO and CFO, do not expect that our disclosure controls and internal controls will prevent all errors and all fraud. A control system, no matter how well conceived and operated, can provide only reasonable, not absolute, assurance that the objectives of the control system are met. Our disclosure controls and procedures are designed to provide reasonable assurance of achieving our objectives and our certifying officers have concluded that our disclosure controls and procedures are effective at a reasonable assurance level as of June 30, 2006.

SELLING STOCKHOLDERS

The following table presents information regarding the selling stockholders. The selling shareholders are the entities who have assisted in or provided financing to Transax. A description of each selling shareholder's relationship to Transax and how each selling shareholder acquired the shares to be sold in this offering is detailed in the information immediately following this table.

Selling Stockholder	Shares Beneficially Owned Before Offering	Percentage of Outstanding Shares Beneficially Owned Before Offering	Shares to be Acquired Pursuant to the Cornell Offering(1)	Percentage of Shares to be Acquired Pursuant to the Cornell Offering(1)	Sh So
	SHARES ACQUIRED IN FINANCING TRANSACTIONS WITH TRANSAX				
Cornell Capital Partners, LP	1,052,246(3)	3.03%	30,000,000	48.40%	30
Scott and Heather Grimes - Joint Tenants with Rights of Survivorship	3,571,429(5)	11.17%	--	--	3
TOTAL	4,623,675	14.02%	30,000,000	48.40%	33

----

* Less than one percent (1%).

(1) Applicable percentage of ownership is based on 31,980,726 shares of common stock outstanding as of October 4, 2006, together with securities exercisable or convertible into shares of common stock within sixty (60) days of October 2, 2006, for each stockholder. Beneficial ownership is determined in accordance with the rules of the SEC and generally includes voting or investment power with respect to securities. Shares of common stock subject to securities exercisable or convertible into shares of common stock that are currently exercisable or exercisable within sixty

(60) days of October 2, 2006 are deemed to be beneficially owned by the person holding such securities for the purpose of computing the percentage of ownership of such person, but are not treated as outstanding for the purpose of computing the percentage ownership of any other person. Note that affiliates are subject to Rule 144 and Insider trading regulations - percentage computation is for form purposes only.

(2) Includes the 5,000,000 shares which may be issued upon the exercise of the Warrants, 3,171,429 shares underlying the Debenture and 400,000 shares underlying the SHG Warrant.

(3) Consists of 60,000 shares of common stock and 992,246 shares of common stock issuable upon conversion of Series A Preferred Shares. For purposes of calculating Cornell Capital Partners' beneficial ownership, this figure does not include 29,007,754 shares registered on behalf of this person, as follows: (i) 24,007,754 shares issuable upon conversion of the Series A Preferred Shares and (ii) 5,000,000 shares issuable upon exercise of the Warrants. Pursuant to provisions in the Investment Agreement and the warrants, Cornell Capital Partners does not have the right to acquire within sixty (60) days, through the conversion of the Series A Preferred Shares or through the exercise of the warrants such number of shares which after giving effect to such exercise or conversion would cause the aggregate number of shares beneficially owned by Cornell Capital Partners and its affiliates to exceed 4.99% of the total outstanding shares of the Company. As a result of this limitation on its percentage beneficial ownership, we do not consider Cornell Capital Partners to be an affiliate.

(4) Includes 60,000 shares which were received as a commitment fee under a now terminated Standby Equity Distribution Agreement.

(5) Consists of 3,171,429 shares of common stock underlying the Debenture and 400,000 shares underlying the SHG Warrant.

The following information contains a description of each selling shareholder's relationship to Transax and how each selling shareholder acquired the shares to be sold in this offering is detailed below. None of the selling stockholders have held a position or office, or had any other material relationship, with Transax, except as follows:

SHARES ACQUIRED IN FINANCING TRANSACTIONS WITH TRANSAX

CORNELL CAPITAL PARTNERS, LP (CORNELL CAPITAL PARTNERS). Cornell Capital Partners is the investor under the Investment Agreement. All investment decisions of, and control of, Cornell Capital Partners are held by its general partner, Yorkville Advisors, LLC. Mark Angelo, the managing member of Yorkville Advisors, makes the investment decisions on behalf of and controls Yorkville Advisors. Cornell Capital Partners acquired all shares being registered in this offering in a financing transaction with Transax. The transaction is explained below:

o THE INVESTMENT AGREEMENT. On January 13, 2006, Transax entered into an Investment Agreement with Cornell Capital Partners (Cornell Capital Partners and the Company are collectively referred to herein as the "Parties"), pursuant to which the Company sold to Cornell Capital Partners up to 16,000 Series A Preferred Shares, no par value per share, which shall be convertible, at Cornell Capital Partners' discretion, into shares of the Company's common stock, par value $0.00001 per share, for a total price of up to $1,600,000. The Series A Preferred Shares are senior to all common stock and all series of preferred stock of the Company. The holders of Series A Preferred Shares are entitled to receive dividends or distribution on a pro rata basis in the amount of seven percent (7%) per year. Dividends shall be paid in cash and shall be cumulative.

Each share of Series A Preferred Shares may be converted into shares of the Company's common stock equal to the sum of the Liquidation Amount, defined as an amount equal to $100 per share of Series A Preferred Shares, plus accrued but unpaid dividends thereon, divided by the Conversion Price. The Conversion Price is defined to be equal to the lower of (i) $0.192 or (ii) eighty percent (80%) of the lowest daily volume weighted average price of the Company's common stock, as determined by price quotations from Bloomberg, LP, during the ten (10) trading days immediately preceding the date of conversion. Of the 16,000 Series A Preferred Shares to be sold to Cornell Capital Partners, 8,000 Series A Preferred Shares equal a purchase price of $800,000, which consists of $255,237 from the surrender of the Promissory Note (as described below) and $544,763 consisting of new funding. The Company completed the Closing (as such term is defined in the Investment Agreement) by issuing to Cornell Capital Partners the remaining 8,000 Series A Preferred Shares for a purchase price equal to $800,000 on May 8, 2006, prior to the date that the Registration Statement (which this Prospectus is made part) was initially filed with the SEC.

In connection with the Investment Agreement, the Company and Cornell Capital Partners 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 the Company files its Annual Report on Form 10-KSB for the year ended December 31, 2005 (the "Filing Deadline") or is not declared effective by the SEC within ninety (90) days of the date of the IRRA (the "Effective Deadline"), or if after the Registration Statement has been declared effective by the SEC, sales cannot be made pursuant to the Registration Statement, then as relief for the damages to any holder of Registrable Securities (as defined in the IRRA) by reason of any such delay in or reduction of its ability to sell the underlying shares of common stock (which remedy shall not be exclusive of any other remedies at law or in equity), the Company will pay as liquidated damages to the holder, at the holder's option, either a cash amount or shares of the Company's common stock equal to two percent (2%) of the Liquidation Amount (as defined above) outstanding as liquidated damages for each thirty (30) day period or any part thereof after the Filing Deadline or the Effective Deadline as the case may be. Any liquidated damages payable hereunder shall not limit, prohibit or preclude the holder from seeking any other remedy available to it under contract, at law or in equity. The Company shall pay liquidated damages hereunder within three (3) business days of the holder making written demand. It shall also become an event of default under the IRRA if the Registration Statement is not declared effective by the SEC within one-hundred twenty (120) days from the date of the IRRA. The Company initially filed its Registration Statement (of which this Prospectus is made a part) with the SEC on May 9, 2006.

In connection with the sale of the Series A Preferred Shares, on January 13, 2006, Cornell Capital Partners surrendered the Promissory Note issued by the Company to Cornell Capital Partners on May 17, 2005, in the principal amount of $255,237, in exchange of $255,237 of Series A Preferred Shares. As of January 13, 2006, the full amount outstanding under the Promissory Note was $255,237, plus accrued and unpaid interest of zero dollars ($0). As a result, the Promissory Note was retired and cancelled. The Parties also terminated the Securities Purchase Agreement and the Investor Registration Rights Agreement, each dated as of October 25, 2004, as well as the Pledge and Escrow Agreements, each dated as of October 21, 2004, that were entered into by the Parties in connection with the issuance of the Promissory Note.

o WARRANTS. On January 13, 2006, the Company issued to Cornell Capital

Partners two (2) Warrants to purchase up to 5,000,000 shares of the Company's common stock. The first Warrant issued to Cornell Capital Partners for 2,500,000 shares of common stock at an exercise price of $0.30, shall terminate after the five (5) year anniversary of the date of issuance. The second warrant issued to Cornell Capital Partners for 2,500,000 shares of common stock at exercise price of $0.20, shall terminate after the five (5) year anniversary of the date of issuance.

o SCOTT AND HEATHER GRIMES - JOINT TENANTS WITH RIGHTS OF SURVIVORSHIP (INVESTOR). Investor is the holder of the convertible Debentures. Investor acquired all shares being registered in this offering in a financing transaction with Transax. This transaction is explained below:

o CONVERTIBLE DEBENTURES. On April 1, 2005, Company entered into a Securities Purchase Agreement with Investor. Pursuant to the Securities Purchase Agreement, the Company issued the convertible Debenture to Investor in the original principal amount of $250,000.

The Debenture is convertible at the holder's option any time up to maturity at a conversion price equal to the lower of: (i) one hundred twenty percent (120%) of the closing bid price of the common stock on the date of the Debenture or (ii) eighty percent (80%) of the lowest closing bid price of the Company's common stock for the five (5) trading days immediately preceding the conversion date. The Debenture has a two (2) year term and accrues interest at five percent (5%) per year. At maturity, the Debentures will automatically convert into shares of common stock at a conversion price equal to the lower of: (i) 120% of the closing bid price of the Company's common stock on the date of the Debentures or (ii) eighty percent (80%) of the lowest closing bid price of the common stock for five (5) trading days immediately preceding the conversion date. On July 17, 2006, the Investor converted $15,000 of the Debenture into 104,167 shares of common stock. The Company is registering 3,171,429 shares of its common stock underlying the conversion of the Debenture in this offering.

o SHG WARRANT. On February 1, 2006, the Company and the Investor mutually agreed to extend the term of the Debenture through December 1, 2007. In addition, the Company issued the SHG Warrant to purchase 400,000 shares of the Company's common stock. The SHG Warrant has a term of two (2) years and is exercisable at $0.20 per share. The Company is registering 400,000 shares underlying the SHG Warrant.

USE OF PROCEEDS

This Prospectus relates to shares of our common stock that may be offered and sold from time to time by certain selling stockholders. Therefore, there will be no proceeds to us from the sale of shares of common stock in this offering.

PLAN OF DISTRIBUTION

The selling stockholders have advised us that the sale or distribution of our common stock owned by the selling stockholders may be effected directly to purchasers by the selling stockholders as principals or through one (1) or more underwriters, brokers, dealers or agents from time to time in one (1) or more transactions (which may involve crosses or block transactions); (i) on the over-the-counter market or in any other market on which the price of our shares of common stock are quoted or (ii) in transactions otherwise than on the over-the-counter market or in any other market on which the price of our shares of common stock are quoted. Any of such transactions may be effected at market prices prevailing at the time of sale, at prices related to such prevailing market prices, at varying prices determined at the time of sale or at negotiated or fixed prices, in each case as determined by the selling stockholders or by agreement between the selling stockholders and underwriters, brokers, dealers or agents or purchasers. If the selling stockholders effect such transactions by selling their shares of common stock to or through underwriters, brokers, dealers or agents, such underwriters, brokers, dealers or agents may receive compensation in the form of discounts, concessions or commissions from the selling stockholders or commissions from purchasers of common stock for whom they may act as agent (which discounts, concessions or commissions as to particular underwriters, brokers, dealers or agents may be in excess of those customary in the types of transactions involved).

On January 13, 2006, Transax entered into an Investment Agreement with Cornell Capital Partners (Cornell Capital Partners and the Company are also collectively referred to herein as the "Parties"), pursuant to which the Company sold to Cornell Capital Partners up to 16,000 of Series A Preferred Shares, no par value per share which shall be convertible, at Cornell Capital Partners' discretion, into shares of the Company's common stock, for a total price of up to $1,600,000. The Series A Preferred Shares are senior to all common stock and all series of preferred stock of the Company. The holders of Series A Preferred Shares are entitled to receive dividends or distribution on a pro rata basis in the amount of seven percent (7%) per year. Dividends shall be paid in cash and shall be cumulative. Each share of Series A Preferred Shares may be converted into shares of the Company's common stock equal to the sum of the Liquidation Amount, defined as an amount equal to $100 per share of Series A Preferred Shares, plus accrued but unpaid dividends thereon, divided by the Conversion Price. The Conversion Price is defined to be equal to the lower of (i) $0.192 or (ii) eighty percent (80%) of the lowest daily volume weighted average price of the Company's common stock, as determined by price quotations from Bloomberg, LP, during the ten (10) trading days immediately preceding the date of conversion. Of the 16,000 Series A Preferred Shares sold to Cornell Capital Partners, 8,000 Series A Preferred Shares equal a purchase price of $800,000, which consists of $255,237 from the surrender of the Promissory Note (as described below) and $544,763 consisting of new funding. The Company completed the Closing (as such term is defined in the Investment Agreement) by issuing to Cornell Capital Partners the remaining 8,000 Series A Preferred Shares for a purchase price equal to $800,000 on May 7, 2006, prior to the date that the Registration Statement (of which this Prospectus is made a part) was initially filed with the SEC.

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 the Company files its Annual Report on Form 10-KSB for the year ended December 31, 2005 (the "Filing Deadline") or is not declared effective by the SEC within ninety (90) days of the date of the IRRA (the "Effective Deadline"), or if after the Registration Statement has been declared effective by the SEC, sales cannot be made pursuant to the Registration Statement, then as relief for the damages to any holder of Registrable Securities 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), the Company will pay as liquidated damages to the holder, at the holder's option, either a cash amount or shares of the Company's common stock equal to two percent (2%) of the Liquidation Amount (as defined above) outstanding as liquidated damages for each thirty (30) day period or any part thereof after the Filing Deadline or the Effective Deadline as the case may be. Any liquidated damages payable hereunder shall not limit, prohibit or preclude the holder from seeking any other remedy available to it under contract, at law or in equity. The Company shall pay liquidated damages hereunder within three (3) business days of the holder making written demand. It shall also become an event of default under the IRRA if the Registration Statement is not declared effective by the SEC within one-hundred twenty (120) days from the date of the IRRA. The Company initially filed its Registration Statement (of which this Prospectus is made a part) with the SEC on May 9, 2006.

In connection with the sale of the Series A Preferred Shares, on January 13, 2006, Cornell Capital Partners surrendered the Promissory Note issued by the Company to Cornell Capital Partners on May 17, 2005, in the principal amount of $255,237, in exchange of $255,237 of Series A Preferred Shares. As of January 13, 2006, the full amount outstanding under the Promissory Note was $255,237, plus accrued and unpaid interest of zero dollars ($0). As a result, the Promissory Note was retired and canceled. The Parties also agreed to terminate the Securities Purchase Agreement and the Investor Registration Rights Agreement, each dated as of October 25, 2004, as well as the Pledge and Escrow Agreements, each dated as of October 21, 2004, that were entered into by the Parties in connection with the issuance of the Promissory Note.

On January 13, 2006, the Company also issued to Cornell Capital Partners the Warrants to purchase up to 5,000,000 shares of common stock. The first Warrant issued to Cornell Capital Partners for 2,500,000 shares of common stock, at an exercise price of $0.30, shall terminate after the five (5) year anniversary of the date of issuance. The second Warrant issued to Cornell Capital Partners was 2,500,000 shares of common stock, at exercise price of $0.20, shall terminate after the five (5) year anniversary of the date of issuance.

Cornell Capital Partners was formed in February 2000 as a Delaware limited partnership. Cornell Capital Partners is a domestic hedge fund in the business of investing in and financing public companies. Cornell Capital Partners does not intend to make a market in our stock or to otherwise engage in stabilizing or other transactions intended to help support the stock price.

Prospective investors should take these factors into consideration before purchasing our common stock.

On April 1, 2005, Company entered into the Securities Purchase Agreement with Scott and Heather Grimes, Joint Tenants - with Rights of Survivorship (the "Investor"). Pursuant to the Securities Purchase Agreement, the Company issued a convertible debenture to Investor in the original principal amount of $250,000 (the "Debenture"). The Debenture is convertible at the holder's option any time up to maturity at a conversion price equal to the lower of: (i) one hundred twenty percent (120%) of the closing bid price of the common stock on the date of the Debentures or (ii) eighty percent (80%) of the lowest closing bid price of the Company's common stock for the five (5) trading days immediately preceding the conversion date. The Debenture has a two (2) year term and accrue interest at five percent (5%) per year. At maturity, the Debenture will automatically convert into shares of common stock at a conversion price equal to the lower of: (i) one hundred twenty percent (120%) of the closing bid price of the Company's common stock on the date of the Debenture or (ii) eighty percent (80%) of the lowest closing bid price of the common stock for five (5) trading days immediately preceding the conversion date. On July 17, 2006, the Investor converted $15,000 of the Debenture into 104,167 shares of the Company's common stock.

Certain negative covenants in the Securities Purchase Agreement could substantially impact our ability to raise funds from alternative sources in the future. For example, for as long as the convertible debenture remains outstanding and without the written consent of the debenture holder, the Company (a) shall not directly or indirectly consummate any merger, reorganization, restructuring, reverse stock split consolidation, sale of all or substantially all of the Company's assets or any similar transaction or related transactions; (b) shall not issue or sell shares of common stock or preferred stock without consideration or for a consideration per share less than the bid price of the common stock determined immediately prior to its issuance or issue any 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; (c) shall not enter into any security instrument granting the holder a security interest in any or all assets of the Company; (d) shall not file any registration statement on Form S-8 except the Company may file one registration statement on Form S-8 for up to 2,500,000 shares of common stock and provided however, anyone receiving shares pursuant to such permitted Form S-8 registration shall be restricted from selling such shares for a period of ninety (90) days after the registration statement becomes effective and (e) shall not, and shall cause each of its subsidiaries not to, enter into, amend, modify or supplement, or permit any subsidiary to enter into, amend, modify or supplement any agreement, transaction, commitment, or arrangement with any of its or any of its subsidiary's officers, directors, person who were officers or directors at any time during the previous two years, stockholders who beneficially own five percent (5%) or more of the Company's common stock, or Affiliates (as defined in the Securities Purchase Agreement) or with any individual related by blood, marriage, or adoption to any such individual or with any entity in which any such entity or individual owns a five percent (5%) or more beneficial interest, except for (i) customary employment arrangements and benefit programs on reasonable terms, (ii) any investment in an Affiliate of the Company, (iii) any agreement, transaction, commitment, or arrangement on an arms-length basis on terms no less favorable than terms which would have been obtainable from a person other than such related party and (iv) any agreement transaction, commitment, or arrangement which is approved by a majority of the disinterested directors of the Company.

On February 1, 2006, the Company and Investor mutually agreed to extend the term of the Debentures until December 1, 2007. In addition, the Company issued the SHG Warrant to purchase 400,000 shares of the Company's common stock. The SHG Warrant has a term of two (2) years and is exercisable at $0.20 per share. The Company is registering 3,171,429 shares of its common stock underlying the conversion of the Debenture and 400,000 shares underlying the SHG Warrant.

Under the securities laws of certain states, the shares of common stock may be sold in such states only through registered or licensed brokers or dealers. The selling stockholders are advised to ensure that any underwriters, brokers, dealers or agents effecting transactions on behalf of the selling stockholders are registered to sell securities in all fifty states. In addition, in certain states the shares of common stock may not be sold unless the shares have been registered or qualified for sale in such state or an exemption from registration or qualification is available and is complied with.

We will pay all the expenses incident to the registration, offering and sale of the shares of common stock to the public hereunder other than commissions, fees and discounts of underwriters, brokers, dealers and agents. If any of these other expenses exists, Transax expects the selling stockholders to pay these expenses. We have agreed to indemnify Cornell Capital Partners and its controlling persons against certain liabilities, including liabilities under the Securities Act of 1933, as amended (the "Securities Act"). We estimate that the expenses of the offering to be borne by us will be approximately $85,000. The estimated offering expenses consist of: an SEC registration fee of $545, printing expenses of $2,500, accounting fees of $15,000, legal fees of $50,000 and miscellaneous expenses of $16,955. We will not receive any proceeds from the sale of any of the shares of common stock by the selling stockholders.

The selling stockholders are subject to applicable provisions of the Exchange Act, and its regulations, including Regulation M. Under Registration M, the selling stockholders or their agents may not bid for, purchase, or attempt to induce any person to bid for or purchase, shares of our common stock while such selling stockholders are distributing shares covered by this Prospectus.

Pursuant to the requirements of Item 512 of Regulation S-B and as stated in Part II of this Registration Statement, the Company must file a post-effective amendment to the accompanying Registration Statement once informed of a material change from the information set forth with respect to the Plan of Distribution.

MANAGEMENT'S DISCUSSION AND ANALYSIS OR PLAN OF OPERATION

OVERVIEW

Transax International Limited, currently trades on the Over-the-Counter Bulletin Board under the symbol "TNSX.OB".

The Company was incorporated under the laws of the State of Colorado in 1999 under the name "Vega-Atlantic Corporation". Previously, the Company was engaged in the business of minerals and oil and gas exploration, acquisition and development within the United States and worldwide. During August 2003, the Company completed the acquisition of Transax Limited, a Colorado privately-held corporation ("Transax Limited"), pursuant to a reverse merger and changed its name to "Transax International Limited" by filing an amendment to its articles of incorporation.

Through our wholly-owned subsidiary Medlink Conectividade em Saude Ltda. (f/k/a TDS Telecommunication Data Systems Ltda. and referred to herein as "Medlink"), we are an international provider of health information management products (collectively, the "Health Information Management Products"), which are specifically designed for the healthcare providers and health insurance companies. We are dedicated to improving healthcare delivery by providing hospitals, physician practices and health insurance companies with innovative health information management systems to manage coding, compliance, abstracting and record management processes. We have developed a proprietary software trademarked (Brazil only) "MedLink Solution", which was specifically designed and developed for the healthcare and health insurance industry enabling the real time automation of routine patient eligibility, verifications, authorizations, claims processing and payment functions that were previously performed manually (the "MedLink Solution").

SUBSIDIARIES

MEDLINK CONECTIVIDADE EM SAUDE LTDA

Medlink (f/k/s TDS Telecommunication Data Systems Ltda.) was incorporated under the laws of Brazil on May 2, 1998, and is a wholly-owned subsidiary of the Company. Medlink assists the Company in providing information network solutions, products and services within Brazil.

TRANSAX AUSTRALIA PTY LTD.

Transax Australia Pty Ltd. ("Transax Australia") was incorporated under the laws of the state of New South Wales, Australia on January 19, 2003, and is a wholly-owned subsidiary of the Company. Transax Australia assists the Company in seeking marketing opportunities to provide information network solutions, products and services within Australia and regionally.

MEDLINK TECHNOLOGIES, INC.

MedLink Technologies, Inc. ("MedLink Tech") was incorporated under the laws of Mauritius on January 17, 2003, and is a wholly-owned subsidiary of the Company. MedLink Tech holds the intellectual property developed by the Company and is responsible for initiating research and development.

CRITICAL ACCOUNTING POLICIES

Our financial statements and accompanying notes are prepared in accordance with generally accepted accounting principles in the United States. Preparing financial statements requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenue and expenses. These estimates and assumptions are affected by management's applications of accounting policies. Critical accounting policies for Transax International Limited include the useful lives of property and equipment, accounting for stock based compensation and revenue recognition.

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 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.

Under the criteria set forth in SFAS No. 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.

Accounting for Stock Based Compensation - Effective January 1, 2006, we adopted Statement of Financial Accounting Standards No. 123 ("SFAS No. 123R") (revised 2004), Share Based Payment. SFAS No. 123R establishes the financial accounting and reporting standards for stock-based compensation plans. As required by SFAS No. 123R, we recognize the cost resulting from all stock-based payment transactions including shares issued under its stock option plans in the financial statements. The adoption of this pronouncement may have a material effect on our results of operations.

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) collectibility 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 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 February 2006, the Financial Accounting Standards Board ("FASB") issued Statement of Financial Accounting Standards ("SFAS") No. 155, "Accounting for Certain Hybrid Financial Instruments--an amendment of FASB Statements No. 133 and 140" ("SFAS 155"). SFAS 155 permits fair value re-measurement for any hybrid financial instrument that contains an embedded derivative that otherwise would require bifurcation and clarifies which interest-only strips and principal-only strips are not subject to the requirements of Statement 133. SFAS 155 establishes a requirement to evaluate interests in securitized financial assets to identify interests that are freestanding derivatives or that are hybrid financial instruments that contain an embedded derivative requiring bifurcation and clarifies that concentrations of credit risk in the form of subordination are not embedded derivatives. Lastly, SFAS 155 amends SFAS 140 to eliminate the prohibition on a qualifying special-purpose entity from holding a derivative financial instrument that pertains to a beneficial interest other than another derivative financial instrument. SFAS 155 is effective in the first fiscal year that begins after September 15, 2006. We are still assessing the impact, if any, on its consolidated financial position, results of operations and cash flows.

Management does not believe that any recently issued, but not yet effective, accounting standards if currently adopted would have a material effect on the accompanying financial statements.

EFFECT OF RECENT ACCOUNTING PRONOUNCEMENTS

In December 2004, the FASB issued SFAS No. 123R, "Share-Based Payment, an Amendment of FASB Statement No. 123". SFAS No. 123R requires companies to recognize, in the statement of operations, the grant-date fair value of stock options and other equity-based compensation issued to employees. SFAS No. 123R is effective for the Company on January 1, 2006. The adoption of this standard did not have a material impact on our financial statements.

In December 2004, the FASB issued SFAS Statement No. 153, "Exchanges of Non- monetary Assets". The Statement is an amendment of Accounting Principles Board ("APB") Opinion No. 29 to eliminate the exception for non-monetary exchanges of similar productive assets and replaces it with a general exception for exchanges of non-monetary assets that do not have commercial substance. We believe that the adoption of this standard will have no material impact on our financial statements.

RESULTS OF OPERATIONS

FOR THE SIX (6) MONTH PERIOD ENDED JUNE 30, 2006 COMPARED TO SIX (6) MONTH PERIOD ENDED JUNE 30, 2005

Our net losses during the six (6) month period ended June 30, 2006 were $1,994,090 compared to a net loss of $265,860 during the six (6) month period ended June 30, 2005, an increase of $1,728,230.

During the six (6) month period ended June 30, 2006 we generated $2,015,902 in revenues compared to $1,501,431 in revenues for the six (6) month period ended June 30, 2005, an increase of $514,471 or 34.3%. The significant increase in revenues is due to the continued installation of our software and/or hardware devices containing our software at the 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 undertook approximately 3.75 million "real time" transactions during the six (6) month period ended June 30, 2006 compared to 3.00 million "real time" transactions during the period ended June 30, 2005.

During the six (6) month period ended June 30, 2006, we incurred operating expenses of $2,361,794 compared to operating expenses of $1,596,323 incurred during the six (6) month period ended June 30, 2005, an increase of $765,471 or 48.0%. The increase in operating expenses during the six (6) month period ended June 30, 2006 from the same period in 2005 resulted from: (i) an increase of $248,440 or 43.6% in cost of product support services resulting from the increase in revenues; (ii) an increase of $150,621 or 200.9% in management and consulting fees-related parties due to an increase in use of management and a director/consultant needed to handle our increased operations; (iii) an increase of $128,964 or 34.3% in general and administrative expenses resulting from an increase in operating costs associated with increased operations and increased travel expenses; (iv) an increase of $18,324 or 17.7% in depreciation and amortization expense as a result of an increase in property and equipment acquired for our Medlink operations; (v) an increase of $127,764 in investor relations fees primarily resulting from the issuance of common stock and warrants to a consultant for investor relations services; (vi) an increase of $44,401 or 62.4% in professional fees relating to legal and accounting costs associated with our financings and the filing of this registration statement on Form SB-2 and (vii) an increase of $46,957 or 12.2% in compensation and related benefits associated with the increased operations at our Medlink operations.

We reported a loss from operations of $345,892 for the six (6) month period ended June 30, 2006 as compared to a loss from operations of $94,892 for the six (6) month period ended June 30, 2005, an increase of $251,000. Although there can be no assurances, we anticipate that during fiscal year 2006, our ongoing marketing efforts and product roll-out will result in an increase in our net sales from those reported during fiscal year 2005. To support these increased sales, we anticipate that our operating expenses will also increase during fiscal year 2006 as compared to fiscal year 2005. We are, however, unable to predict at this time the amount of any such increase in operating expenses.

Total other expenses increased $1,477,230 or 864.0% for the six (6) month period ended June 30, 2006 as compared to the six (6) month period ended June 30, 2005. Included in this change is: (i) an increase in other expense of $58,989 from $10,514 of other income recognized during the six (6) month period ended June 30, 2005; (ii) an increase of $153,671 in debt settlement and offering costs from $-0- during the six (6) month period ended June 30, 2005, which relates to the issuance of warrants to the debenture holder and amortization of certain debt offering costs; (iii) an increase of $1,168,930 in loss from derivative liabilities from $15,804 during the six (6) month period ended June 30, 2005, which relates to the classification of the embedded conversion feature and related warrants issued in connection with our Series A preferred stock and debenture payable as a derivative instrument; and (iv) an increase of $59,738 in interest expense from $192,112 for the six (6) month period ended June 30, 2005, which reflects the amortization of debt discounts and debt offering costs of

$72,066 for the six (6) months ended June 30, 2006 offset by a decrease in our borrowings during the six (6) months ended June 30, 2006.

For the six (6) month period ended June 30, 2006 our net loss was $1,994,090 compared to a net loss of $265,860 for the six (6) month period ended June 30, 2005.

During the six (6) months ended June 30, 2006, we recorded a deemed preferred stock dividend of $1,600,000 which relates to our Series A Convertible Preferred Stock. This non-cash item related to the embedded beneficial conversion features of those securities and fair value of warrants of those securities. Additional, for the six (6) months ended June 30, 2006, we recorded cumulative preferred stock dividends of $34,214.

We reported a net loss attributable to common shareholders of $3,628,304 for the six (6) months ended June 30, 2006 as compared to a net loss attributable to common shareholders of $265,860 for the six (6) months ended June 30, 2005. This translates to an overall per-share loss available to shareholders of ($0.06) and ($0.01) for the six (6) months ended June 30, 2006 and 2005, respectively.

FOR THE THREE (3) MONTH PERIOD ENDED JUNE 30, 2006 COMPARED TO THREE (3) MONTH PERIOD ENDED JUNE 30, 2005

Our net losses during the three (3) month period ended June 30, 2006 were $1,302,259 compared to a net loss of $167,041 during the three (3) month period ended June 30, 2005, an increase of $1,135,218.

During the three (3) month period ended June 30, 2006 we generated $1,034,844 in revenues compared to $861,023 in revenues for the three (3) month period ended June 30, 2005, an increase of $173,821 or 20.2%. The significant increase in revenues is due to the continued installation of our software and/or hardware devices containing our software at the healthcare provider's locations in Brazil. Upon installation, we begin the processing of applications submitted by the healthcare provider for approval of patients for healthcare services from the insurance carrier. We charge for these services on a per transaction basis. We undertook approximately 1.84 million "real time" transactions during the three (3) month period ended June 30, 2006 compared to 1.33 million "real time" transactions during the period ended June 30, 2005.

During the three (3) month period ended June 30, 2006, we incurred operating expenses of $1,258,835 compared to operating expenses of $916,787 incurred during the three (3) month period ended June 30, 2005, an increase of $342,048 or 37.3%. The increase in operating expenses during the three (3) month period ended June 30, 2006 from the same period in 2005 resulted from: (i) an increase of $71,284 or 20.0% in cost of product support services resulting from the increase in revenues; (ii) an increase of $75,495 or 183.0% in management and consulting fee-related parties due to an increase in use of management and a director/consultant needed to handle our increased operations; (iii) an increase of $88,296 or 47.6% in general and administrative expenses resulting from a increase in operating costs associated with increased operations and increased travel expenses; (iv) a decrease of $2,812 or 4.8% in depreciation and amortization expense; (v) an increase of $118,247 in investor relations fees primarily resulting from the issuance of common stock and warrants to a consultant for investor relations services; (vi) a decrease of $13,154 or 22.3% in professional fees relating to certain accounting costs incurred in 2005; and (vii) an increase of $4,692 or 2.2% in compensT-SIZE: 10pt; FONT-FAMILY: Times New Roman, serif">

(11,133)

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

SEMELE GROUP INC. AND SUBSIDIARIES
Consolidated Statements of Cash Flows
For the Three Months Ended March 31,
(in thousands of dollars)
(unaudited)

	2003	2002
		(Restated)
Cash flows provided by (used in) operating activities		
Net income	$ 668	$ 737
Adjustments to reconcile net income to net cash provided by (used in) operating activities:		
Depreciation and amortization	1,721	2,508

Gain on disposition of equipment	(12)	(33)
Equity income in affiliated companies	(557)	(31)
Equity income in non-affiliated companies	(2,801)	(3,470)
Elimination of consolidated subsidiaries minority interests	2,735	1,934
Changes in assets and liabilities:		
Rents and other receivables	(448)	(335)
Other assets	(504)	(437)
Due from affiliates	(169)	(191)
Accounts payable and accrued expenses	2,044	44
Deferred rental income	(27)	(18)
Deferred income taxes	502	-
Net cash provided by operating activities	3,152	708
Cash flows provided by (used in) investing activities		
Proceeds from equipment dispositions	96	271
Restricted cash	1	-
Proceeds from assets held for sale	6,227	-
Cash distributions from affiliated companies	218	603
Purchase of PLM, net of cash acquired	-	(4,363)
Costs capitalized to real estate held for development	(153)	(466)
Net cash provided by (used in) investing activities	6,389	(3,955)
Cash flows provided by (used in) financing activities		
Proceeds from indebtedness and other obligations to affiliates	335	212
Principal payments on indebtedness	(1,362)	-
Distributions to minority shareholders	(237)	-
Principal payments on indebtedness and other obligations to affiliates	(5,427)	(1,482)
Net cash used in financing activities	(6,691)	(1,270)
Net increase (decrease) in cash and cash equivalents	2,850	(4,517)
Cash and cash equivalents at beginning of period	11,997	19,954
Cash and cash equivalents at end of period	$ 14,847	$ 15,437

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

NOTE 1 BASIS OF PRESENTATION

The financial statements presented herein are prepared in conformity with generally accepted accounting principles in the United States of America and the instructions for preparing Form 10-QSB under Rule 310 of Regulation S-B of the Securities and Exchange Commission ("SEC") and are unaudited. Rule 310 provides that disclosures that would substantially duplicate those contained in the most recent annual report to shareholders may be omitted from interim financial statements. The accompanying unaudited condensed consolidated financial statements have been prepared on that basis and, therefore, should be read in conjunction with the financial statements and notes presented in the 2002 Annual Report (Form 10-KSB) of Semele Group Inc. and subsidiaries ("Semele" or the "Company") on file with the United States Securities and Exchange Commission. Except as disclosed herein, there have been no material changes to the information presented in the notes to the 2002 Annual Report in Form 10-KSB.

In the opinion of management, all adjustments (consisting of normal and recurring adjustments) considered necessary to present fairly the Company s financial position at March 31, 2003 and December 31, 2002, results of operations for the three month periods ended March 31, 2003 and 2002, changes in stockholders deficit for the three months ended March 31, 2003 and statement of cash flows for the three months ended March 31, 2003 and 2002 have been made and are reflected.

Certain amounts previously reported have been reclassified to conform to the March 31, 2003 financial statement presentation. These reclassifications did not have any effect on total assets, total liabilities, stockholders' deficit, or net income.

NOTE 2- RESTATEMENT OF CONSOLIDATED FINANCIAL STATEMENTS

In 1999 and 2000, the Company acquired Equis II Corporation ("Equis II") and the Special Beneficiary Interests ("SB Interests") in four Delaware trusts (AFG Investment Trust A, AFG Investment Trust B, AFG Investment Trust C and AFG Investment Trust D), (collectively the "Trusts"). These acquisitions were originally accounted for as a combination of entities under common control in a manner similar to a pooling of interests, which the Company believed appropriate at the time. In 2003, the Company determined the companies were not under common control and therefore these acquisitions should have been accounted for using the purchase method of accounting and that their financial statements should be restated. The principal effects of this accounting were to increase consolidated net assets and to decrease net income for the associated amortization of tangible assets and goodwill.

In addition to the accounting for the acquisitions of Equis II and the SB Interests, the Company has restated these financial statements for its interest in Mountain Springs and Mountain Resort (See Note 6). The Company determined that the amounts recorded as its share of equity income (loss) on its interest in Mountain Springs and Mountain Resort (classified as "Equity Income (Loss) in Non-Affiliated Companies" in the accompanying consolidated statements of operations) for the three months ended March 31, 2002 were incorrect. The Company should have recorded additional equity income on these investments. The consolidated financial information for the three months ended March 31, 2002 has been restated to include the additional equity income for these investments.

A summary of the effects of the restatement on the Company s March 31, 2002 stockholder s deficit and statement of operations for the three months ended March 31, 2002 is summarized as follows (in thousands of dollars, except per share amounts):

	As of and for the Three Months Ended March 31, 2002		
	(Restated)	(As previously reported)	Difference
Stockholders' deficit	$ (6,187)	$ (17,267)	$ 11,080
Net income	$ 737	$ 881	$ 144
Earnings per share	$ 0.36	$ 0.42	$ 0.06
Depreciation and amortization	$ 2,508	$ 2,320	$ 188
Gain on the disposition of equipment	33	54	21
Interest on indebtedness and other obligations - affiliates	356	472	(116)
Equity income in non-affiliated companies	3,470	2,790	(680)
Elimination of consolidated subsidiaries minority interests	1,934	1,203	731
Total adjustment to 2002 net income			$ 144

NOTE 3 EQUIPMENT HELD FOR SALE

MILPI Holdings LLC ("MILPI") arranged for the lease or purchase of up to 1,050 pressurized tank railcars with a delivery date between 2002 and 2004. MILPI anticipates that 735 of these railcars will be leased by Rail I Investors, as later defined. The remaining 315 railcars, at a cost of approximately $23.0 million, will be purchased by MILPI or one of the EGF Programs, as later defined. As of September 30, 2003, approximately 66% of these railcars have been purchased by PLM Financial Services Inc. ("FSI"), a wholly-owned subsidiary of MILPI, or one of the EGF Programs for approximately $15.0 million The remaining 34% of these railcars will be purchased by FSI or the EGF Programs in 2004. As of December 31, 2002, MILPI owned $6.2 million in railcar equipment purchased under this commitment which was sold to an affiliated entity in the first quarter of 2003. (See Notes 7 and 11).

NOTE 4 REAL ESTATE HELD FOR DEVELOPMENT

The Company owns, both directly and indirectly, 274 acres of undeveloped land north of Malibu, California in a development company called "Rancho Malibu" or the "Malibu property". Forty acres of the property are zoned for development of a 46-unit residential community. The remainder is divided as follows: (i) 167 acres are dedicated to a public agency, (ii) 47 acres are deed restricted within privately-owned lots, and (iii) 20 acres are preserved as private open space.

In the first quarter of 2003, Semele transferred its interest in Rancho Malibu to RMLP, Inc., a wholly-owned subsidiary of MILPI, for $5.5 million in cash, a $2.5 million promissory note and 182 shares (15.4%) interest in RMLP, Inc., which resulted in a loss of approximately $2.0 million. Because the property was transferred to a wholly-owned subsidiary of MILPI, the $2.5 million promissory note, related accrued interest and loss on the transfer of property to RMLP, Inc. have been eliminated in consolidation.

NOTE 5 INTERESTS IN AFFILIATED COMPANIES

The Company has interests in the following affiliates as of March 31, 2003 and December 31, 2002, respectively (in thousands of dollars):

	March 31, 2003	December 31, 2002
Interests in liquidating partnerships	$ 300	$ 322
Interest in liquidating trusts	271	-
Interest in EGF Programs	19,451	19,361
Total	$ 20,022	$ 19,683

The Company has recorded equity income (loss) in its interest in affiliated companies for the three months ended March 31, 2003 and 2002, respectively (in thousands of dollars):

	March 31, 2003	March 31, 2002
		(Restated)
Liquidating partnerships	$ (22)	$ (24)
Liquidating trusts	271	-
EGF Programs	308	55
Total	$ 557	$ 31

Equity Interests in Liquidating Partnerships

Through its wholly-owned subsidiary Ariston Corporation ("Ariston"), the Company had an ownership interest in eleven limited partnerships engaged primarily in the equipment leasing business. Ariston s percentage ownership for each investment varies from less than 1% to 16%. The partnerships were controlled by Equis Financial Group LP ("EFG"), a non-consolidated affiliated entity controlled by Mr. Engle, the Company s Chairman and Chief Executive Officer.

The Company s ownership interest in three of the eleven partnerships enabled the Company to influence but not control operating financial decisions of the investee. Accordingly, the Company accounted for these investments under the equity method of accounting. The remaining investments were accounted for under the cost method of accounting.

On July 18, 2002, the eleven partnerships adopted formal plans of liquidation and transferred their assets and liabilities to eleven respective liquidating partnership trusts ("Liquidating Partnerships"). The summarized combined financial results for the Company s equity investments in the Liquidating Partnerships accounted for under the equity method, for the three months ended March 31, 2002 is summarized below (in thousands of dollars):

	For the Three Months Ended March 31, 2002
Total revenues	$ 802
Total expenses	(1,084)
Net loss	$ (282)

The summarized combined financial information for the Company s equity investments in the Liquidating Partnerships as of and for the three months ended March 31, 2003 is summarized below, which is accounted for under the liquidation basis of accounting, which approximates fair value (in thousands of dollars):

Net assets in liquidation at December 31, 2002	$ 3,527
Net loss	(770)
Net assets in liquidation at March 31, 2003	$ 2,757

Through March 31, 2003, the Company has received a total of $2.2 million in distributions from the Liquidating Partnerships.

Equity Interests in Liquidating Trusts

In the fourth quarter of 2002, AFG Investment Trust A and AFG Investment Trust B each adopted a formal plan of liquidation and transferred their respective net assets to separate liquidating Trusts, AFG Investment Trust A Liquidating Trust and AFG Investment Trust B Liquidating Trust ("Liquidating trusts"). The Company owns a pro rata beneficial interest in the Liquidating Trusts associated with its Class B Interest, SB Interest and Managing Trustee interest in each of the two trusts. The Company accounts for its investments in the Liquidating Trusts under the equity method of accounting. As of March 31, 2003, no distributions have been received from the Liquidating Trusts.

Prior to adopting the plans of liquidation, the Company consolidated the two trusts balance sheets and statements of operations. The statement of operations for AFG Investment Trust A and B is consolidated into the Company s March 31, 2002 financial statements since the entities were controlled throughout fiscal 2002.

The combined financial information for the Liquidating Trusts as of and for the three months ended March 31, 2003 is summarized below, which is accounted for under the liquidation basis of accounting, which approximates fair value (in thousands of dollars):

Net assets in liquidation at December 31, 2002	$ 10,486
Net income	807
Net assets in liquidation at March 31, 2003	$ 11,293

In the second quarter of 2003, the Company, through MILPI, purchased the existing minority interest in MILPI owned by the Liquidating Trusts for $5.4 million, which is held by MILPI in treasury stock. The acquisition was financed through MILPI s existing cash reserves and cash flows generated from the sale of railcars. Prior to the acquisition, MILPI was owned as follows: AFG Investment Trust A Liquidating Trust 8%; AFG Investment Trust B Liquidating Trust 17%; AFG Investment Trust C 37.5% and AFG Investment Trust D 37.5%. Subsequent to the acquisition, AFG Investment Trust C and AFG Investment Trust D, which are consolidated into the Company s financial statements, collectively own 100% of MILPI with each trust owning 50%.

Equity Interests in Equipment Growth Funds

MILPI has an equity interest ranging from 1% to 15% in several equipment leasing programs (PLM Equipment Growth Funds V and VI, PLM Equipment Growth & Income Fund VII, Professional Lease Management Income Fund I LLC and PLM Equipment Growth Fund I, II, III and IV Liquidating Trusts) called the Equipment Growth Funds ("EGF Programs"). The Company recognizes income from these interests as equity income in affiliated companies and is recognized as earned by the programs. FSI is the general partner or manager in the EGF Programs. The Company received $0.2 million and $0.6 million in cash distributions from the EGF Programs during the three months ended March 31, 2003 and 2002.

The summarized combined financial data for the EGF Programs, excluding PLM Equipment Growth Fund III for the three months ended March 31, 2003 which is discussed below, for the three months ended March 31, 2003 and 2002 is as follows (in thousands of dollars):

	2003	2002
Total revenues	$ 17,228	$ 20,413
Total expenses	(13,360)	(16,492)
Net income	$ 3,868	$ 3,921

On December 31, 2002, PLM Equipment Growth Fund III Liquidating Trust was established and all of the assets and liabilities of PLM Equipment Growth Fund III were transferred to the PLM Equipment Growth Fund III Liquidating Trust. The summarized financial information for PLM Equipment Growth Fund III Liquidating Trust as of and for the three months ended March 31, 2003 is summarized below. The entity is accounted for under the liquidation basis of accounting which approximates fair value (in thousands of dollars):

	For the Three Months Ended March 31, 2003
Net assets at December 31, 2002	$ 2,784
Net increase in liquidation value	135
Net assets in liquidation at March 31, 2003	$ 2,919

On September 30, 2003, three of the EGF Programs adopted formal plans of liquidation and transferred their assets to three separate liquidating trusts. As of September 30, 2003, a total of four EGF Programs were in their active liquidation phase.

NOTE 6 INTERESTS IN NON-AFFILIATED COMPANIES

The Company has equity interests in the following non-affiliated companies (in thousands of dollars):

	March 31, 2003	December 31, 2002
Interest in Mountain Resort Holdings LLC and Mountain Springs Resort LLC	$ 8,453	$ 5,576
Interest in EFG/Kettle Development LLC	7,187	7,263
Other	466	466
Total	$ 16,106	$ 13,305

The Company recorded equity income (loss) in its interest in non-affiliated companies for the three months ended March 31, 2003 and 2002, respectively (in thousands of dollars):

	March 31, 2003	March 31, 2002
		(Restated)
Mountain Resort Holdings, LLC and Mountain Springs Resort, LLC	$ 2,877	$ 3,672
EFG/Kettle Development, LLC	(76)	(202)
Net Income	$ 2,801	$ 3,470

Mountain Resort Holdings, LLC and Mountain Springs Resort, LLC

Semele owns 100% of the Class B membership interests in EFG Kirkwood LLC ("EFG Kirkwood"), a wholly-owned subsidiary of the Company. The AFG Investment Trusts C and D and the Liquidating Trusts collectively own 100% of the Class A membership interests of EFG Kirkwood. EFG Kirkwood is a member in two joint ventures: a 38% interest in Mountain Resort Holdings LLC ("Mountain Resort") and a 33%-50% interest in Mountain Springs Resorts LLC ("Mountain Springs").

Mountain Resort is primarily a ski and mountain recreation resort located in California. Mountain Springs has majority ownership in DCS/Purgatory LLC ("Purgatory"), a ski resort located in Colorado. The Company s ownership interests in Mountain Resort and Mountain Springs are accounted for using the equity method of accounting. No distributions were received from these investments during the three months ended March 31, 2003 and 2002.

On August 1, 2001, EFG Kirkwood entered into a guarantee agreement whereby EFG Kirkwood guarantees the payment obligations under a revolving line of credit between Mountain Springs and a third party lender. Another investor in the ski resort also separately guarantees the payment obligation under the line of credit. The amount of the guarantee is equal to the outstanding balance of the line of credit, which cannot exceed the principal balance of $3.5 million. The revolving line of credit is scheduled to mature in October 2004. The Company s guarantee would require payment only in the event of default on the line of credit by Purgatory in an amount equal to amounts advanced less any amounts recovered by the other guarantor on the line. As of March 31, 2003, there were no amounts outstanding on the line of credit.

The table below provides comparative summarized statement of operations data for Mountain Resort and Mountain Springs for the three months ended March 31, 2003 and 2002. The operating companies have a fiscal year end of April 30 th , which is different from the Company s fiscal year (in thousands dollars).

<TABLE><CAPTION><BTB><S>

	March 31, 2003	March 31, 2002
Mountain Resort		
Total revenues	$ 16,508	$ 16,405
Total expenses	(11,194)	(11,211)
Net income	$ 5,314	$ 5,194
Mountain Springs		
Total revenues	$ 8,841	$ 9,403
Total expenses	(6,397)	(6,109)
Net income	$ 2,444	$ 3,294

Interest in EFG/Kettle Development LLC- Residential Community

The Company has an indirect ownership interest in EFG/Kettle Development LLC, which is owned 100% by AFG Investment Trusts C and D, collectively. EFG/Kettle Development LLC s subsidiaries have a 49.9% limited partner ownership interest in an entity named Kettle Valley Development Limited Partnership ("KVD LP"). An unaffiliated third party owns the remaining 50.1% of KVD LP. The Company also has a 100% controlling and ownership interest in Kelowna Projects, Inc., which is the sole general partner, with a .01% ownership interest, of KVD LP.

KVD LP owns a real estate development in Kelowna, British Columbia Canada, called Kettle Valley. Kettle Valley is comprised of approximately 270 acres of land zoned for 1,120 residential units in addition to commercial space.

In accordance with the ownership agreements, decisions require unanimous consent by both the limited partners and the general partner and each owner has the ability to veto a proposal by the other partner. The Company accounts for its ownership interest in KVD LP using the equity method of accounting. The Company received no distributions during either of the three months ended March 31, 2003 or 2002.

The table below provides KVD LP s summarized consolidated statements of operations data for the three months ended March 31, 2003 and 2002 (in thousands of dollars):

	March 31, 2003	March 31, 2002
Total revenues	$ 530	$ 620
Total expenses	(684)	(855)
Net loss	$ (154)	$ (235)

NOTE 7 CONTINGENT LIABILITIES

Investment Company Act of 1940

The SEC staff informed the Company that it believes the Trusts may be unregistered investment companies within the meaning of the Act. The Company, after consulting with counsel, does not believe that they are unregistered investment companies. However, it is possible that one or more of the Trusts may have unintentionally engaged in an activity or activities that may be construed to fall within the scope of the Act. Two of the Trusts agreed to liquidate their assets in order to resolve the matter with the SEC staff. Accordingly, in December 2002, AFG Investment Trust A and AFG Investment Trust B adopted respective Plans of Liquidation and Dissolution. The assets of each of the trusts were transferred to respective Liquidating Trusts with an independent third party as the trustee. Upon consummation of the sale of their assets, these trusts will be dissolved and the proceeds thereof will be applied and distributed in accordance with the terms of their Trust Agreements. If necessary, AFG Investment Trust C and AFG Investment Trust D intend to avoid being deemed investment companies by means that may include disposing assets that they might not otherwise dispose of.

Guaranteed Obligations

As of March 31, 2003 and 2002, MILPI had guaranteed certain obligations up to $0.4 million of a Canadian railcar repair facility, in which PLM had a 10% ownership interest. This obligation was accrued at March 31, 2003 and 2002 and is recorded in accounts payable and accrued expenses in the accompanying consolidated balance sheets.

Commitment to Purchase and Lease Railcars

As further discussed in Note 3, MILPI arranged for the lease or purchase of pressurized tank railcars with a total value of approximately $76.0 million. As of September 30, 2003, the remaining balance of railcars required to be purchased and leased under the agreement are $7.4 million and 415 railcars, respectively. The Company estimates that these remaining railcars will be purchased and leased during the remainder of fiscal 2003 and 2004.

Lease Agreements

PLM has entered into operating leases for office space. PLM s total net rent expense was $0.1 million and $0.5 million for the three months ended March 31, 2003 and 2002, respectively, and is included in general and administrative expenses in the accompanying consolidated statements of operations.

Future payments under lease agreements are $0.2 million for the remainder of 2003, $0.2 million in 2004, $0.1 million in 2005 and $0 thereafter.

Future receipts under a non-cancelable sublease are as follows: $43,000 for the remainder of 2003 and $24,000 in 2004.

NOTE 8 RELATED PARTY TRANSACTIONS

Fees and expenses paid to affiliates

Fees and expenses paid to affiliates for the three months ended March 31, 2003 and 2002, respectively. are as follows (in thousands of dollars):

	March 31, 2003	March 31, 2002
Equipment management fees	$ 90	$ 192
Administrative charges	76	337
Total	$ 166	$ 529

EFG is compensated for its services to the Trusts. Such services include all aspects of acquisition, management and disposition of equipment. Administrative charges represent amounts charged by EFG to the Trusts, pursuant to Section 10.4(c) of the Trust Agreements, for persons employed by EFG who are engaged in providing administrative services to the Trusts.

Due From Affiliates

Amounts due from affiliates are summarized below (in thousands of dollars):

	March 31, 2003	December 31, 2002
Loan obligations due from Mr. Engle and Mr. Coyne	$ 2,937	$ 2,937
Interest receivable on loan obligations due from Mr. Engle and Mr. Coyne	846	780
Management fees receivable from PLM Equipment Growth Funds	769	670
Rents receivable from EFG escrow (1)	124	120
Total	$ 4,676	$ 4,507

(1) All rents and proceeds from the disposition of equipment by the Company are paid directly to either EFG or to a lender. EFG temporarily deposits collected funds in a separate interest-bearing escrow account and remits such amounts to the Company or its affiliates on a monthly basis. These amounts were paid to the Company in April 2003 and January 2003, respectively.

Indebtedness and Other Obligations to Affiliates

A summary of the Company s indebtedness and other obligations to affiliates appears below (in thousands of dollars):

	March 31, 2003	December 31, 2002
Principal balance of indebtedness to affiliates	$ 24,358	$ 28,774
Accrued interest due to affiliates	3,375	4,055
Other (1)	181	178
Total	$ 27,914	$ 33,007

(1) Consists primarily of amounts due to EFG for management fees and administrative services.

Principal Balance of Indebtedness to Affiliates

The principal balance of the Company s indebtedness to affiliates at March 31, 2003 and December 31, 2002 consists of the obligations listed below (in thousands of dollars):

	Balance at March 31, 2003	Due within one year, adjusted for amendments to extend payments, or on demand after March 31, 2003	Balance at December 31, 2002
Notes payable to Mr. Engle, or family trusts/corporation controlled by Mr. Engle, resulting from the purchase of Equis II Corporation, 7% annual interest; maturing in Jan. 2005. (1) (3)	$ 8,625	$ --	$ 8,625
Note payable to Mr. Coyne resulting from purchase of Equis II Corporation; 7% annual interest; maturing in Jan. 2005. (1) (3)	4,377	--	4,377
Sub-total	$ 13,002	$ --	$ 13,002
Notes payable to Mr. Engle, or family trusts/corporation controlled by Mr. Engle, resulting from the purchase of Equis II	687	687	687

Corporation; 11.5% annual interest; due on demand. (1) (2)			
Note payable to Mr. Coyne resulting from purchase of Equis II Corporation; 11.5% annual interest; due on demand. (1) (2)	349	349	349
Sub-total	$ 1,036	$ 1,036	$ 1,036
Notes payable to Mr. Engle, or family trusts/corporation controlled by Mr. Engle, resulting from purchase of Equis II Corporation, 7.5% annual interest; maturing on Aug. 8, 2007. (1) (2)	1,261	--	1,261
Note payable to Mr. Coyne resulting from purchase of Equis II Corporation; 7.5% annual interest; maturing on Aug. 8, 2007. (1) (2)	640	--	640
Sub-total	$ 1,901	$ --	$ 1,901
Note payable to EFG for purchase of Ariston Corporation; 7% annual interest; maturing in Jan. 2005. (4)	$ 8,419	--	$ 8,419
Non-recourse note payable to EFG for purchase of Special Beneficiary Interests; 7% annual interest; maturing on Nov. 18, 2009. (6)	$ --	--	$ --
Notes payable to affiliates for 1997 asset purchase; 10% annual interest; maturing on Apr. 1, 2003. (5)	$ -- .	--	$ 4,416
Total	$ 24,358	$ 1,036	$ 28,774

(1) The promissory notes issued to the former Equis II stockholders are general obligations of the Company secured by a pledge to the former Equis II stockholders of the shares of Equis II owned by the Company.
(2) These amounts are equal in aggregate to debt obligations of Mr. Engle and Mr. Coyne to Equis II Corporation and ONC included in amounts due from affiliates on the accompanying consolidated balance sheets.
(3) The notes to Mr. Engle (and related family trusts/corporation) become immediately due and payable if Mr. Engle ceases to be the Chief Executive Officer and a Director of the Company, except if he resigns voluntarily or is terminated for cause. Similarly, the notes to Mr. Coyne become immediately due and payable if Mr. Coyne ceases to be the President and a Director of the Company, except if he resigns voluntarily or is terminated for cause. As of March 31, 2003, approximately $6.0 million of the outstanding principal balance was due in October 2002 and January 2003. In addition, approximately $4.0 million of the outstanding principal was due in May 2003. Subsequent

to March 31, 2003, the Company amended these debt agreements such that the principal payments were due in January 2005 (See Note 11).

(4) In 1998, the Company issued a $10.5 million non-recourse purchase-money promissory note to EFG in conjunction with the acquisition of Ariston. The purchase-money note bears interest at an annualized rate of 7%, but requires principal amortization and payment of interest prior to the maturity date only to the extent of cash distributions paid to the Company in connection with the partnership interests owned by Ariston. As of March 31, 2003, the note was due to mature August 31, 2003 with recourse to the common stock of Ariston. Subsequent to March 31, 2003, the Company amended the note s repayment schedule with the principal balance due in January 2005 (See Note 11). The table above has been adjusted to reflect this amendment. Cash distributions by Ariston require the consent of EFG until such time that the Company s obligation to EFG under the note is paid.

(5) In 1997, the Company borrowed $4.4 million from certain affiliates controlled by Mr. Engle, including $0.5 million from AFG Investment Trust A, a subsidiary. The notes were secured by the Company s interest in Rancho Malibu. As discussed in note 4, Semele Group, Inc. transferred its interest in Rancho Malibu to a wholly-owned subsidiary of MILPI, RMLP, Inc. Semele Group, Inc. s ownership interest was transferred in consideration for a $2.5 million promissory note, 182 shares (15.4% interest) in RMLP, Inc. and $5.5 million cash. Cash received from the transfer was used to pay the outstanding principal and interest due on the note.

(6) The Company purchased the SB Interests in the Trusts for $9.7 million. The purchase was financed through a non-recourse note issued by the Company. The note is payable only to the extent that the Company receives dividends on its SB Interests from the Trusts. The note is accounted for as a contingent purchase price in accordance with Accounting Principles Board ("APB") No. 16. To date, $3.1 million of dividends have been made by the Trusts to the Company as the holder of the SB Interests. Therefore, $3.1 million of the $9.7 million has been recorded and paid leaving $6.6 million of contingent payments remaining on the note.

As of March 31, 2003, as adjusted for the amended note agreement discussed in Note 11, the annual maturities of the notes are scheduled to be paid as follows (in thousands of dollars):

March 31, 2004	$	1,036
2005		21,421
2006		-
2007		-
2008		1,901
Total	$	24,358

NOTE 9 SEGMENT REPORTING

At March 31, 2003, the Company was engaged in three operating segments: 1) equipment leasing 2) equipment management and 3) real estate ownership, development and management. The equipment leasing segment includes acquiring and leasing to third parties a portfolio of capital equipment. The equipment management segment includes the Company s interest in MILPI s EGF Programs and a portfolio of railcars. The real estate operating segment includes the Company s ownership interest in Rancho Malibu, AFG International, Mountain Springs, Mountain Resorts, Kettle Valley and other miscellaneous minority interest investments.

The Company s reportable segments offer different products or services and are managed separately because each requires different operating strategies and management expertise. There are no material intersegment sales or transfers.

During the fourth quarter of 2002, the Company increased its number of reportable segments to include the equipment management segment. Previously, the Company reported on two operating segments: Equipment leasing and real estate. Equipment management was previously included in the equipment leasing segment. Segment information for the three months ended March 31, 2002 has been revised to reflect the additional operating segment.

Segment information for the three months ended March 31, 2003 and 2002 is summarized below (in thousands of dollars):

	March 31, 2003	March 31, 2002
Revenues:		(Restated)
	$	$
Equipment Leasing	2,876	3,095
Equipment Management	2,113	1,686
Real Estate	269	351
Total	5,258	5,132
Operating Expenses and Fees and Expenses - Affiliate:		
Equipment Leasing	914	703
Equipment Management	832	816
Real Estate	30	63
Total	1,776	1,582
Interest Expense and Interest Expense- Affiliate:		
Equipment Leasing	1,042	1,360
Equipment Management	-	-
Real Estate	192	248
Total	1,234	1,608
Depreciation and Amortization:		
Equipment Leasing	1,621	2,344
Equipment Management	10	70
Real Estate	90	94
Total	1,721	2,508
Total Expenses	4,731	5,698
Income (Loss) before Equity Income (Loss), Income Taxes and Minority Interest:		
Equipment Leasing	(701)	(1,312)
Equipment Management	1,271	800
Real Estate	(43)	(54)
Total	527	(566)
Equity Interests Income (Loss):		
Equipment Leasing	(22)	(24)
Equipment Management	308	55
Real Estate	3,072	3,470

Total	3,358	3,501
Provision for Income Taxes:		
Equipment Management	(482)	(264)
Elimination of Minority Interests	(2,735)	(1,934)
Net Income	$ 668	$ 737

The table below sets forth total assets organized by operating segment as of March 31, 2003 and December 31, 2002 (in thousands of dollars):

	March 31, 2003	December 31, 2002
Equipment Leasing	$ 48,645	$ 50,036
Equipment Management	42,253	44,400
Real Estate	43,685	40,912
Total assets	$ 134,583	$ 135,348

NOTE 10 RECENT ACCOUNTING PRONOUNCEMENTS

In September 2001, the rule making body of the American Institute of Certified Public Accountants ("AICPA") issued an Exposure Draft on a Statement of Position, "Accounting for Certain Costs and Activities Related to Property, Plant and Equipment" (the, Proposed Statement"). This group, referred to as AICPA Accounting Standards Executive Committee ("AcSEC"), recently decided that it will no longer issue accounting guidance and planned to transition the majority of its projects to the Financial Accounting Standards Board ("FASB"). However, the FASB subsequently requested that AcSEC address certain portions of the Proposed Statement in smaller scope projects. The FASB expressed their concern that the project would not be completed timely by AcSEC or the FASB, if the scope of the project was not reduced. On September 9, 2003, AcSEC voted to approve the proposed statement and is expected to present it to the FASB for clearance in the first quarter of 2004.

If the existing Proposed Statement is issued, it would require the Company to modify its accounting policy for maintenance and repairs. Such costs would no longer be accrued in advance of performing the related maintenance and repairs; rather, the Proposed Statement requires these costs to be capitalized and amortized over their estimated useful life. The Company has not yet quantified the impact of adopting the Proposed Statement on its financial statements.

In November 2002, the FASB issued Interpretation No. 45, "Guarantor s Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Others" ("FIN 45"). FIN 45 elaborates on the disclosures to be made by a guarantor in its interim and annual financial statements about its obligations under certain guarantees that it has issued. It also clarifies that a guarantor is required to recognize, at the inception of a guarantee, a liability for the fair value of the obligation undertaken in issuing the guarantee. The initial recognition and initial measurement provisions of the interpretation are applicable on a prospective basis to guarantees issued or modified after December 31, 2002 and the disclosure requirements in this interpretation are effective for financial statements of interim or annual periods ending after December 15, 2002. The adoption of FIN 45 is not expected to have a material impact on the Company s financial position or results of operations.

In January 2003, the FASB issued Interpretation No. 46, "Consolidation of Variable Interest Entities ("FIN 46"). This interpretation clarifies existing accounting principles related to the preparation of consolidated financial statements when the equity investors in an entity do not have the characteristics of a controlling financial interest or when the equity at risk is not sufficient for the entity to finance its activities without additional subordinated financial support from other parties. FIN 46 requires a company to evaluate all existing arrangements to identify situations where a company has a "variable interest," commonly evidenced by a guarantee arrangement or other commitment to provide financial support, in a "variable interest entity," commonly a thinly capitalized entity, and further determine when such variable interest requires a company to consolidate the variable interest entities financial statement with its own. This interpretation applies immediately to variable interest entities created after January 31, 2003, and to variable interest entities in which an enterprise obtains an interest after that date. In October 2003, the FASB issued a Final FASB Staff Position deferring the effective date of FIN 46 for all public entities until the first interim or annual period ending after December 15, 2003. As such, FIN 46 will be effective for the Company as of December 31, 2003. Based on the recent release of this interpretation, the Company has not completed its assessment as to whether or not the adoption of this interpretation will have a material impact on its financial statements.

The Company is currently evaluating several companies to determine if they meet the definition of a variable interest entity as defined in FIN 46. Such companies include the Liquidating Trusts, AFG Investment Trusts C and D, EGF Programs, EFG Kirkwood, Rancho Malibu, Mountain Springs and Mountain Resorts, Kettle Valley and the Liquidating Partnerships. As of March 31, 2003, the Company s maximum exposure of equity investments which could be effected by FIN 46 is $43.7 million, which represents the carrying value of the Company s investments.

In May 2003, the FASB issued SFAS No. 150, "Accounting for Certain Financial Instruments with Characteristics of Both Liabilities and Equity". SFAS No. 150 establishes standards for how an issuer classifies and measures certain financial instruments with characteristics of both liabilities and equity. In addition, SFAS No. 150 requires an issuer to classify certain instruments with specific characteristics described in it as liabilities (or as assets in some circumstances). Specially, SFAS No. 150 requires that financial instruments issued in the form of shares that are mandatory redeemable; financial instruments that embody an obligation to repurchase the issuer s equity shares or are indexed to such an obligation; or financial instruments that embody an unconditional obligation or a conditional obligation that can be settled in certain ways be classified as liabilities.

In October 2003, the FASB deferred for an indefinite period the application of the guidance in SFAS No. 150 to noncontrolling interests that are classified as equity in the financial statements of the subsidiary but would be classified as a liability in the parent's financial statements under SFAS No. 150 (e.g., noncontrolling interests in limited-life subsidiaries). The FASB decided to defer the application of SFAS No. 150 to these noncontrolling interests until it could consider some of the resulting implementation issues associated with the measurement and recognition guidance for these noncontrolling interests.

NOTE 11 SUBSEQUENT EVENTS

In the second quarter of 2003, Rancho Malibu amended its partnership agreement to include an additional unrelated investor for the purpose of completing the development of the property. The third party investor contributed approximately $2.0 million to Rancho Malibu and is the development general partner. As a result of the transaction, the Company s ownership interest in Rancho Malibu decreased to 52%.

Subsequent to March 31, 2003, the Company purchased an additional $14.5 million of railcars (See Note 7). Approximately $1.5 million of the railcars purchased subsequent to March 31, 2003 have been sold to affiliated entities at cost, which approximates fair value. The majority of the remaining $13.0 million railcars purchased subsequent to year end have either been sold or are under lease by MILPI to third parties.

The Company is a participant in a $10.0 million warehouse facility. Subsequent to March 31, 2003, the Company amended the warehouse facility to extend the expiration date to December 31, 2003.

At March 31, 2003, the Company had approximately $6.0 million of related party indebtedness outstanding, which was due in October 2002 and January 2003 (See Note 8). In addition, as of March 31, 2003, approximately $12.0 million in related party indebtedness was due before December 31, 2003. Subsequent to March 31, 2003, the Company amended these debt agreements to defer maturity of these principal payments until 2005.

The SEC commenced an informal inquiry in June 2003 to determine if there have been violations of the federal securities laws. The SEC, among other things, asked the Company to voluntarily provide information and documents relating to any possible or proposed restatements of the Company s financial statements. The Company has provided the information and documents requested. The Company is cooperating fully with the SEC informal inquiry. In prior comment letters, the SEC requested information and support for its historical position related to the Company s accounting treatment associated with the acquisition of Equis II and the SB Interests in the Trusts. In fiscal 2000, the Company treated these acquisitions as a combination of entities under common control accounted for in a manner similar to a pooling of interests. The Company responded to the SEC staff s comments by providing additional information and support for its accounting treatment. After further investigation, the Company determined that that its original accounting treatment was incorrect. Accordingly, the Company has restated its 2001 financial statements in its 2002 Form 10-KSB.

Subsequent to March 31, 2003, the Company received a proposal from Mr. Engle and Mr. Coyne, respectively Semele s CEO and President, who together with their affiliates were the beneficial owners of approximately 58% of the outstanding Semele common stock at the date of the proposal, for the acquisition of substantially all of the outstanding shares of common stock of Semele not already owned by the Company s management for $1.20 per share. See revised proposal received by the Company in November 2003 discussed below.

On August 29, 2003, Mr. Engle and Mr. Coyne purchased a total of 198,700 shares of the Company s outstanding common stock for $1.20 per share. The 198,700 shares of common stock were owned by the Liquidating Partnerships and AFG Investment Trust A Liquidating Trust. Subsequent to this transaction, Mr. Engle and Mr, Coyne together with their affiliates are the beneficial owners of approximately 67% of the outstanding common stock.

On September 30, 2003, three of the EGF Programs adopted formal plans of liquidation and transferred their assets to three respective liquidating trusts. As of September 30, 2003, a total of four EGF Programs are currently in their active liquidation phase.

In October 2003, the Company offered to the trustee of the Liquidating Trusts to accept the EFG Kirkwood interests owned by the Liquidating Trusts, valued at a liquidation value of $1.3 million, as a distribution-in-kind, in lieu of cash distributions. The trustee has indicated to the Company that it will accept the offer contingent upon the receipt of the appropriate documentation. The Company anticipates that the distribution-in-kind will be received prior to December 31, 2003.

In the second quarter of 2003, the Company, through MILPI, purchased the existing minority interest in MILPI owned by the Liquidating Trusts for $5.4 million, which is held by MILPI in treasury stock. The acquisition was financed through MILPI s existing cash reserves and cash flows generated from the sale of railcars. Prior to the acquisition, MILPI was owned as follows: AFG Investment Trust A Liquidating Trust 8%; AFG Investment Trust B Liquidating Trust 17%; AFG Investment Trust C 37.5% and AFG Investment Trust D 37.5%. Subsequent to the acquisition, AFG Investment Trust C and AFG Investment Trust D, which are consolidated into the Company s financial statements, collectively own 100% of MILPI with each trust owning 50%.

In November 2003, Semele received a revised proposal from Mr. Gary Engle and Mr. James Coyne, respectively Semele s CEO and President ("Management"), for the acquisition of substantially all of the outstanding shares of common stock of Semele not already owned by Management. The revised proposal supercedes their previous offer made on May 5, 2003 discussed above. The revised proposal is an offer from Management to make a voluntary tender offer at $1.20 per share for the acquisition of substantially all of the outstanding shares of common stock of Semele not already owned by Management after the Company has completed a 1 for 1000 reverse stock split in which stockholders owning fewer than 1,000 shares will receive $1.20 per share for their shares.

Item 2. Management s Discussion of Analysis of Financial Condition and Results of Operations

RESTATEMENT OF CONSOLIDATED FINANCIAL STATEMENTS

In 1999 and 2000, the Semele Group, Inc. ("Semele" or the "Company") acquired Equis II Corporation ("Equis II") and the Special Beneficiary Interests ("SB Interests") in four Delaware trusts (AFG Investment Trust A, AFG Investment Trust B, AFG Investment Trust C and AFG Investment Trust D), (collectively the "Trusts"). These acquisitions were originally accounted for as a combination of entities under common control in a manner similar to a pooling of interests which the Company believed appropriate at the time. In 2003, the Company determined the companies were not under common control and therefore these acquisitions should have been accounted for using the purchase method of accounting and that their financial statements should be restated. The principal effects of this accounting were to increase consolidated net assets and to decrease net income for the associated amortization of tangible assets and goodwill.

In addition to the accounting for the acquisitions of Equis II and the SB Interests, the Company has restated these financial statements for its interest in Mountain Springs and Mountain Resort. The Company determined that the amounts recorded as its share of equity income (loss) on its interest in Mountain Springs and Mountain Resort (classified as "Equity Income (Loss) in Non-Affiliated Companies" in the accompanying consolidated statements of operations) for the three months ended March 31, 2002 were incorrect. The Company should have recorded additional equity income on these investments. The consolidated financial information for the three months ended March 31, 2002 has been restated to include the additional equity income for these investments.

A summary of the effects of the restatement on the Company s 2002 stockholder s deficit and statement of operations for the three months ended March 31, 2002 is summarized as follows (in thousands of dollars, except per share amounts):

	As of and for the Three Months Ended March 31, 2002		
	(Restated)	(As previously reported)	Difference
Stockholders' deficit	$ (6,187)	$ (17,267)	$ 11,080
Net income	$ 737	$ 881	$ 144
Earnings per share	$ 0.36	$ 0.42	$ 0.06
Depreciation and amortization	$ 2,508	$ 2,320	$ 188

Gain on the disposition of equipment	33	54	21
Interest on indebtedness and other obligations - affiliates	356	472	(116)
Equity income in affiliated companies	3,470	2,790	(680)
Elimination of consolidated subsidiaries minority interests	1,934	1,203	731
Total adjustment to 2002 net income			$ 144

FORWARD-LOOKING INFORMATION

Certain statements in this annual report of the Company that are not historical fact constitute "forward-looking statements" within the meaning of the Private Securities Litigation Reform Act of 1995 and are subject to a variety of risks and uncertainties. There are a number of important factors that could cause actual results to differ materially from those expressed in any forward-looking statements made herein. These factors include, but are not limited to, the collection of the Company's contracted rents, the realization of residual proceeds for the Company's equipment, the performance of the Company's non-equipment assets, and future economic conditions.

CRITICAL ACCOUNTING POLICIES

The preparation of financial statements in conformity with accounting principles generally accepted in the United States requires the Company to make estimates and assumptions that affect the amounts reported in the financial statements. On a regular basis, the Company reviews these estimates and assumptions including those related to revenue recognition, asset lives and depreciation and impairment of long-lived assets. These estimates are based on the Company s historical experience and on various other assumptions believed to be reasonable under the circumstances. Actual results may differ from these estimates under different assumptions or conditions. The Company believes, however, that the estimates, including those for the above-listed items, are reasonable.

The Company believes the following critical accounting policies involve the most complex, difficult and subjective judgments and estimates used in the preparation of these financial statements:

Principles of Consolidation

The consolidated financial statements include the accounts of the Company and its controlled subsidiaries, all entities in which the Company has a direct or indirect controlling interest. The Company defines control as the ability of an entity or person to direct the policies and management that guide the ongoing activities of another entity so as to increase its benefits and limit its losses from that other entity s activities without the assistance of others in accordance with Statement of Financial Accounting Standards ("SFAS") No. 94, "Consolidation of All Majority Owned Subsidiaries".

The Company s subsidiaries managerial, operational and financial agreements are highly diverse and complex which is critical in the consolidation of its assets and liabilities. The presentation of the financial statements herein would be significantly different if management accounted for its subsidiaries under the equity or cost method of accounting. All material intercompany transactions have been eliminated in consolidation. Investments in which the Company has the ability to exercise significant influence, but not control, are accounted for under the equity method of accounting. All other investments are accounted for using the cost method of accounting.

Equity Investments

The Company s equity investments include an interest in the Liquidating Partnerships, AFG Investment Trusts A and B Liquidating Trusts ("Liquidating Trusts"), EGF Programs, Mountain Springs Resort LLC ("Mountain Springs") and Mountain Resort Holdings, LLC ("Mountain Resort"), EFG/Kettle Development LLC ("Kettle Valley") and other miscellaneous investments. The Liquidating Partnerships are defined as the ownership interests that Ariston Corporation, a wholly owned subsidiary of the Company, had in eleven limited partnerships engaged primarily in the equipment leasing business. On July 18, 2002, the eleven partnerships adopted formal plans of liquidation and transferred their assets and liabilities to eleven respective liquidating partnership trusts. The EGF programs are defined as PLM Equipment Growth Funds V and VI, PLM Equipment Growth & Income Fund VII, Professional Lease Management Income Fund I, LLC and PLM Equipment Growth Fund I, II, III and IV Liquidating Trusts.

For accounting purposes, the Company considers affiliates to be person(s) and/or entities that directly, or indirectly through one or more intermediaries, manage or are managed by, or are under common management of or with, the Company. All other entities are considered to be non-affiliates.

Minority ownership equity securities that are not publicly traded are accounted for in accordance with Accounting Principles Board ("APB") No. 18, "The Equity Method of Accounting for Investments in Common Stock." If the Company s ownership interest in the investment enables the Company to influence but not control the operating financial decisions of the investee, the investment is accounted for under the equity method of accounting. Otherwise, the investment is accounted for under the cost method of accounting. The equity method of accounting is discontinued when the investment is reduced to zero and does not provide for additional losses unless the Company has guaranteed obligations of the investee or is otherwise committed to provide further financial support to the investment.

Whenever circumstances indicate that a possible impairment of an equity investment exists and is other than temporary, the Company evaluates the fair value of the asset compared to the asset s carrying value. The loss recorded is equal to the difference between the carrying amount and the fair value of the asset. The fair value of the asset is determined based on a valuation model which includes the present value of the expected cash flows of the asset, current market prices and management s industry knowledge.

Accounting policies of equity investments held by MILPI: MILPI Holdings LLC s ("MILPI") assets are comprised primarily of equity investments in equipment leasing programs, cash and cash equivalents and equipment held for sale. MILPI s primary business is the management of equipment leasing programs.

MILPI has an equity interest ranging from 1% to 15% in several equipment leasing programs (PLM Equipment Growth Funds V and VI, PLM Equipment Growth & Income Fund VII, Professional Lease Management Income Fund I LLC and Equipment Growth Fund I, II, III and IV Liquidating Trusts) called the Equipment Growth Funds ("EGF Programs"). The Company recognizes income from these interests as equity income in affiliated companies and is recognized as earned by the programs.

The EGF Programs are accounted for under the equity method of accounting. The EGF Programs accrue for legally required repairs to equipment if it is the responsibility of the program, such as dry-docking for marine vessels and engine overhauls to aircraft engines over the period prior to the required repairs. The amount that is reserved is based on the Company s expertise in each equipment segment, the past history of such costs for that specific piece of equipment and discussions with independent, third party equipment brokers. If the amount reserved is not adequate to cover the cost of such repairs or if the repairs must be performed earlier than the EGF Programs estimated, the EGF Programs would incur additional repair and maintenance on equipment operating expenses. This would also impact the Company s equity income (loss) in affiliated companies reported on its consolidated statements of operations.

The Company has chosen asset lives for the equipment in its equity investments that it believes correspond to the economic life of the related asset. The Company has chosen a depreciation method that it believes matches the benefit to the managed programs from the asset with the associated costs. These judgments have been made based on the

Company s expertise in each equipment segment that the managed programs operate. If the asset life and depreciation method chosen does not reduce the book value of the asset to at least the potential future cash flows from the asset to the managed programs, the managed programs would be required to record a loss on revaluation. Likewise, if the net book value of the asset was reduced by an amount greater than the economic value has deteriorated, the managed programs may record a gain on disposition upon final disposition of the asset. In either instance, this would impact the amount of the Company s equity income in affiliated companies reported on its consolidated statement of operations.

MILPI s managed programs maintain allowances for doubtful accounts and other receivables for estimated losses resulting from the inability of the customers to make the required payments. These estimates are primarily based on the amount of time that has lapsed since the related payments were due as well as specific knowledge related to the ability of the lessees to make the required payments. If the financial condition of the managed programs were to change, this would impact the amount of the management fee revenue and equity interests earned by the Company.

Goodwill

The Company adopted SFAS No. 142, "Goodwill and Other Intangible Assets" on January 1, 2002. The discontinuance of goodwill amortization was effective upon adoption of SFAS No. 142. In accordance with SFAS No. 142, goodwill and intangible assets with indefinite lives are no longer be amortized but instead will be measured for impairment at least annually, or when events indicated that an impairment is necessary. Goodwill is calculated as the excess of the aggregate purchase price over the fair market value of identifiable net assets acquired. SFAS No. 142 also includes provisions for the reclassification of certain existing recognized intangibles as goodwill, reassessment of the useful lives of existing recognized intangibles, reclassification of certain intangibles out of previously reported goodwill, and the identification of reporting units for purposes of assessing potential future impairments of goodwill. SFAS No. 142 requires the Company to complete a transitional goodwill impairment test as of the date of adoption. The Company completed the goodwill impairment analysis as of January 1, 2002. There was no impact on the Company s consolidated financial statements as a result of the transitional analysis.

Revenue Recognition

The Company recognizes revenue in accordance with SEC Staff Accounting Bulletin ("SAB") No. 101, "Revenue Recognition in Financial Statements". SAB No. 101 provides guidance for the recognition, presentation and disclosure of revenue in financial statements.

The Company earns rental income from a portfolio of equipment held for lease and from two leased buildings. Rents are due monthly or quarterly and are earned based on the passage of time. Substantially all of the Company s leases are triple net, non-cancelable leases and are accounted for as operating leases in accordance with SFAS No. 13, "Accounting for Leases." Rents received prior to their due dates are deferred. Deferred rental income was $0.5 million and $0.6 million at March 31, 2003 and December 31, 2002, respectively.

MILPI earns equipment acquisition and lease negotiation fees through the purchase and initial lease of equipment for investment programs and they are recognized as revenue when the Company completes all of the services required to earn the fees, typically when binding commitment agreements are signed. It also earns management fees for managing equipment portfolios and administering investor programs. The fees are generally based on the type and amount of lease revenue earned by the programs and are recognized over time as the fees are earned.

Depreciation

Buildings: Depreciation is computed using the straight-line method over the estimated useful life of the underlying assets, generally 40 years for buildings, with an estimated residual value of zero. Expenditures that improve or extend an asset s life and that are significant in amount are capitalized and depreciated over the remaining useful life of the asset.

Equipment held for lease: The Company s depreciation policy on equipment is intended to allocate the cost over the period during which it produces economic benefit. The principal period of economic benefit is considered to correspond to each asset's primary lease term, which generally represents the period of greatest revenue potential for each asset. Accordingly, to the extent that an asset is held on primary lease term, the Company depreciates the difference between (i) the cost of the asset and (ii) the estimated residual value of the asset at the end of the primary lease term on a straight-line basis over such term. For purposes of this policy, estimated residual values represent estimates of equipment values at the date of the primary lease expiration. To the extent that an asset is held beyond its primary lease term, the Company continues to depreciate the remaining net book value of the asset to its residual on a straight-line basis over the asset's remaining economic life.

The Company periodically reviews its assets depreciation method, estimated useful life and estimated salvage value for reasonableness. If current estimates are significantly different from previous estimates, the assets depreciation method, estimated useful life and estimated salvage value are changed. The estimated residual value of leased assets is determined based on third party appraisals and valuations, as well as market information, offers for similar types of assets and overall industry expertise.

Impairment Of Long-Lived Assets

The Company accounts for impairment of long-lived assets in accordance with SFAS No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets" which the Company adopted on January 1, 2002. In accordance with SFAS No. 144, the Company evaluates long-lived assets for impairment whenever events or circumstances indicate that the carrying values of such assets may not be recoverable and exceed their fair value. Whenever circumstances indicate that an impairment may exist, the Company evaluates future cash flows of the asset to the carrying value. If projected undiscounted future cash flows are less than the carrying value of the asset, a loss is recorded in the accompanying consolidated statements of operations as impairment of assets. The loss recorded is equal to the difference between the carrying amount and the fair value of the asset. The fair value of the asset requires several considerations, including but not limited to: an independent appraisal or valuation model which includes the present value of expected future cash flows of the asset, current market prices and management s market knowledge.

The Company evaluates the fair value of significant equipment assets, such as aircraft, individually. All other assets are evaluated collectively by equipment type unless the Company learns of specific circumstances, such as a lessee default, technological obsolescence, or other market developments, which could affect the fair value of particular assets.

The evaluation of long-lived assets secured by non-recourse debt is determined based on a valuation model which includes the present value of expected future cash flows and the recoverable value. If the Company expects to return the asset to the lender, the recoverable value will not be less than the balance of the non-recourse debt.

New Accounting Pronouncements

In September 2001, the rule making body of the American Institute of Certified Public Accountants ("AICPA") issued an Exposure Draft on a Statement of Position, "Accounting for Certain Costs and Activities Related to Property, Plant and Equipment" (the, Proposed Statement"). This group, referred to as AICPA Accounting Standards Executive Committee ("AcSEC"), recently decided that it will no longer issue accounting guidance and planned to transition the majority of its projects to the Financial Accounting Standards Board ("FASB") . However, the FASB subsequently requested that AcSEC address certain portions of the Proposed Statement in smaller scope projects. The FASB expressed their concern that the project would not be completed timely by AcSEC or the FASB, if the scope of the project was not reduced. On September 9, 2003, AcSEC voted to approve the proposed statement and is expected to present it to the FASB for clearance in the first quarter of 2004.

If the existing Proposed Statement is issued, it would require the Company to modify its accounting policy for maintenance and repairs. Such costs would no longer be accrued in advance of performing the related maintenance and repairs; rather, the Proposed Statement requires these costs to be capitalized and amortized over their estimated useful life. The Company has not yet quantified the impact of adopting the Proposed Statement on its financial statements.

In November 2002, the FASB issued Interpretation No. 45, "Guarantor s Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Others" ("FIN 45"). FIN 45 elaborates on the disclosures to be made by a guarantor in its interim and annual financial statements about its obligations under certain guarantees that it has issued. It also clarifies that a guarantor is required to recognize, at the inception of a guarantee, a liability for the fair value of the obligation undertaken in issuing the guarantee. The initial recognition and initial measurement provisions of the interpretation are applicable on a prospective basis to guarantees issued or modified after December 31, 2002 and the disclosure requirements in this interpretation are effective for financial statements of interim or annual periods ending after December 15, 2002. The adoption of FIN 45 is not expected to have a material impact on the Company s financial position or results of operations.

In January 2003, Financial Accounting Standards Board ("FASB") issued Interpretation No. 46, "Consolidation of Variable Interest Entities ("FIN 46"). This interpretation clarifies existing accounting principles related to the preparation of consolidated financial statements when the equity investors in an entity do not have the characteristics of a controlling financial interest or when the equity at risk is not sufficient for the entity to finance its activities without additional subordinated financial support from other parties. FIN 46 requires a company to evaluate all existing arrangements to identify situations where a company has a "variable interest," commonly evidenced by a guarantee arrangement or other commitment to provide financial support, in a "variable interest entity," commonly a thinly capitalized entity, and further determine when such variable interest requires a company to consolidate the variable interest entities financial statement with its own. This interpretation applies immediately to variable interest entities created after January 31, 2003, and to variable interest entities in which an enterprise obtains an interest after that date. In October 2003, the FASB issued a Final FASB Staff Position deferring the effective date of FIN 46 for all public entities until the first interim or annual period ending after December 15, 2003. As such, FIN 46 will be effective for the Company as of December 31, 2003. Based on the recent release of this interpretation, we have not completed our assessment as to whether or not the adoption of this interpretation will have a material impact on our financial statements.

The Company is currently evaluating several companies to determine if they meet the definition of a variable interest entity as defined in FIN 46. Such companies include the Liquidating Trusts, AFG Investment Trust C and D, EGF Programs, EFG Kirkwood, LLC, Rancho Malibu, Mountain Springs and Mountain Resort, Kettle Valley and the Company s investments in Liquidating Partnerships. As of March 31, 2003, the Company s maximum exposure of equity investments which could be effected by FIN 46 is $43.7 million, which represents the carrying value of the Company s investments.

In May 2003, the FASB issued SFAS No. 150, "Accounting for Certain Financial Instruments with Characteristics of Both Liabilities and Equity". SFAS No. 150 establishes standards for how an issuer classifies and measures certain financial instruments with characteristics of both liabilities and equity. In addition, SFAS No. 150 requires an issuer to classify certain instruments with specific characteristics described in it as liabilities (or as assets in some circumstances). Specially, SFAS No. 150 requires that financial instruments issued in the form of shares that are mandatorily redeemable; financial instruments that embody an obligation to repurchase the issuer s equity shares or are indexed to such an obligation; or financial instruments that embody an unconditional obligation or a conditional obligation that can be settled in certain ways be classified as liabilities.

In October 2003, the FASB voted deferred for an indefinite period the application of the guidance in SFAS No. 150 to noncontrolling interests that are classified as equity in the financial statements of the subsidiary but would be classified as a liability in the parent's financial statements under SFAS No. 150 (e.g., noncontrolling interests in limited-life subsidiaries). The FASB decided to defer the application of SFAS No. 150 to these noncontrolling interests until it could consider some of the resulting implementation issues associated with the measurement and recognition guidance for these noncontrolling interests.

RESULTS OF OPERATIONS

At March 31, 2003, the Company was engaged in three operating segments: 1) equipment leasing 2) equipment management and 3) real estate ownership, development and management. The equipment leasing segment includes acquiring and leasing to third parties a portfolio of capital equipment. The equipment management segment includes the Company s interest in MILPI s EGF Programs. The real estate operating segment includes the Company s ownership interest in Rancho Malibu, AFG International, Mountain Springs, Mountain Resorts, Kettle Valley and other miscellaneous minority interest investments.

The Company s reportable segments offer different products or services and are managed separately because each requires different operating strategies and management expertise. There are no material intersegment sales or transfers.

During the fourth quarter of 2002, the Company increased its number of reportable segments to include the equipment management segment. Previously, the Company reported on two operating segments: Equipment Leasing and Real Estate. Equipment management was previously included in the equipment leasing segment. Segment information for the three months ended March 31, 2002 has been revised to reflect the additional operating segment. (See Note 9 to the unaudited consolidated condensed financial statements.)

Equipment Leasing operations

A summary of the equipment leasing segment revenues for the three months ended March 31, 2003 and 2002 is summarized as follows (in thousands of dollars):

	March 31, 2003	March 31, 2002
		(Restated)
Lease revenue	$ 2,754	$ 2,924
Interest and investment income	42	21
Interest income- affiliates	66	58
Gain on disposition of equipment, net	12	33
Other revenue	2	59
Total revenues	$ 2,876	$ 3,095

Lease revenue: During the three months ended March 31, 2003 and 2002, the Company recognized lease revenue of $2.8 million and $2.9 million, respectively. Lease revenue represents rental revenue recognized from the leasing of the equipment owned by the Trusts and Rail I Investors I, LLC ("Rail I Investors"). Rail I Investors was formed in the fourth quarter of fiscal 2002 for the sole purpose of leasing equipment under an operating lease and re-leasing the equipment to unrelated third parties. The decrease in equipment leasing revenues is attributable to a $0.5 million decrease in the Trusts lease revenues due to lease terminations and the ongoing sale of equipment partially offset by a $0.4 million increase in lease revenue from Rail I Investors.

Operating expenses and fees and expenses - affiliate: Operating expenses and fees and expenses - affiliate were approximately $0.9 million and $0.7 million for the three months ended March 31, 2003 and 2002, respectively. The increase in operating costs and management fees- affiliate of $0.2 million is primarily due to $.4 million of operating expenses incurred by Rail I Investors in the first quarter of 2003, offset by a decrease of $0.2 million in the operating expenses of the Trusts. Rail I Investors lease expense is due to the growth in its railcar portfolio and operating expenses primarily consisted of lease expenses.

Fees and other costs paid to affiliates during the three months ended March 31, 2003 and 2002, which are included as operating expenses and fees and expenses - affiliate in the segment table above, are as follows (in thousands of dollars):

	March 31, 2003	March 31, 2002
		(Restated)
Equipment management fees	$ 90	$ 192
Administrative charges	76	337
Total	$ 166	$ 529

Equipment management fees and administrative charges paid to affiliates decreased due to the sale of assets during fiscal 2002 which reduced the management fees and administrative charges incurred.

Interest expense- affiliated and non-affiliated: Interest expense on affiliated and non-affiliated debt was $1.0 million and $1.4 million for the three months ended March 31, 2003 and 2002, respectively. Interest expense associated with equipment leasing consists of interest associated with corporate debt, equipment leasing debt and indebtedness to affiliates. Total interest expense decreased by $0.4 million for the three months ended March 31, 2003 compared to 2002 resulting from principal payments made during 2002 and 2003 which reduced the outstanding loan balances.

Depreciation and amortization: Depreciation and amortization expense was $1.6 million and $2.3 million for the three months ended March 31, 2003 and 2002, respectively. Depreciation and amortization is primarily comprised of depreciation of equipment on lease. Depreciation and amortization decreased by $0.7 million for the three months ended March 31, 2003 compared to 2002. The decrease is attributable to the disposition of equipment during 2002 and the first quarter of 2003. Depreciation and amortization in this segment is expected to continue to decline in the future as the Company s equipment portfolio is sold and not replaced.

During 2002, the Company also evaluated its aircraft secured by non-recourse debt, in accordance with the Company s policy for recording an impairment on long-lived assets. The recoverable value of the aircraft was determined based on management s assumption that the asset would not be sold or re-leased. If the Company anticipated selling or re-leasing the asset, the recoverable value would have been significantly lower which would have resulted in an impairment.

Equity (loss) income in affiliated companies: Equity (loss) income for the equipment leasing segment consists of the Company s minority ownership interests in eleven liquidating partnerships. The Company recognized a loss on its investment of $22,000 and $24,000 during the three months ended March 31, 2003 and 2002, respectively.

Equipment Management

A summary of the equipment management segment revenues for the three months ended March 31, 2003 and 2002 is summarized as follows (in thousands of dollars):

	March 31, 2003	March 31, 2002
		(Restated)
Lease revenue	$ 37	$ 67
Management and acquisition fee income- affiliates	1,737	1,266
Interest and investment income	60	76
Other revenues	279	277
Total revenues	$ 2,113	$ 1,686

Lease revenue: Lease revenue consists of rental revenues generated at MILPI from assets held for operating leases and assets held for sale that are on lease. Assets held for operating leases include commercial and industrial equipment. The decrease in lease revenue of $30,000 is attributable to the disposition of equipment that was not replaced.

Management and acquisition fee income- affiliates: The equipment management s segment revenues are derived primarily from management and acquisition fees earned on lease revenues and negotiating asset acquisitions associated with the EGF Programs. The Company earned $1.7 million and $1.3 million in management and acquisition fee income from affiliates for the three months ended March 31, 2003 and 2002, respectively. The increase in management and acquisition fees of $0.4 million is attributable to the acquisition of several railcars which were negotiated by the Company. Management fee income from affiliates is expected to decline in the future as the EGF Programs reinvestment periods expire and the EGF Programs liquidate.

Operating expenses and fees and expenses - affiliate: Operating expenses and fees and expenses - affiliate were $0.8 million for both the three month periods ended March 31, 2003 and 2002, respectively. Operating expenses consist of salary, office rent, insurance, professional fees and other costs.

Depreciation and amortization: Depreciation and amortization was $10,000 and $70,000 for the three months ended March 31, 2003 and 2002, respectively. The decrease in depreciation and amortization expense is attributable to a decrease in depreciation expense associated with the sale of MILPI s commercial and industrial equipment.

Equity income in affiliated companies: Equity income in affiliated companies for the equipment management segment consists of the Company s minority ownership interest in the EGF Programs. The Company recognized $0.3 million and $0.1 million of equity income during the three months ended March 31, 2003 and 2002, respectively. Equity income increased by $0.3 million due to the sale of assets that resulted in income in the EGF Programs in 2003.

Real estate operations

A summary of the real estate segment revenues for the three months ended March 31, 2003 and 2002 is summarized as follows (in thousands of dollars):

	March 31,	March 31,

	2003	2002
		(Restated)
Lease revenue	$ 260	$ 293
Management and acquisition fee income- affiliates	6	58
Other revenues	3	-
Total revenues	$ 269	$ 351

Lease revenue. During the three months ended March 31, 2003 and 2002, the Company recognized lease revenue of $0.3 million from real estate operations. Lease revenue from real estate operations is earned from its ownership interest in two buildings, one located in Washington, DC and one in Sydney, Australia.

Management and acquisition fee income- affiliates: Kelowna Valley Projects, Inc. is a wholly-owned subsidiary of Semele Group Inc. and is the sole general partner to Kettle Valley Limited Partnership ("KVD LP"), with a .01% ownership interest in the partnership. Per the KVD LP partnership agreement, Kelowna Valley Projects, Inc. receives a 1.5% management fee on the sales price of lot sales at the development in KVD LP. During the three months ended March 31, 2003 and 2002, the Company recorded $6,000 and $0.1 million, respectively, in management fees revenue associated with total lot sales. Kelowna Valley Projects, Inc. has no other operations other than its ownership interest in the partnership.

Operating expenses and fees and expenses - affiliate: Operating expenses were $30,000 and $0.1 million for the three months ended March 31, 2003 and 2002, respectively. Operating expenses consist primarily of general and administrative expenses, which include salary, management fees and office related expenses resulting from the Company s ownership of two buildings, one located in Washington, DC and one in Sydney, Australia. Operating expenses decreased by $33,000 due to a decrease in the level of professional services incurred during the three months ended March 31, 2003 compared to the same period of 2002.

Interest expense and interest expense- affiliates: Interest expense and interest expense- affiliates consists of interest on the Company s $5.6 million note to an unrelated third party and an $8.4 million promissory note due to an affiliated entity to acquire Ariston Corporation. Third party debt was acquired to finance the acquisition of the Company s building located in Washington D.C. Interest expense was $0.2 million for the three months ended March 31, 2003 and 2002, respectively.

Depreciation and amortization expense: Depreciation and amortization expense was $0.1 million for the three months ended March 31, 2003 and 2002. Depreciation expense is attributable to the depreciation of the two buildings owned by the Company, which are discussed above, and amortization of debt costs. The Company also owns 274 acres of undeveloped land near the Malibu California, called Rancho Malibu. There was no depreciation recognized on Rancho Malibu as it remains under development at March 31, 2003.

Equity income (loss) in affiliated and non-affiliated companies: Equity income (loss) in affiliated and non-affiliated companies for the real estate segment consists of the Company s minority interest in three real estate companies and its interest in two liquidating trusts:

Mountain Resort Holdings LLC ("Mountain Resort")

Mountain Springs Resort LLC ("Mountain Springs")
EFG/Kettle Valley Development LLC ("Kettle Valley")
AFG Investment Trust A Liquidating Trust and AFG Investment Trust B Liquidating Trust ("Liquidating Trusts")

The Company recorded equity income (loss) in its interest in affiliated and non-affiliated companies for the three months ended March 31, 2003 and 2002, respectively (in thousands of dollars):

	March 31, 2003	March 31, 2002
		(Restated)
Mountain Resort Holdings, LLC and Mountain Springs Resort, LLC	$ 2,877	$ 3,672
EFG Kettle Development, LLC	(76)	(202)
Investment in Liquidating Trusts	271	-
Total	3,072	3,470

The Company, through its 100% ownership of EFG Kirkwood, has equity interests in Mountain Resort and Mountain Springs, ski resorts located in Kirkwood, California and Durango, Colorado, respectively.

The Company recorded income from its equity investment in Mountain Springs and Mountain Resort of $2.9 million and $3.7 million for the three months ended March 31, 2003 and 2002, respectively. The decrease in equity income is attributable to a decrease in the operating revenues of the ski resorts primarily due to a decline in the tourism industry.

Mountain Springs: During the three months ended March 31, 2003, Mountain Springs recorded total revenues of $8.8 million compared to $9.4 million for the same period of 2002. The decrease in total revenues from 2002 to 2003 of $0.6 million is the result of a decrease in visitors to the resort compared to the same period last year, despite improved weather conditions during the winter season.

Total expenses were $6.4 million for the three months ended March 31, 2003 compared to $6.1 million for the same period in 2002. The increase in total expenses for the three months ended March 31, 2003 compared to the same period in 2002 of $0.3 million is a result of a $0.5 million increase in cost of sales, offset by a $0.2 million decrease in fixed and variable expenses.

Mountain Resort: During the three months ended March 31, 2003, Mountain Resort recorded total revenues of $16.5 million compared to approximately $16.4 million for the same period in 2002. The increase in total revenues from 2002 to 2003 of $0.1 million is the result of an increase in residential-related revenues, offset, in part by a decrease in ski related revenue. Ski-related revenues decreased approximately $0.2 million. The decrease in ski-related revenues resulted from a decrease in visitors to the resort compared to the same period last year, despite improved weather conditions during the winter season.

Residential-related and other operations revenues increased $0.3 million for the three months ended 2003 as compared to 2002. The increase in residential-related and other operations revenues was primarily attributable to an increase in the number of real estate sales during 2003 compared to 2002.

During both the three months ended March 31, 2003 and 2002, Mountain Resort recorded total expenses of $11.2 million.

Kettle Valley: Kettle Valley is a real estate development company located in Kelowna, British Columbia, Canada. The project, which is being developed by KVD LP, consists of 270 acres of land that is zoned for 1,120 residential units in addition to commercial space. The Company recorded equity loss of $0.1 million and $0.2 million during the three months ended March 31, 2003 and 2002, respectively. The decrease in loss from the prior period is attributable to an increase in the number of lot and home sales from the prior year.

Liquidating Trusts: The Company owns a pro rata beneficial interest in the Liquidating Trusts associated with its Class B Interest, SB Interest and Managing Trustee interest in the two trusts. In the fourth quarter of fiscal 2002, the two trusts adopted a formal plan of liquidation and transferred its assets to respective liquidating trusts. Prior to adopting a formal plan of liquidation, the Company consolidated the financial statement of the trusts. The Company recorded $0.3 million in equity income associated with its interest in the Liquidating Trusts for the three months ended March 31, 2003. Equity income was not recorded in the three months ended March 31, 2002 since the financial operations of the Trusts were consolidated during fiscal 2002.

LIQUIDITY AND CAPITAL RESOURCES

Cash requirements for the three months ended March 31, 2003 were satisfied through cash flow from operations, proceeds from equipment sales and distributions from equity investments. Future inflows of cash from equipment disposals will vary in timing and amount and will be influenced by many factors including, but not limited to, the frequency and timing of lease expirations, the type of equipment being sold, its condition and age, and future market conditions. In addition, future inflows of cash from equity investments will vary in timing and will also be influenced by many factors not controlled by the Company.

Rents and other receivables increased by $0.4 million or 51% from December 31, 2002 to March 31, 2003. The increase in rents receivable is attributable to the timing of the sale of equipment and rental receipts during the three months ended March 31, 2003.

Equipment held for lease decreased by $1.7 million or 4% from December 31, 2002 to March 31, 2003. The majority of the decrease, $1.6 million, was attributable to depreciation expense recorded during the three months ended March 31, 2003. In addition to depreciation expense, the Company sold equipment in the first quarter of 2003 with a net book value of $0.1 million.

Equipment held for sale decreased by $6.2 million or 100% from December 31, 2002 to March 31, 2003. As of December 31, 2002, MILPI owned $6.2 million of railcars all of which were subsequently sold to an affiliated company at its cost, which approximated fair value, in the first quarter of 2003.

Real estate held for development and sale increased by $0.2 million or 1.0% from December 31, 2002 to March 31, 2003. The increase is attributable to $0.2 million of costs incurred in first quarter of 2003 to develop the property.

Buildings decreased by $0.1 million or 1% from December 31, 2002 to March 31, 2003 due to depreciation expense recorded during the first quarter of 2003.

Interests in affiliated companies increased by $0.3 million or 2% from December 31, 2002 to March 31, 2003. Interests in affiliated companies consists of the Company s interest in the Liquidating Partnerships, the Liquidating Trusts and the EGF Programs. The increase was primarily attributable to $0.6 million in equity income recorded during the quarter which was partially offset by $0.2 million of cash distributions received from the EGF Programs.

Interests in non-affiliated companies increased by $2.8 million or 21% from December 31, 2002 to March 31, 2003 due to equity income recorded for the Company s portion of the investee s net income. Interests in non-affiliated companies primarily consists of interests in Mountain Springs, Mountain Resort, Kettle Valley and two liquidating trusts.

Other assets increased by $0.5 million or 12% from December 31, 2002 to March 31, 2003. In the first quarter of 2003, the Company renewed and paid its directors and officers insurance policy for the year, which increased other assets by $0.3 million, net of amortization recorded on the policy. The remaining increase of $0.2 million in other assets is attributable to an increase in the cash surrender value life of the Company s life insurance policies and other miscellaneous assets.

Due from affiliates increased by $0.2 million or 4% from December 31, 2002 to March 31, 2003. Management fees receivable increased by $0.1 million due to a difference in the timing of when management fees were earned and collected from the programs. The remaining increase was attributable to a $0.1 million increase in interest receivable on loan obligations due from Mr. Engle and Mr. Coyne.

Accounts payable and accrued expenses increased by $2.1 million or 23% from December 31, 2002 to March 31, 2003. During the first quarter of 2003, $1.7 million of cash for shares not tendered in the PLM tender offer was remitted to MILPI from the transfer agent. Upon receipt of the cash, the Company recorded the cash and a corresponding liability to reflect the associated obligation. The remaining increase of $0.4 million was the result of the timing of payment to vendors.

Indebtedness to unrelated third parties decreased by $1.4 million or 3% from December 31, 2002 to March 31, 2003 due to principal payments made amortizing the balance of the debt. There were no additional borrowings made by the Company during the three months ended March 31, 2003.

Indebtedness and other obligations to affiliates decreased by $5.1 million or 15% from December 31, 2002 to March 31, 2003. The decrease in indebtedness and other obligations to affiliates is attributable to the payment of the $4.4 million note and related accrued interest totaling $4.5 million. In addition, the Company paid $0.9 million of accrued interest associated with the $8.4 million note issued to purchase Ariston Corporation. These payments were offset by $0.3 million of accrued interest recorded during the quarter associated with its outstanding related party debt.

Deferred income taxes increased by $0.5 million or 4% from December 31, 2002 to March 31, 2003. The increase is the result of MILPI s net income for the first quarter of 2003, for which the income taxes are not expected to be due in the next twelve months.

MILPI Holdings LLC

At September 30, 2003, MILPI had total assets of $61.5 million consisting primarily of $18.5 million of investments in the EGF Programs, $15.8 million of railcars held for sale, an $11.9 million investment in RMLP, Inc and goodwill of $8.1 million. The remaining assets of $7.2 million primarily consisted of cash, receivables and other assets.

MILPI had total liabilities of $36.1 million and $0.8 million of minority interest in its investment in RMLP, Inc at September 30, 2003. Liabilities primarily consisted of $10.0 million balance on the warehouse line of credit used for the railcar purchases discussed below, $11.9 million in deferred income taxes, $2.9 million in note payable to an unrelated third party discussed below, $2.5 million in a note payable to a related party discussed below and $8.8 in accounts payable and other liabilities.

MILPI is a participant in a $10.0 million warehouse credit facility, which expires in December 2003. The warehouse credit facility is shared by MILPI and several of its managed equipment leasing programs. All borrowings are guaranteed by MILPI. MILPI borrowed $10.0 million under the warehouse credit facility at September 30, 2003.

MILPI had cash flows from operations of $2.5 million for the nine months ended September 30, 2003. Cash flows from operations were used to purchase railcars, purchase AFG Investment Trust A and B Liquidating Trust s interest discussed below and purchase an interest in RMLP, Inc. discussed below.

During the first quarter of 2003, RMLP, Inc., a wholly-owned subsidiary of MILPI, purchased a 75% ownership interest in the Rancho Malibu partnership. Rancho Malibu is a subsidiary of the Company that is developing 274 acres of land in Malibu, California. MILPI purchased the interest in Rancho Malibu from Semele Group Inc. for $5.5 million in cash, a $2.5 million promissory note and 182 shares (15.4%) of the common stock of RMLP, Inc. The acquisition was financed through existing cash flows. In the second quarter of 2003, Rancho Malibu amended its partnership agreement to include an additional unrelated investor for the purpose of completing the development of the property. The third party investor contributed $2.0 million to Rancho Malibu and is the development general partner.

During the second quarter of 2003, MILPI acquired AFG Investment Trust A and B Liquidating Trusts interest in MILPI for $5.4 million. The acquisition was financed through MILPI s existing cash reserves and cash flows generated from the sale of railcars. Subsequent to the acquisition, AFG Investment Trust C and D s ownership interest in MILPI increased to 50% per Trust.

During the nine months ended September 30, 2003, MILPI borrowed $2.9 million on the cash surrender value of the life insurance policies owned by MILPI and used the proceeds to fund railcar purchases.

MILPI s asset base consists of its ownership interests in the management in several equipment programs with limited lives. MILPI s revenue base consists primarily of management fees earned from the equipment programs. If MILPI does not find new sources of capital and revenue, its source of revenues and asset base will decrease and eventually terminate as the equipment programs dispose of their equipment.

Rail Investors I, LLC

Rail Investors I, LLC was formed in the fourth quarter of fiscal 2002 and is a wholly owned subsidiary of Semele Group Inc. Rail Investors I, LLC was formed for the sole purpose of leasing equipment under an operating lease and re-leasing the equipment to unrelated third parties. During the three months ended March 31, 2003, Rail I Investors recorded $0.4 million lease revenues with $0.4 million in operating costs.

As of September 30, 2003, Rail Investors I, LLC had total assets of $0.3 million, which consisted primarily of cash and accounts receivable. In addition, it had leased 320 railcars under a ten year operating lease and subsequently sub-leased the equipment. Rail Investors I, LLC may lease up to an additional 415 railcars over the next 15 months. As these railcars are lease, revenues and expenses are expected to increase. Under its lease for the railcars, Rail Investors I, LLC is required to fund a maintenance and security deposit account. The Company expects any cash generated from Rail Investors I, LLC to be used over the next twelve months to fund these accounts.

AFG Investment Trust C and D

At September 30, 2003, the two trusts had total assets of $77.3 million including equipment held for lease with a net book value of $35.2 million. The two trusts also owned $38.2 million in several equity ownership investments that operate in the equipment management and real estate segments which included MILPI, EFG Kirkwood, Kettle Valley and Rancho Malibu. The remaining assets consisted of $3.9 million in cash and other assets and miscellaneous receivables.

AFG Investment Trust C and D had total liabilities of $41.5 million at September 30, 2003. Liabilities primarily consisted of non-recourse notes payable to third parties, which are secured by its equipment held for lease.

For the nine months ended September 30, 2003, the two trusts had $4.2 million of cash flows from operations. Cash flows from operations were used primarily to make $3.7 million of debt payments and to finance the ongoing operations of the trusts.

In the future, the nature of the trusts operations and principal cash flows will shift from rental receipts and equipment sale proceeds to distributions from equity investments. As this occurs, the trusts cash flows resulting from equipment investments may become more volatile in that certain of the trusts equipment leases will be renewed and certain of its assets will be sold. In some cases, the trusts may be required to expend funds to refurbish or otherwise improve the equipment being remarketed in order to make it more desirable to a potential lessee or purchaser. The trusts advisor, EFG, and the Managing Trustee will attempt to monitor and manage these events in order to maximize the residual value of the trusts equipment and will consider these factors, in addition to the collection of contractual rents, the retirement of scheduled indebtedness, and the trusts future working capital requirements, in establishing the amount and timing of future cash distributions. As a result, the trusts do not anticipate declaring any dividend distributions in the near future.

In accordance with AFG Investment Trust C and D s Boeing 767-300ER lease agreement, at the end of the lease term the aircraft will be returned to the AFG Investment Trust C and D with at least half time remaining with respect to the aircraft s engines, nose and main landing gear. In addition, the aircraft shall have completed all the appropriate maintenance and scheduled checks. In no circumstance is the aircraft to be returned with less than quarter time remaining. If the aircraft is returned with between half time and quarter time, the lessee will be required to pay the trusts an amount based on the additional wear and tear of the applicable aircraft parts. If the aircraft is returned to the trusts above half time, AFG Investment Trust C and D will be required to reimburse the lessee for allowable costs spent related to aircraft maintenance. The cost to be reimbursed to the lessee is based on the amount and timing of the maintenance. The trusts cannot estimate the amount which will be due to the lessee or the amount which may be owed to the trusts when the aircraft is returned.

Per their respective trust agreements, AFG Investment Trusts C and D are scheduled to be dissolved no later than December 2004 and December 2006, respectively.

AFG International

AFG International had total assets of $12.0 million at September 30, 2003. Total assets consisted primarily of buildings and land, which had a net book value of $11.4 million and cash and receivables of $0.6 million. AFG International had total liabilities of $6.2 million, which consisted primarily of a $5.4 million loan payable to an unaffiliated third party. The loan matures in December 2005 and carries a variable interest rate. From January 1, 2003 through October 31, 2003, AFG International paid $0.7 million in distributions to its investors. Approximately $0.4 million of the cash distributed was paid to consolidated subsidiaries of the Company.

Rancho Malibu

In March 2003, Semele Group Inc. transferred its interest in Rancho Malibu to RMLP, Inc., a wholly-owned subsidiary of MILPI, for $5.5 million in cash, a $2.5 million promissory note and 182 shares (15.4%) interest in RMLP, Inc. Proceeds from the transfer were used to pay the outstanding principal and accrued interest of the $4.4 million note secured by the property.

During the second quarter of 2003, Rancho Malibu amended its partnership agreement to include an additional unrelated investor for the purpose of completing the development of the property. The third party investor contributed $2.0 million to the partnership and is the development general partner. The Company does not expect any distributions from Rancho Malibu over the next twelve months nor does it expect to have to make any significant capital contributions.

Minority Interest Investments

The Company owns minority interest investments in several equipment leasing and real estate companies, which are accounted for under the equity method of accounting. The financial position and liquidity of these companies could have a material impact on the Company. A description of the Company s minority interest investments and a brief summary of the financial position are summarized below:

The Company has minority interest investments in the following entities as of March 31, 2003 (in thousands of dollars):

		March 31, 2003
Interest in EFG/Kettle Development LLC	$	7,187
Interest in Mountain Resort Holdings LLC and Mountain Springs Resort LLC		8,453
Interest in liquidating partnerships		300
Interest in liquidating trusts		271
Interest in EGF Programs		19,451
Other		466
Total	$	36,128

Kettle Valley

Kettle Valley is a real estate development company located in Kelowna, British Columbia, Canada. The project, which is being developed by Kettle Valley Development Limited Partnership, consists of approximately 270 acres of land that is zoned for 1,120 residential units in addition to commercial space. Through October 2003, 165 residential units have been constructed and sold.

As of September 30, 2003, Kettle Valley had current assets of $15.5 million, which consisted of $ $14.4 million of land under development, $1.0 million of inventory properties, $82,000 of unrestricted cash, accounts receivables and prepaid assets. Long term assets consist primarily of income producing properties of $1.4 million and restricted cash of $0.4 million.

As of September 30, 2003, Kettle Valley had total liabilities of $4.6 million, which consisted of $1.7 million in debt to third parties, $2.0 million of debt to related parties and $0.9 million of accounts payable and accrued liabilities. Because the real estate is in the early phase of development, the net loss and negative cash flows from operations are expected to continue for some time. Kettle Valley expects to pay existing obligations with the sales proceeds from future lot sales. Kettle Valley did not pay dividends during the first nine months of 2003, or in 2002 or 2001 and does not anticipate paying dividends in the next twelve months. Future capital needs that may be required by Kettle Valley are expected to be financed by the other equity holders, outside investors or additional debt.

Mountain Springs and Mountain Resorts

EFG Kirkwood was formed for the purpose of acquiring a minority interest in two real estate investments. The investments consist of an interest in two ski resorts: Mountain Resort and Mountain Springs. EFG Kirkwood has no other significant assets other than its interest in the ski resorts.

Mountain Spring's primary cash flows come from its ski operations during the ski season, which is heavily dependent on snowfall. Additional cash flow is provided by its real estate development activities and by the resort s summer recreational programs. When out of season, operations are funded by available cash and through the use of a $3.5 million dollar line of credit, which is guaranteed by EFG Kirkwood. Mountain Springs did not make any distributions during the nine months ended September 30, 2003 or 2002 and does not expect to pay any distributions in the near future. Excess cash flows will be used to finance development on the real estate surrounding the resort.

At September 30, 2003, Mountain Springs had current assets of $3.3 million, which consisted of $0.8 million of cash, accounts receivable and accounts receivable-related party of $1.8 million and inventories and other assets of $0.7 million. Long-term assets consist primarily of buildings, equipment and real estate totaling approximately $21.6 million.

Liabilities totaled approximately $20.3 million at September 30, 2003 and consisted primarily of debt and notes outstanding, including a balance of $3.5 million on the line of credit guaranteed by EFG Kirkwood.

Mountain Springs had cash flows from operations of $2.0 million for the nine months ended September 30, 2003 and an overall increase in cash of $0.5 million. In order to satisfy cash requirements during the nine months ended September 30, 2003, Mountain Springs made draws of $3.5 million on its line of credit and obtained loans of $2.7 million from its majority investors. In addition, Mountain Springs received a $2.2 million commitment from a related entity to purchase undeveloped land from Mountain Springs.

Mountain Resorts receives the majority of its revenues from winter ski operations, primarily ski, lodging, retail and food and beverage services with the remainder of the revenues generated from summer outdoor activities, including mountain biking, hiking and other activities. Mountain Resort s primary cash flows come from its ski operations during the ski season, which is heavily dependent on snowfall. Mountain Resort did not pay any distributions during the nine months ended September 30, 2003 or 2002 and does not expect to pay any distributions in the near future. Cash flows will be used to finance development on the real estate surrounding the resort.

At September 30, 2003, Mountain Resort had current assets of approximately $8.3 million, which consisted of cash of $7.0 million, accounts receivable of $0.5 million, and inventory and other assets of $0.8 million. Long-term assets consisted primarily of buildings, equipment and real estate totaling $39.5 million.

Liabilities were approximately $25.5 million, which consisted primarily of long-term senior notes and affiliated debt.

Mountain Resorts had positive cash flows of $3.4 million for the nine months ended September 30, 2003 and was able to satisfy cash requirements with existing cash and cash flows from operations.

The Company does not expect distributions from Mountain Springs or Mountain Resorts for the foreseeable future.

Both Mountain Springs and Mountain Resort are subject to a number of risks, including weather-related risks and the risks associated with real estate development and resort ownership. The ski resort business is seasonal in nature and insufficient snow during the winter season can adversely affect the profitability of a given resort. Many operators of ski resorts have greater resources and experience in the industry than the Trusts, its affiliates and its joint venture partners.

Liquidating Partnerships

The Company had an interest in 11 liquidating partnerships that are managed by an unaffiliated third party whose assets are all to be distributed by December 31, 2003. Six of these liquidating partnerships were dissolved by October 31, 2003.

At September 30, 2003, the Liquidating Partnerships had $3.8 million in cash and accrued liabilities of $0.2 million. Accrued liabilities consist of costs incurred and estimated costs associated with liquidating the remaining assets of the Liquidating Partnerships.

On March 31, 2003, the Liquidating Partnerships distributed cash of $1.5 million, of which the Company received $10,000, completing the liquidation of four of the Liquidating Partnerships. In October 2003, the Liquidating Partnerships made an additional distribution of $2.1 million, of which the Company received $16,000. Management anticipates that $0.4 million of additional cash distributions will be received by the Company prior to December 31, 2003, from its remaining interest in the Liquidating Partnerships.

Liquidating Trusts

The Company has an interest in two liquidating trusts that are managed by an unaffiliated third party. The Liquidating Trusts currently operate in two business segments: equipment leasing and real estate ownership, development and management. Equipment leasing assets consist of the Liquidating Trusts equipment held for sale or on-lease, which consists of forklifts, trucks, handling materials and other miscellaneous equipment. The Liquidating Trust s real estate assets consist primarily of an equity ownership interest in EFG Kirkwood.

At September 30, 2003, the Liquidating Trusts had total assets of $8.6 million, which consisted primarily of $7.1 million in cash and a $1.3 million investment in EFG Kirkwood LLC. Accrued liabilities at September 30, 2003 were $1.0 million and consist of costs incurred and estimated costs associated with liquidating the remaining assets of the Liquidating Trusts. Through October 31, 2003, the Liquidating Trusts have made no cash distributions. No distributions are expected from the Liquidating Trusts until all assets are disposed and all liabilities are paid.

In October 2003, the Company offered to the trustee of the Liquidating Trusts to accept the EFG Kirkwood interests owned by the Liquidating Trusts, valued at a liquidation value of $1.3 million, as a distribution-in-kind, in lieu of cash distributions. The trustee has indicated to the Company that it will accept the offer contingent upon the receipt of the appropriate documentation. The Company anticipates that the distribution-in-kind will be received prior to December 31, 2003.

Equipment Growth Funds

As of September 30, 2003, the EGF Programs had $52.2 million in unrestricted cash and $8.1 million in receivables net of an allowance for doubtful accounts; $39.3 million of the cash is in programs that may purchase additional equipment. Management is actively seeking investment opportunities for the liquid assets of the EGF Programs not in liquidation.

At September 30, 2003, the EGF Programs equipment portfolio consisted of equipment with a net book value of $126.4 million, primarily consisting of ownership in aircraft, marine vessels, railcars, marine containers and trailers. The EGF Programs had $1.1 million of restricted cash at September 30, 2003. During the nine months ended September 30, 2003, the programs purchased $32.2 million in railcars from MILPI at cost, which approximates fair value, and paid the Company $0.6 million in acquisition fees.

The EGF Programs had $37.7 million of debt at September 30, 2003, which is secured by equipment. One of the EGF Programs has available permanent financing of $15.0 million as of September 30, 2003.

On December 31, 2002, the PLM Equipment Growth Fund III Liquidating Trust was established for the sole purpose to liquidate and dissolve all of the remaining assets and liabilities of the PLM Equipment Growth Fund III with no objective to continue or engage in the conduct of trade or business.

On September 30, 2003, three additional EGF Programs adopted formal plans of liquidation and transferred their assets to three respective liquidating trusts. As of September 30, 2003, a total of four EGF Programs are currently in their active liquidation phase. Distributions for these programs will not be made until all of the assets are sold and liabilities are paid.

The Company does not expect to receive distributions from the three EGF Programs that are in their investment phase until at least 2005.

In October 2003, the Company determined that it would stop regular distributions from Fund I. The Company will receive the liquidity of Fund I on a regular basis to determine the amount or timing of any future distributions.

Commitments and Contingencies

Commitments and contingencies as of September 30, 2003 are as follows (in thousands of dollars):

C	.	Less than	1-3	4-5	After 5
Current Commitments and Contingencies	Total	1 year	Years	Years	Years
Indebtedness	$ 55,398	$ 44,007	$ 8,491	$ -	$ 2,900
Indebtedness and other obligations to affiliates	24,358	1,036	21,421	1,901	-
Guarantee obligation	352	352	-	-	-
Commitment to purchase railcars	7,380	7,380	-	-	-
Commitment to lease 415 railcars	29,465	11,999	17,466	-	-
Contingent residual interest in aircraft	3,155	3,155	-	-	-
Mountain Springs debt guarantee	3,500	3,500	-	-	-
Total	$ 123,608	$ 71,429	$ 47,378	$ 1,901	$ 2,900

Indebtedness: The principal balance of the Company s indebtedness to third-parties at September 30, 2003 consists of the obligations listed below (in thousands of dollars):

Loan against cash surrender value of life insurance policies	$ 2,931
Warehouse facility used for railcar purchases, individual borrowings may be outstanding for no more than 270 days, with all advances due no later than December 31, 2003. Interest accrues either at the prime rate or LIBOR plus	10,000

2.0% at borrower s option and is set at the time of an advance of funds. All borrowings are guaranteed by MILPI.		
Non- recourse installment debt on equipment held for lease, partially amortized by lease payments balloon payment obligations of $31.9 million and $1.3 million, respectively, at the expiration of the respective leases in November 2003 and June 2006. Interest rates on equipment debt obligations consist of fixed and variable rates. Approximately $32.4 million of the fixed rate debt consists of fixed interest rates ranging from 8-9% and the remaining debt balance of $4.7 million consists of variable interest rate debt equal to LIBOR plus 3.5%.		37,056
Loan on commercial land and building, secured by land and building matures in December 2005, variable interest rate equal to the LIBOR daily rate plus one hundred ninety (190) basis points.		5,411
Total	$	55,398

Indebtedness and Other Obligations to Affiliates: The principal balance of the Company s indebtedness to affiliates at September 30, 2003 consists of the obligations listed below (in thousands of dollars):

Notes payable to Mr. Engle, or family trusts/corporation controlled by Mr. Engle, resulting from the purchase of Equis II Corporation, 7% annual interest; maturing in January 2005.	$	8,625
Note payable to Mr. Coyne resulting from purchase of Equis II Corporation; 7% annual interest; maturing in January 2005.		4,377
Sub-total	$	13,002
Notes payable to Mr. Engle, or family trusts/corporation controlled by Mr. Engle, resulting from the purchase of Equis II Corporation; 11.5% annual interest; due on demand.		687
Note payable to Mr. Coyne resulting from purchase of Equis II Corporation; 11.5% annual interest; due on demand.		349
Sub-total	$	1,036
Notes payable to Mr. Engle, or family trusts/corporation controlled by Mr. Engle, resulting from purchase of Equis II Corporation, 7.5% annual interest; maturing on Aug. 8, 2007.		1,261
Note payable to Mr. Coyne resulting from purchase of Equis II Corporation; 7.5% annual interest; maturing on Aug. 8, 2007.		640

	Sub-total	$ 1,901
Note payable to EFG for purchase of Ariston Corporation; 7% annual interest; maturing in January 2005		$ 8,419
	Total	$ 24,358

Guaranteed Obligations: At September 30, 2003, PLM had guaranteed certain obligations up to $0.4 million of a Canadian railcar repair facility, in which PLM had a 10% ownership interest. The obligation is included in accrued expenses in the accompanying September 30, 2003 consolidated balance sheet.

Commitment to Purchase and Lease Railcars: MILPI anticipates that 735 of these railcars will be leased by the EGF Programs. The remaining 315 railcars, at a cost of approximately $23.0 million, will be purchased by MILPI or one of the EGF Programs. As of September 30, 2003, approximately 66% of these railcars have been purchased by PLM Financial Services Inc. ("FSI"), a wholly-owned subsidiary of MILPI, or one of the EGF Programs for approximately $15.0 million The remaining 34 % of these railcars will be purchased by FSI or the EGF Programs in 2004. As of September 30, 2003, the remaining balance of railcars required to be purchased and leased under the agreement are $7.4 million and 415 railcars valued at $29.5 million, respectively. The Company estimates that these remaining railcars will be purchased and leased during the remainder of fiscal 2003 and 2004.

Contingent Residual Interest in Aircraft: Other liabilities in the accompanying consolidated balance sheets consists primarily of $3.0 million received in consideration for a non-recourse residual interest in a Boeing 767-300 aircraft. The seller of the Company's interest in Kettle Valley purchased a residual sharing interest in the aircraft owned by the Company and leased to an independent third party. The seller paid approximately $3.0 million to the Buyers for the residual interest, which is subordinate to certain preferred payments to be made to the Buyers in connection with the aircraft. Payment of the residual interest is due only to the extent that the Company receives net residual proceeds from the aircraft and the residual interest is non-recourse to the Buyers. As of September 30, 2003 the net book value of the related aircraft was $0.1 million above the carrying value of the debt.

Mountain Springs Debt Guarantee: On August 1, 2001, EFG Kirkwood entered into a guarantee agreement whereby EFG Kirkwood guarantees the payment obligations under a revolving line of credit between Mountain Springs and a third party lender. Another investor in the ski resort also separately guarantees the payment obligation under the line of credit. The amount of the guarantee is equal to the outstanding balance of the line of credit which cannot exceed $3.5 million. As of September 30, 2003, Mountain Springs had an outstanding balance of $3.5 million on the line of credit. The revolving line of credit is scheduled to mature in October 2004. The Company s guarantee would require payment only in the event of default on the line of credit by Mountain Springs in amount equal to amounts advanced less any amounts recovered by the other guarantor on the line.

Other: The Securities and Exchange Commission ("SEC") commenced an informal inquiry of the Company in June 2003 to determine if it had violated federal securities laws. The SEC, among other things, asked the Company to voluntarily provide information and documents relating to any possible or proposed restatements of the Company s financial statements. The Company has provided the information and documents requested. The Company is cooperating fully with the SEC informal inquiry.

Outlook for the Future

Several other factors may affect the Company s operating performance during the remainder of 2003 and beyond including:

-changes in markets for the Company s equipment;
-changes in the regulatory environment in which the Company s equipment operates; and
-changes in the real estate markets in which the Company has ownership interests.

The future outlook for the different operating segments of the Company is as follows:

Real Estate

The Company has a minority interest in two ski resorts, which are subject to the risks of the tourism industry. The economic downturn in the tourism industry following September 11, 2001 terrorist attacks had an adverse impact on the operating results of the resorts and the Company. There can be no assurance that the travel and tourism industry will return to its pre-September 11 levels. The resorts have customers who both fly and drive to the resort locations.

In addition, the resorts are also subject to a number of other risks, including weather-related risks. The ski resort business is seasonal in nature and insufficient snow during the winter season can adversely affect the profitability of a given resort. Many operators of ski resorts have greater resources and experience in the industry than the Company, its affiliates and its joint venture partners.

The Company also has a minority interest in several real estate development companies, some of which are located at the resorts. The risks generally associated with real estate include, without limitation, the existence of senior financing or other liens on the properties, general or local economic conditions, property values, the sale of properties, interest rates, real estate taxes, other operating expenses, the supply and demand for properties involved, zoning and environmental laws and regulations, and other governmental rules.

The Company s investments in real estate development companies have experienced an increase in residential sales as a result of interest rates currently being at historical lows. There is a risk that residential sales could materially decline if interest rates increase.

The Company's involvement in real estate development also introduces financial risks, including the potential need to borrow funds to develop the real estate projects. While the Company's management presently does not foresee any unusual risks in this regard, it is possible that factors beyond the control of the Company, its affiliates and joint venture partners, such as a tightening credit environment, could limit or reduce its ability to secure adequate credit facilities at a time when they might be needed in the future. Alternatively, the Company could establish joint ventures with other parties to share participation in its development projects.

Because the investments in the ski resorts include real estate development companies, the risks and uncertainties associated with the tourism industry can adversely affect the value of the real estate development companies associated with these investments. Decrease in tourism, weather-related conditions or other risks discussed above can permanently decrease the value of the investment and future operations.

The Company does not anticipate receiving dividend distributions from the real estate investments in the near future due to the uncertainty of the current market conditions.

Equipment Leasing

The events of September 11, 2001 and the subsequent weakened airline industry have also adversely affected market demand for both new and used commercial aircraft. In addition, during 2003 severe acute respiratory syndrome ("SARS") has led to a dramatic decline in passenger travel in Asia. While it currently is not possible for the Company to determine the ultimate long-term economic consequences of these events to the equipment leasing segment the resulting decline in air travel has suppressed market prices for used aircraft and inhibited the viability of some airlines. In the event of a lease default by an aircraft lessee, the Company could experience material losses. At October 31, 2003, the Company has collected substantially all rents owed from aircraft lessees. The Company is monitoring developments in the airline industry and will continue to evaluate the potential implications to the Company s financial position and future liquidity. Management does not anticipate significant improvements in its aircraft values.

At lease inception, the Company s equipment was leased by a number of credit worthy, investment-grade companies. To date, the Company has not experienced any material collection problems and has not considered it necessary to provide an allowance for doubtful accounts. Notwithstanding a positive collection history, there is no assurance that all future contracted rents will be collected or that the credit quality of the Company s leases will be maintained. The credit quality of an individual lease may deteriorate after the lease is entered into. Collection risk could increase in the future, particularly as the Company remarkets its equipment and enters re-lease agreements with different lessees. The Managing Trustee will continue to evaluate and monitor the Company s experience in collecting accounts receivable to determine whether a future allowance for doubtful accounts may become appropriate.

The ultimate realization of residual value for any type of equipment is dependent upon many factors, including condition and type of equipment being sold and its marketability at the time of sale. Changing market conditions, industry trends, technological advances, and many other events can converge to enhance or detract from asset values at any given time. The Company attempts to monitor these changes in order to identify opportunities which may be advantageous to the Company and which will maximize total cash returns for each asset.

In the future, the nature of the Company's equipment leasing operations and principal cash flows will continue to shift from rental receipts and equipment disposition proceeds to distributions from equity investments. As this occurs, the Company's cash flows resulting from equipment investments may become more volatile in that certain of the Company's equipment leases will be renewed and certain of its assets will be sold. In some cases, the Company may be required to expend funds to refurbish or otherwise improve the equipment being remarketed in order to make it more desirable to a potential lessee or purchaser. The Company s Advisor, EFG, and the Managing Trustee will attempt to monitor and manage these events in order to maximize the residual value of the Company's equipment and will consider these factors, in addition to the collection of contractual rents, the retirement of scheduled indebtedness, and the Company's future working capital requirements, in establishing the amount and timing of future cash distributions. As a result, the Company does not anticipate declaring any dividend distributions in the near future.

In accordance with the Trusts operating agreements, upon the dissolution of the Trusts, the Managing Trustee (a wholly-owned subsidiary of the Company) will be required to contribute to the Trusts an amount equal to any negative balance, which may exist in the Managing Trustee's capital account.

Equipment Management

The ultimate realization of revenues for managed equipment is subject to economic risks related to many changing factors, including ability of MILPI s equipment programs to realize acceptable lease rates on its equipment in the different equipment markets. Lease rates are contingent on many factors, such as specific market conditions and economic activity, technological obsolescence, and government or other regulations. The unpredictability of some of these factors, or of their occurrence, makes it difficult for MILPI to clearly define trends or influences that may impact the performance of the equipment programs. MILPI continually monitors both the equipment markets and the performance of the equipment programs in these markets. MILPI may decide to reduce the equipment program's exposure to equipment markets in which it determines it cannot operate equipment to achieve acceptable rates of return. Alternatively, MILPI may make a determination to enter equipment markets in which it perceives opportunities to profit from supply/demand instabilities or other market imperfections.

MILPI s asset base consists of its ownership interests in the management in several equipment programs with limited lives. MILPI s revenue base consists primarily of management fees earned from the equipment programs. If MILPI does not find new sources of capital and revenue, its source of revenues and asset base will decrease and eventually terminate as the equipment programs liquidate.

ITEM 3. CONTROLS AND PROCEDURES

Limitations on the Effectiveness of Controls

The Company s management, including its President and Chief Financial Officer ("CFO"), does not expect that our internal controls or disclosure control will prevent all errors and all fraud. A control system, no matter how well conceived and operated, can provide only reasonable, not absolute, assurance that the objectives of the control system are met. Further, the design of a control system must reflect the fact that there are resource constraints, and the benefits of controls must be considered relative to their costs.

Because of the inherent limitations in all control systems, no evaluation of control can provide absolute assurance that all control issues and instances of fraud, if any, within the Company have been detected. These inherent limitations include the realities that judgments in decision-making can be faulty and that breakdowns can occur because of a simple error or mistake. Additionally, controls can be circumvented by the individual acts of some persons, collusion of two or more people, or by management override of the control. The design of any system of controls also is based partly on 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.

Notwithstanding the forgoing limitations, we believe that our internal controls and disclosure control provide reasonable assurances that the objectives of our control system are met.

Evaluation of the Fund s Disclosure Controls and Internal Controls

(1) Within the 90-day period prior to the filing of this report, the Company carried out an evaluation, under the supervision and with the participation of the Company s management, including its President and CFO, of the effectiveness of the design and operation of the Company s disclosure controls and procedures pursuant to Rule 13a-14 under the Securities Exchange Act of 1934 (the "Exchange Act"). Based upon that evaluation, the Chief Executive Officer and CFO concluded that the Company s disclosure controls and procedures are effective in timely alerting them to material information relating to the Company s required to be included in the Company s exchange act filings.

(2) There have been no significant changes in the Company s internal controls or in other factors which could significantly affect internal controls subsequent to the date the Company s management carried out its evaluations.

PART II- OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

The Securities Exchange Commission ("SEC") commenced an informal inquiry in June 2003 to determine if there have been violations of the federal securities laws. The SEC, among other things, asked the Company to voluntarily provide information and documents relating to any possible or proposed restatements of the Company s financial statements. The Company has provided the information and documents requested. The Company is cooperating fully with the SEC informal inquiry.

In prior comment letters, the SEC requested information and support for its historical position related to the Company s accounting treatment associated with the acquisition of Equis II and the SB Interests in the Trusts. In fiscal 2000, the Company treated these acquisitions as a combination of entities under common control accounted for in a manner similar to a pooling of interests. The Company responded to the SEC staff s comments by providing additional information and support for its accounting treatment. After further investigation, the Company determined that that its original accounting treatment was incorrect. Accordingly, the Company has restated its 2001 financial statements in its 2002 Form 10-KSB.

The Company or its consolidated affiliates have been involved in certain legal and administrative claims as either plaintiffs or defendants in connection with matters that generally are considered incidental to its business. Management does not believe that any of these actions will be material to the financial condition or results of operations of the Company.

ITEM 2. CHANGES IN SECURITIES AND USE OF PROCEEDS

None

ITEM 3. DEFAULT UPON SENIOR SECURITIES

None

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

None

ITEM 5. OTHER INFORMATION

None

ITEM 6. EXHIBITS AND REPORTS ON FORM 8-K

(a) Exhibits

A list of exhibits filed or incorporated by reference is as follows:

2.7 Form 8-K filed by AFG Investment Trusts C announcing the approval by its shareholders on its proxy voting in accordance with the proxy solicitation statement dated as of February 11, 2003 (filed with the Securities and Exchange Commission as a Form 8-K by AFG Investment Trust C dated March 31, 2003 is incorporated herein by reference)

2.8 Form 8-K filed by AFG Investment Trusts D announcing the approval by its shareholders on its proxy voting in accordance with the proxy solicitation statement dated as of February 11, 2003 (filed with the Securities and Exchange Commission as a Form 8-K by AFG Investment Trust D dated March 31, 2003 is incorporated herein by reference)

2.9 Text of Letter dated May 5, 2003 to the Directors of Semele referencing the Proposed Acquisition of Semele Group Inc. (filed with the Securities and Exchange Commission to the Registrant s Report on Form 8-K dated May 5, 2003 is incorporated herein by reference).

2.10 Text of press release dated May 5, 2003 titled "Management Proposes Offer to Acquire Semele Group Inc. Common Stock" (filed with the Securities and Exchange Commission to the Registrant s Report on Form 8-K dated May 5, 2003 is incorporated herein by reference).

4.2

Second Amended and Restated Declaration of Trust dated July 18, 2003 for AFG Investment Trust C (filed with the

Securities and Exchange Commission as Exhibit 4.2 to AFG Investment Trust C s Quarterly Report on Form 10-QSB for the quarter ended June 30, 2003 is incorporated herein by reference).

4.3
Second Amended and Restated Declaration of Trust dated July 18, 2003 for AFG Investment Trust D (filed with the Securities and Exchange Commission as Exhibit 4.2 to AFG Investment Trust D s Quarterly Report on Form 10-QSB for the quarter ended June 30, 2003 is incorporated herein by reference).

10.27
Contribution, Assignment, Assumption and Acknowledgement Agreement by and among RMLP, Inc., BMIF/BSLF II Rancho Malibu Limited Partnership, BSLF II Rancho Malibu Corp., C&D IT LLC, and Semele Group Inc. dated March 14, 2003 (filed with the Securities and Exchange Commission as Exhibit 10.27 to the Registrant s Report on Form 10-KSB for the year ended December 31, 2002 and is incorporated herein by reference).

10.28
First Amended and Restated Limited Partnership Agreement of BMIF/BSLF II Rancho Malibu Limited Partnership dated June 23, 3003 (filed with the Securities and Exchange Commission as Exhibit 10.28 to the Registrant s Report on Form 10-KSB for the year ended December 31, 2002 and is incorporated herein by reference).

10.29 Fifth amendment to the Warehousing Credit Agreement dated April 12th, 2001 (filed with the Securities and Exchange Commission as Exhibit No. 10.1 to PLM Equipment Growth Fund V s Report on Form 10-Q for the quarter ended June 30, 2003 is incorporated herein by reference).

10.30 Sixth amendment to the Warehousing Credit Agreement dated April 12th, 2001 (filed with the Securities and Exchange Commission as Exhibit No. 10.1 to PLM Equipment Growth Fund V s Report on Form 10-Q for the quarter ended September 30, 2003 is incorporated herein by reference).

99.1
Certificate of Chief Executive Officer pursuant to Section 906 of Sarbanes - Oxley Act of 2002

99.2 Certificate of Chief Financial Officer pursuant to Section 906 of Sarbanes - Oxley Act of 2002

(b) Reports on Form 8-K

The Company filed a Form 8-K with the SEC on March 31, 2003 reporting under Item 5 (other events), announced that a majority interest of the Rancho Malibu Limited Partnership had been sold to RMLP, Inc., a subsidiary of PLM International, Inc. Upon consummation of the transaction pursuant to its terms, Semele will be a 15.2% owner of common stock of RMLP, Inc. Semele also has an ownership interest in the indirect parents of PLM International, Inc.

SIGNATURES

In accordance with the requirements of the Exchange Act, the registrant caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

By: /s/Gary D. Engle
Gary D. Engle, Chairman, Chief Executive
Officer and Director

Date: November 14, 2003

By: /s/James A. Coyne
James A. Coyne, President, Chief
Operating Officer and Director

Date: November 14, 2003

By: /s/Richard K Brock
Richard K Brock, Vice President and
Chief Financial Officer

Date: November 14, 2003

Certification:

I, Gary D. Engle, certify that:

1. I have reviewed this quarterly report on Form 10-QSB of Semele Group Inc;

2. Based on my knowledge, this annual report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this annual report;

3. Based on my knowledge, the financial statements, and other financial information included in this annual report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this annual report;

4. The registrant s other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-14 and 15d-14) for the registrant and have:
a) designed such disclosure controls and procedures to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this annual report is being prepared;

b) evaluated the effectiveness of the registrant s disclosure controls and procedures as of a date within 90 days prior to the filing date of this annual report (the "Evaluation Date"); and

c) presented in this annual report our conclusions about the effectiveness of the disclosure controls and procedures based on our evaluation as of the Evaluation Date;

5. The registrant s other certifying officers and I have disclosed, based on our most recent evaluation, to the registrant s auditors and the audit committee of registrant s board of directors (or persons performing the equivalent functions):

d) all significant deficiencies in the design or operation of internal controls which could adversely affect the registrant s ability to record, process, summarize and report financial data and have identified for the registrant s auditors any material weaknesses in internal controls; and

e) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant s internal controls; and

6. The registrant s other certifying officers and I have indicated in this annual report whether there were significant changes in internal controls or in other factors that could significantly affect internal controls subsequent to the date of our most recent evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

/s/ Gary D. Engle
Gary D. Engle

Chairman and Chief Executive Officer
(Principal Executive Officer

November 14, 2003

Certification:

I, Richard K Brock, certify that:

1. I have reviewed this quarterly report on Form 10-QSB of Semele Group Inc;

2. Based on my knowledge, this annual report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this annual report;

3. Based on my knowledge, the financial statements, and other financial information included in this annual report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this annual report;

4. The registrant s other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-14 and 15d-14) for the registrant and have:

a) designed such disclosure controls and procedures to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this annual report is being prepared;

b) evaluated the effectiveness of the registrant s disclosure controls and procedures as of a date within 90 days prior to the filing date of this annual report (the "Evaluation Date"); and

c) presented in this annual report our conclusions about the effectiveness of the disclosure controls and procedures based on our evaluation as of the Evaluation Date;

5. The registrant s other certifying officers and I have disclosed, based on our most recent evaluation, to the registrant s auditors and the audit committee of registrant s board of directors (or persons performing the equivalent functions):

d) all significant deficiencies in the design or operation of internal controls which could adversely affect the registrant s ability to record, process, summarize and report financial data and have identified for the registrant s auditors any material weaknesses in internal controls; and

e) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant s internal controls; and

6. The registrant s other certifying officers and I have indicated in this annual report whether there were significant changes in internal controls or in other factors that could significantly affect internal controls subsequent to the date of our most recent evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

/s/ Richard K Brock
Richard K Brock
Vice President and Chief Financial Officer

November 14, 2003

Exhibit Index

99.1 Certificate of Chief Executive Officer pursuant to Section 906 of Sarbanes - Oxley Act

99.2 Certificate of Chief Financial Officer pursuant to Section 906 of Sarbanes - Oxley Act

Exhibit 99.1

Certification Pursuant to 18 U.S.C. Section 1350,
As Adopted Pursuant to Section 906 of the

Sarbanes - Oxley Act of 2002

In connection with the Quarterly Report of Semele Group, Inc. and subsidiaries ("Semele" or the "Company"), on Form 10-QSB for the period ended March 31, 2003 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), the undersigned, the Principal Executive Officer of the Trust s Managing Trustee, hereby certifies pursuant to 18 U.S.C. §1350 as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 that:

(1) the Report of the Trust filed today fully complies with the requirements of Section 13(a) or 15 (d) of the Securities Exchange Act of 1934; and

(2) the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Trust.

/s/ Gary D. Engle
Gary D. Engle
President of AFG ASIT Corporation,
the Managing Trustee of the Trust
(Principal Executive Officer)

November 14, 2003

Exhibit 99.2

Certification Pursuant to 18 U.S.C. Section 1350,
As Adopted Pursuant to Section 906 of the
Sarbanes - Oxley Act of 2002

In connection with the Quarterly Report of Semele Group, Inc. and subsidiaries ("Semele" or the "Company"), on Form 10-QSB for the period ended March 31, 2003 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), the undersigned, the Principal Financial and Accounting Officer of the Trust s Managing Trustee, hereby certifies pursuant to 18 U.S.C. §1350 as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 that:

(1) the Report of the Trust filed today fully complies with the requirements of Section 13(a) or 15 (d) of the Securities Exchange Act of 1934; and

(2) the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Trust.

/s/ Richard K Brock
Richard K Brock
Chief Financial Officer and Treasurer of AFG ASIT Corp.,
the Managing Trustee of the Trust
(Principal Financial and Accounting Officer)

November 14, 2003