

DATATRAK INTERNATIONAL INC  
Form 10-K/A  
March 19, 2009

**UNITED STATES SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549  
FORM 10-K/A**

**(Amendment No. 1)**

**FOR ANNUAL AND TRANSITION REPORTS PURSUANT TO SECTIONS 13 OR 15(d) OF THE  
SECURITIES EXCHANGE ACT OF 1934**

**(Mark One)**

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

**For the fiscal year ended December 31, 2008**

**OR**

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

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

**Commission file number 001-33688  
DATATRAK International, Inc.**

(Exact name of registrant as specified in its charter)

Ohio  
(State or other jurisdiction of  
incorporation or organization)

34-1685364  
(I.R.S. Employer  
identification no.)

6150 Parkland Boulevard, Mayfield Hts., Ohio  
(Address of principal executive offices)

44124  
(Zip code)

Registrant's telephone number, including area code: (440) 443-0082  
Securities registered pursuant to Section 12(b) of the Act:

Title of Each Class	Name of Exchange on Which Registered
Common Shares, without par value	The NASDAQ Stock Market LLC
Series A Junior Participating Preferred Stock Purchase Rights	The NASDAQ Stock Market LLC

Securities registered pursuant to Section 12(g) of the Act: None

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes  No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or 15(d) the Act. Yes  No

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes  No

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of large accelerated filer, accelerated filer and smaller

reporting company in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated  
filer

Accelerated filer

Non-accelerated filer   
(Do not check if a smaller reporting  
company)

Smaller reporting  
company

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

As of June 30, 2008, the aggregate market value of the 12,203,992, common shares then outstanding, which together constituted all of the voting shares of the registrant, held by non-affiliates was \$5,491,796 (based upon the closing price of \$0.45 per common share on the Nasdaq Capital Market on June 30, 2008). For purposes of this calculation, the registrant deems the common shares held by all of its Directors and executive officers to be the common shares held by affiliates. As of February 27, 2009, the registrant had 13,751,901 common shares issued and outstanding.

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**EXPLANATORY NOTE**

DATATRAK International, Inc. (referred to as the Company or DATATRAK ) is filing this Amendment No. 1 on Form 10-K/A ( Amendment No. 1 ) to its Annual Report on Form 10-K for the fiscal year ended December 31, 2008 originally filed with the Securities and Exchange Commission on March 16, 2009 (the Form 10-K ) solely to add the conformed signature of its independent registered public accounting firm, Ernst & Young LLP, in (i) Part IV, Item 15 and (ii) Exhibit 23.1 of the Form 10-K. The conformed signature of Ernst & Young LLP was inadvertently omitted from Part IV, Item 15 and Exhibit 23.1 of the Form 10-K.

As required by Rule 12b-15 of the Securities and Exchange Act of 1934, as amended, new certifications by the principal executive officer and the principal financial officer of the Company have been filed as Exhibits 31.1, 31.2, 32.1 and 32.2 to this Amendment No. 1 under Part IV, Item 15. Except for adding the conformed signature of the independent registered public accounting firm, no other changes have been made to Exhibit 23.1. The only changes to Part IV, Item 15, other than adding the conformed signature of the independent registered public accounting firm, is that certain exhibits which were filed with the Form 10-K are incorporated by reference into this Amendment No. 1 from the Form 10-K.

Except as described above, no changes have been made to the Form 10-K, and this Amendment No. 1 does not amend, update or change the financial statements or any other items or disclosures in the Form 10-K. This Amendment No. 1 does not reflect events occurring after the filing of the Form 10-K or modify or update those disclosures and should be read in conjunction with the Form 10-K.

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**PART IV**

**ITEM 15. EXHIBITS AND FINANCIAL STATEMENT SCHEDULES**

(a)(1) Financial Statements

See Item 8 of Part II of the Annual Report on Form 10-K.

(a)(2) Financial Statement Schedules

All financial statement schedules for the Company and its subsidiaries have been included in the consolidated financial statements or the related footnotes, or such schedules are either inapplicable or not required.

(a)(3) Exhibits

See the Index to Exhibits at page E-1 of this Annual Report on Form 10-K/A.

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**SIGNATURES**

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the Registrant has duly caused this Report to be signed on its behalf by the undersigned, thereunto duly authorized.

**DATATRAK INTERNATIONAL, INC.**

/s/ Raymond J. Merk  
Raymond J. Merk  
Vice President of Finance, Chief Financial  
Officer,  
Chief Operating Officer and Treasurer

Date: March 19, 2009

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**Report of Independent Registered Public Accounting Firm**

To the Shareholders and Board of Directors of  
DATATRAK International, Inc.

We have audited the accompanying consolidated balance sheets of DATATRAK International, Inc. as of December 31, 2008 and 2007, and the related consolidated statements of operations, shareholders' equity, and cash flows for each of the three years in the period ended December 31, 2008. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. We were not engaged to perform an audit of the Company's internal control over financial reporting. Our audits included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of DATATRAK International, Inc. at December 31, 2008 and 2007, and the consolidated results of its operations and cash flows for each of the three years in the period ended December 31, 2008, in conformity with U.S. generally accepted accounting principles.

The consolidated financial statements have been prepared assuming that the Company will continue as a going concern. As discussed in Note 1 to the consolidated financial statements, the Company's losses from operations and accumulated deficit raise substantial doubt about its ability to continue as a going concern. The consolidated financial statements do not include any adjustments that might result from the outcome of this uncertainty.

Effective January 1, 2006, the Company adopted the provisions of Statement of Financial Accounting Standards No. 123(R), *Share-Based Payment*.

/s/ Ernst & Young LLP

Cleveland, Ohio

March 13, 2009

**DATATRAK INTERNATIONAL, INC. AND SUBSIDIARIES**  
**CONSOLIDATED BALANCE SHEETS**

	<b>December 31,</b>	
<b>ASSETS</b>	<b>2008</b>	<b>2007</b>
Current assets		
Cash and cash equivalents	\$ 1,872,358	\$ 1,919,316
Restricted cash – current	218,276	
Short-term investments	499,936	6,595,045
Accounts receivable, net	927,490	1,070,688
Deferred tax asset – current	61,700	71,200
Prepaid expenses and other current assets	158,582	451,222
Total current assets	3,738,342	10,107,471
Property and equipment		
Equipment	2,120,621	2,663,021
Software, net of impairment	4,588,781	6,325,496
Leasehold improvements	660,321	696,571
	7,369,723	9,685,088
Less accumulated depreciation	6,584,174	6,150,289
Property and equipment, net	785,549	3,534,799
Other assets		
Restricted cash – non current		87,021
Deferred tax asset	83,700	1,327,800
Deposit	39,549	39,549
Other intangible assets, net of accumulated amortization		520,458
Goodwill		10,856,113
Total other assets	123,249	12,830,941
Total assets	\$ 4,647,140	\$ 26,473,211
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>		
Current liabilities		
Accounts payable	\$ 525,293	\$ 415,415
Notes payable	195,858	246,627
Current portion of long-term debt		425,304
Accrued expenses	1,104,584	1,607,261
Deferred revenue	1,053,096	1,277,276
Total current liabilities	2,878,831	3,971,883
Long-term liabilities		
Long-term debt	41,523	3,252,962
Deferred revenue – long-term	1,260,000	1,680,000
Deferred tax liability	145,400	999,000
Shareholders' equity		



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Serial Preferred Shares, without par value; authorized 1,000,000 shares; none issued

Common shares, without par value, authorized 25,000,000; issued 17,051,901 shares as of December 31, 2008 and 17,016,901 shares as of December 31, 2007; outstanding 13,751,901 shares as of December 31, 2008 and 13,716,901 shares as of December 31, 2007

Treasury shares, 3,300,000 shares at cost	79,940,507	79,618,366
Common share warrants	(20,188,308)	(20,188,308)
Accumulated deficit	1,134,993	1,191,284
Foreign currency translation	(60,565,806)	(43,769,201)
		(282,775)
Total shareholders' equity	321,386	16,569,366
Total liabilities and shareholders' equity	\$ 4,647,140	\$ 26,473,211

*See accompanying notes.*

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**DATATRAK INTERNATIONAL, INC. AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENTS OF OPERATIONS**

	<b>For the Year Ended December 31,</b>		
	<b>2008</b>	<b>2007</b>	<b>2006</b>
Revenue	\$ 8,826,060	\$ 10,561,868	\$ 17,690,336
Direct costs	2,832,971	4,582,829	5,221,665
Gross profit	5,993,089	5,979,039	12,468,671
Selling, general and administrative expenses	10,178,631	13,096,953	13,266,618
Severance expense	775,361	915,117	294,974
Depreciation and amortization	1,343,298	2,721,966	2,306,382
Liquidation of foreign subsidiary	380,798		
Impairment loss	12,787,834	213,209	
Loss from operations	(19,472,833)	(10,968,206)	(3,399,303)
Other income (expense):			
Interest income	115,967	440,158	237,763
Interest expense	(34,044)	(369,755)	(352,870)
Other	(20,695)	(1,700)	
Settlement of ClickFind lawsuit	3,000,000		
Loss before income taxes	(16,411,605)	(10,899,503)	(3,514,410)
Income tax expense (benefit)	385,000	(46,000)	976,000
Net loss	\$ (16,796,605)	\$ (10,853,503)	\$ (4,490,410)
Net loss per share:			
Basic:			
Net loss per share	\$ (1.23)	\$ (0.82)	\$ (0.40)
Weighted-average shares outstanding	13,681,901	13,197,706	11,273,382
Diluted:			
Net loss per share	\$ (1.23)	\$ (0.82)	\$ (0.40)
Weighted-average shares outstanding	13,681,901	13,197,706	11,273,382

*See accompanying notes.*

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**DATATRAK INTERNATIONAL, INC. AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY**

	Common Shares		Treasury Shares		Common Share Warrants		Accumulated Deficit	Foreign Currency Translation	Total
	Number of Shares	Stated Amount	Number of Shares	Cost	Number of Shares	Cost			
<b>Balance at January 1, 2016</b>	10,313,161	\$ 61,810,321	3,300,000	\$ (20,188,308)	160,337	\$ 711,872	\$ (28,425,289)	\$ (211,608)	\$ 13,696,9
Acquisition of business	1,026,522	7,863,158							7,863,1
Exercise of common share options	173,064	472,637							472,6
Exercise of common share warrants	3,258	22,122			(3,258)	(11,696)			10,4
Stock-based compensation	46,468	573,835							573,8
Comprehensive income:									
Foreign currency translation								(62,640)	(62,64
Income							(4,490,410)		(4,490,4
Comprehensive income									(4,553,0
<b>Balance at December 31, 2016</b>	11,562,473	70,742,073	3,300,000	(20,188,308)	157,079	700,176	(32,915,699)	(274,248)	18,063,9
Private placement of common shares	1,986,322	7,512,920			327,743	1,134,931			8,647,8
Exercise of common share options	99,783	266,596							266,5
Expiration of common share warrants		643,823			(141,399)	(643,823)			
Stock-based compensation	68,323	452,954							452,9
Comprehensive income:									
Foreign currency translation								(8,527)	(8,5

loss							(10,853,502)		(10,853,502)
Comprehensive income									(10,862,000)
<b>Balance at December 31, 2017</b>	13,716,901	79,618,366	3,300,000	(20,188,308)	343,423	1,191,284	(43,769,201)	(282,775)	16,569,300
Expiration of common share warrants		56,291			(15,680)	(56,291)			
Stock-based compensation	35,000	265,850							265,850
Comprehensive income									
Translation of foreign subsidiary loss								(98,023)	(98,023)
Liquidation of foreign subsidiary loss								380,798	380,798
<b>Balance at December 31, 2018</b>	13,751,901	\$ 79,940,507	3,300,000	\$ (20,188,308)	327,743	\$ 1,134,993	\$ (60,565,806)	\$	\$ 321,300

*See accompanying notes.*

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**DATATRAK INTERNATIONAL, INC. AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENTS OF CASH FLOWS**

	<b>For the Year Ended December 31,</b>		
	<b>2008</b>	<b>2007</b>	<b>2006</b>
<b>Operating Activities</b>			
Net loss	\$ (16,796,605)	\$ (10,853,503)	\$ (4,490,410)
Adjustments to reconcile net loss to net cash (used in) provided by operating activities:			
Depreciation and amortization	1,343,298	2,721,966	2,306,382
Impairment loss	12,787,834	213,209	
Settlement of ClickFind lawsuit	(3,000,000)		
Liquidation of foreign subsidiary	380,798		
Accretion of discount on investments	(57,754)	(319,922)	(107,718)
Stock-based compensation	265,851	452,954	573,835
Other	16,332	1,700	4,521
Changes in operating assets and liabilities:			
Accounts receivable	143,145	1,160,372	773,766
Prepaid expenses and other current assets	222,861	42,603	502,638
Deferred taxes, net	400,000	(176,000)	976,000
Accounts payable and accrued expenses	(382,927)	11,280	364,139
Deferred revenue	(644,180)	1,969,101	(241,636)
Net cash (used in) provided by operating activities	(5,321,347)	(4,776,240)	661,517
<b>Investing Activities</b>			
Acquisition of business, less cash acquired			(4,668,925)
Decrease in restricted cash	86,927		
Purchases of property and equipment	(26,561)	(94,198)	(502,748)
Maturities of short-term investments	38,607,121	42,250,000	9,836,194
Purchases of short-term investments	(32,454,258)	(46,774,001)	(6,516,837)
Net cash provided (used in) investing activities	6,213,229	(4,618,199)	(1,852,316)
<b>Financing Activities</b>			
Payments of long-term debt and notes payable	(836,055)	(871,635)	(335,758)
Gross excess tax benefits from share-based payment awards		(7,162)	8,000
Proceeds from issuance of common shares		8,647,852	
Proceeds from exercise of stock options and warrants		273,760	475,063
Net cash (used in) provided by financing activities	(836,055)	8,042,815	147,305
Effect of exchange rate changes on cash	(102,785)	(785)	(92,212)
Decrease in cash and cash equivalents	(46,958)	(1,352,409)	(1,135,706)
Cash and cash equivalents at beginning of year	1,919,316	3,271,725	4,407,431
Cash and cash equivalents at end of year	\$ 1,872,358	\$ 1,919,316	\$ 3,271,725
Cash paid during the year for interest	\$ 107,440	\$ 391,215	\$ 258,654

*See accompanying notes.*



**DATATRAK INTERNATIONAL, INC. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**For the Years Ended December 31, 2008, 2007 and 2006**

**1. Description of Business and Going Concern**

*Description of Business*

DATATRAK International, Inc. ( DATATRAK or the Company ) is a technology and services company focused on global eClinical solutions, which assist companies in the clinical pharmaceutical, biotechnology, contract research organization ( CRO ) and medical device research industries in accelerating the completion of clinical trials. The Company s two wholly-owned subsidiaries, DATATRAK, Inc. and CF Merger Sub, Inc. ( Merger Sub ), are inactive holding companies with no employees that do not provide any services to the Company or its customers.

*Going Concern*

The financial statements for the year ended December 31, 2008, have been prepared on a going concern basis, which contemplates the realization of assets and the settlement of liabilities in the normal course of business. The Company has experienced losses from operations in each of the last three fiscal years totaling approximately \$34 million that raises substantial doubt about DATATRAK s ability to continue as a going concern. The auditors report issued for the year ended December 31, 2008, states that there is substantial doubt about the Company s ability to continue as a going concern. DATATRAK is considering various initiatives to continue as a going concern and to ensure the Company s future success. Future initiatives may include further restructuring and cost control, additional financing opportunities or strategic transactions or alliances.

DATATRAK s continued operations are dependent primarily on three key factors: (i) its ability to maintain current business already under contract and reflected in its backlog amount; (ii) its ability to market and sell new business currently not reflected in the backlog amount; and (iii) its ability to raise additional capital or complete a strategic alternative.

On July 21, 2008, the Company announced it had retained Healthcare Growth Partners, LLC as a strategic and financial advisor to assist the Board of Directors in evaluating a variety of potential opportunities directed at maximizing shareholder value. The potential opportunities may include, but are not limited to, a sale, merger or other business combination of the Company; strategic partnerships or alliances; or raising of additional capital.

On February 13, 2006, in accordance with the provisions of a merger agreement between DATATRAK International, Inc. and ClickFind (the Merger Agreement ), the Company acquired all of the outstanding stock of ClickFind. A portion of the purchase price consisted of \$4,000,000 in notes payable (the ClickFind Notes ), \$3,000,000 of which would have been due and payable on February 1, 2009.

The Company and certain former shareholders of ClickFind (the Defendants ) were involved in a dispute relating to certain representations and warranties in the Merger Agreement (United States District Court for the Northern District of Ohio, Eastern Division, Case No. 1:08CV02182) (the Lawsuit ). On December 18, 2008, DATATRAK announced the dispute had been resolved and that an agreement to settle all claims with the Defendants in the case had been reached. In connection with such resolution the \$3,000,000 balloon payment due on February 1, 2009 and \$180,000 in accrued interest due the Defendants was forgiven.

Effective January 31, 2009, DATATRAK, Inc., a wholly owned subsidiary of the Company, terminated its non-exclusive Marketing Services Agreement ( Agreement ) with DATATRAK Deutschland GmbH ( Deutschland GmbH ) and DATATRAK Inc. As of December 31, 2008, Deutschland GmbH recorded accrued expenses for lease and other obligations incurred through January 31, 2009 totaling \$218,000. As a result of the termination of the Agreement, Deutschland GmbH was required under applicable German law to file a petition for voluntary bankruptcy in the German courts and has on hand \$218,000, designated as restricted cash, to fund these liabilities as of December 31, 2008. Also as part of this liquidation of the Company s foreign investment in Deutschland GmbH, the Company reversed its cumulative currency translation adjustment and recorded additional operating expense of \$381,000 as of December 31, 2008.

## 2. Accounting Policies

### *Principles of Consolidation*

The consolidated financial statements include the accounts of the Company and its wholly owned subsidiaries. All significant intercompany accounts and transactions have been eliminated in consolidation.

### *Revenue Recognition and Deferred Revenue*

DATATRAK recognizes revenue in accordance with Staff Accounting Bulletin 104, *Revenue Recognition* and Emerging Issues Task Force ( EITF ) Issue No. 00-21, *Revenue Arrangements with Multiple Deliverables*. The Company recognizes revenue when all of the following criteria are met: persuasive evidence of an arrangement exists; delivery of the product or service has occurred; the fee is fixed or determinable; and collectibility is probable. DATATRAK 's contracts provide a fixed price for each element to be delivered, and revenue is recognized as these multiple-elements are delivered. The Company determines objective and reliable evidence of fair value for the price of items included in its multiple-element arrangements based on vendor-specific objective evidence of the per element price the Company would sell an item for on a standalone basis or other methods allowable under EITF No. 00-21. DATATRAK recognizes revenue based on the performance or delivery of the following specified services or components of its contracts in the manner described below:

Enterprise license revenue is recognized ratably over the life of the license agreement.

Project management and data management (design, report and export) service revenue is recognized proportionally over the life of a contract as services are performed, based on the contractual billing rate for those services.

Data items revenue is earned based on a price per data unit as data items are entered into DATATRAK 's hosting facility.

Classroom training services revenue is recognized as classroom training is completed, at rates based on the length of the training program.

Internet-based training services revenue is recognized on a per user basis as self-study courses are completed.

Help Desk revenue is recognized based on a monthly price per registered user or site under the contract.

Services provided by DATATRAK that are in addition to those provided for in its contracts are billed on a fee for service basis as services are completed. Costs associated with contract revenue are recognized as incurred. Costs that are paid directly by the Company 's clients, and for which the Company does not bear the risk of economic loss, are excluded from revenue. The termination of a standard contract will not result in a material adjustment to the revenue or costs previously recognized. The Company provides a nominal reserve against revenue for potential pricing adjustments.

Deferred revenue represents cash advances received in excess of revenue earned on contracts. Payment terms vary with each contract but may include an initial payment at the time the contract is executed, with future payments dependent upon the completion of certain contract phases or targeted milestones. In the event of contract cancellation, the Company is entitled to payment for all work performed through the point of cancellation. Likewise, in the event of contract cancellation prior to earning revenue equal to or greater than the initial payment, the Company is required to refund the unused portion.

### *Concentration of Credit Risk*

The Company is subject to credit risk through accounts receivable and short-term investments. The Company does not require collateral and its accounts receivable are unsecured. Short-term investments are placed with high credit-quality financial institutions or in short-duration, high credit-quality debt securities. The Company limits the amount of credit exposure in any one institution or type of investment instrument.



*Cash Equivalents and Short-term Investments*

The Company's investments or financial assets include both cash equivalents in the form of highly liquid money market funds with maturities of three months or less and other short-term investments including corporate obligations in the form of commercial paper of the highest grades with maturities of one year or less. On January 1, 2008, the Company adopted Statement of Financial Accounting Standards ( SFAS ) No. 157, Fair Value Measurements . The investments are recorded at fair-value and are classified under a three level hierarchy based upon inputs market participants would use when pricing a financial asset in accordance with SFAS No. 157. All the Company's investments and cash equivalents totaling \$1,719,000 at December 31, 2008 had quoted market prices which are the highest priority (e.g. Level I) investment input. The Company has the positive intent and ability to hold the investments to maturity.

*Accounts Receivable*

The Company generally invoices its customers on a monthly basis with payment terms of net 30 days from invoice date. The accounts receivable amount is recorded net of an estimated reserve for doubtful accounts. The Company has a history of favorable collections and had a nominal reserve for uncollectible accounts of approximately \$14,000 at December 31, 2008. The Company's average collection period was 39 days as of December 31, 2008. The net accounts receivable balance was \$927,000 and \$1,071,000 at December 31, 2008 and 2007, respectively.

*Property and Equipment*

Property and equipment are stated at cost. Depreciable assets consist of office and computer equipment, software and software development costs, and leasehold improvements. Depreciation and amortization on office and computer equipment and software, and software development costs is computed using the straight-line method over estimated useful lives of 3 to 7 years. Leasehold improvements are amortized using the straight-line method over the lesser of the assets' estimated useful life or the lease term. Depreciation and amortization expense related to depreciable assets, including assets recorded under capital leases, was \$967,000, \$1,541,000 and \$1,510,000 for 2008, 2007 and 2006, respectively.

*Impairment of Long-Lived Assets*

The Company evaluates long-lived assets for impairment in accordance with Financial Accounting Standards Board ( FASB ) Statement of Financial Accounting Standards ( SFAS ) No. 144, Accounting for the Impairment of Long-Lived Assets. As such, the carrying values of long-lived assets are evaluated if circumstances indicate a possible impairment in value. If undiscounted cash flows over the remaining amortization period indicate that long-lived assets may not be recoverable, the carrying value will be reduced by the estimated shortfall of cash flows on a discounted basis.

*ClickFind Acquisition*

On February 13, 2006, DATATRAK acquired all of the outstanding stock of ClickFind, Inc. ( ClickFind ), a technology company focused on the clinical trials industry, located in Bryan, Texas.

The negotiated terms of the acquisition were for an aggregate purchase price of \$18,000,000, less approximately \$328,000 in certain transaction expenses and certain indebtedness of ClickFind. A component of the purchase price was paid with 1,026,522 common shares of the Company, priced at \$9.25 per share, as determined by the terms of the acquisition agreement. The acquisition was recorded as a purchase, and as such, for the purpose of recording the acquisition, the value of the common shares used in the acquisition were valued at \$7.66 per share, based on the average closing price per share of the Company's common shares for the five business day period from February 9 through February 15, 2006.

Based on the common share valuation of \$7.66 per share, the total recorded acquisition cost, including acquisition related expenses of \$796,000, was \$16,619,000. The cash portion of the purchase price, less cash acquired of \$87,000, was approximately \$4,669,000. The remainder of the purchase price consisted of \$4,000,000 in notes payable and the issuance of approximately \$7,863,000 in common shares (1,026,522 common shares), both of which are excluded from the Company's 2006 consolidated statement of cash flows. The notes payable bore interest at prime plus 1%, and principal payments were due in installments of \$425,000 and \$3,000,000 on February 1, 2008

and 2009, respectively. In February 2008, the Company made a \$425,000 installment that was due on February 1, 2008. On December 18, 2008, the Company issued a press release announcing that it and the Defendants had agreed to settle all claims against each other relating to the Lawsuit. The Company and the Defendants have entered into a settlement agreement (the Settlement Agreement) whereby the parties provided each other with mutual releases, agreed to file a stipulated dismissal of the Lawsuit with prejudice and made certain other agreements. In connection with the Settlement Agreement, the \$3 million balloon payment due on February 1, 2009 and \$180,000 in accrued interest due the Defendants was forgiven.

The acquisition was accounted for as a purchase, and accordingly, fair value adjustments to the assets acquired and liabilities assumed were recorded as of the date of acquisition.

DATATRAK's acquisition resulted in deferred tax liabilities of \$2,054,000 and \$145,000 related to the DATATRAK eClinical software remains outstanding at December 31, 2008. The Company utilized its gross deferred tax assets to offset this remaining acquisition related deferred tax liability.

The following table summarizes the fair values of the assets acquired and liabilities assumed as of the date of the acquisition.

Cash, accounts receivable and other current assets	\$ 261,000
Amortizable intangible assets	6,040,000
Goodwill	10,856,000
Accounts payable and other current liabilities	(421,000)
Long-term debt	(117,000)
 Total acquisition cost	 \$ 16,619,000

The \$6,040,000 of acquired amortizable intangible assets were assigned as follows: (i) \$3,330,000 to the software now known as DATATRAK eClinical; (ii) \$1,160,000 to employee non-compete agreements; and (iii) \$1,550,000 to contracts and customer relationships. The software is being amortized over seven years and has a remaining balance of \$428,000 at December 31, 2008. The employee non-compete and contracts and customer relationship intangible assets, which were previously amortized over three years, are fully amortized as of December 31, 2008. These assets are subject to impairment testing when impairment indicators arise as more fully detailed in Note 6 below.

The following table summarizes the activity of the Company's acquired infinite and finite-lived intangible assets since the acquisition date of February 13, 2006:

	DATATRAK eClinical Software	Employee non-compete	Contract and customer relationship	Goodwill	Total acquired intangible assets
Acquired Balance @ 2/13/06	\$ 3,330,000	\$ 1,160,000	\$ 1,550,000	\$ 10,856,000	\$ 16,896,000
2006 Amortization	(436,000)	(341,000)	(455,000)	N/A	(1,232,000)
Balance @ 12/31/06	2,894,000	819,000	1,095,000	\$ 10,856,000	15,664,000
2007 Amortization	(476,000)	(347,000)	(833,000)	N/A	(1,656,000)
Impairment		(213,000)			(213,000)
 Balance @ 12/31/07	 2,418,000	 259,000	 262,000	 \$ 10,856,000	 13,795,000
2008 Amortization	(290,000)	(115,000)	(262,000)	N/A	(667,000)
Impairment	(1,700,000)	(144,000)		(\$10,856,000)	(12,700,000)
Balance @ 12/31/08	\$ 428,000	\$	\$	\$	\$ 428,000

The operating results of ClickFind have been included in the Company's consolidated results of operations for all periods subsequent to February 13, 2006. Unaudited pro forma operating results for the year ended December 31, 2006 as though the Company had acquired ClickFind at the beginning of 2006, are set forth below. The unaudited pro forma operating results are not necessarily indicative of what would have occurred had the transaction taken place on January 1, 2006.

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	<b>Year Ended December 31, 2006</b>
Pro forma revenue	\$ 17,899,000
Pro forma net loss	\$ (4,774,000)
Pro forma basic loss per share	\$ (0.42)
Pro forma diluted loss per share	\$ (0.42)

#### *Stock-Based Compensation*

The Company accounts for stock-based compensation in accordance with SFAS No. 123(R), *Share-Based Payment ( FAS 123(R) )* using the modified prospective method. The 2005 Omnibus Equity Plan (the Omnibus Plan ) is the Company's primary share-based award program for covered employees and directors. Restricted common stock, common share options and common shares have been awarded under the Omnibus Plan share-based award program exclusively since 2005. The Company used the Black-Scholes option valuation model to calculate the fair value of stock options granted.

Common shares and common share options awarded to non-employee directors are fully vested and compensation costs are completely expensed on the grant date. Compensation expense for share-based awards granted to employees vest over the assigned vesting period and related compensation costs are amortized ratably over the vesting period. The Company's unamortized compensation cost, related to non-vested stock options and restricted common shares, at December 31, 2008, 2007 and 2006 was \$107,000, \$263,000 and \$676,000, respectively. The unamortized cost of \$107,000 at December 31, 2008 is expected to be amortized in the amounts of \$65,000, \$26,000 and \$16,000 in 2009, 2010 and 2011, respectively.

#### *Income Taxes*

The Company follows SFAS No. 109, *Accounting for Income Taxes*. This accounting standard requires that the liability method be used in accounting for income taxes. Under this accounting method, deferred tax assets and liabilities are determined based on the differences between the financial reporting basis and the tax basis of assets and liabilities and are measured using the enacted tax rates and laws that apply in the periods in which the deferred tax asset or liability is expected to be realized or settled. A valuation allowance is provided for deferred tax assets for which realization currently is not certain. Quarterly income taxes are recorded at the effective rate, based on annual forecasted income. The Company currently is in a three-year cumulative loss position totaling approximately \$34 million. As a result, the Company recorded a full valuation reserve against its net deferred tax assets at December 31, 2008.

In accordance with Financial Interpretation ( FIN ) No. 48, *Accounting for Uncertainty in Income Taxes*", the Company recorded an unrecognized tax benefit of \$130,000 at December 31, 2007 related to DATATRAK Deutschland GmbH's disallowed losses and treatment of such as a constructive dividend to the U.S. parent company, DATATRAK International, Inc. This liability was adjusted to \$115,000 and paid in full in 2008. The Company has no unrecognized tax benefit at December 31, 2008.

#### *Use of Estimates*

The preparation of financial statements in conformity with accounting principles generally accepted in the United States requires management to make estimates and assumptions that might affect the amounts reported in the financial statements and accompanying notes. Actual results could differ from those estimates.

#### *Financial Instruments*

The carrying values of cash and cash equivalents, accounts receivable, accounts payable and accrued expenses are reasonable estimates of fair value due to the short-term nature of these financial instruments. Investments are reported at amortized cost, which approximates fair value.

#### *Advertising Costs*

Advertising costs are expensed as incurred and are included in selling, general and administrative expenses. Advertising expenses were \$230,000, \$391,000 and \$336,000 for 2008, 2007 and 2006, respectively.

*Software Development Costs*

Development costs incurred in the research and development of new software products and enhancements to existing software products are expensed as incurred until technological feasibility has been established. After technological feasibility is established, any additional costs are capitalized in accordance with SFAS No. 86,

Accounting for the Costs of Computer Software to be Sold, Leased, or Otherwise Marketed. Such costs are amortized over the lesser of three years or the economic life of the related product. The Company performs an annual review of the recoverability of such capitalized software costs. At the time a determination is made that capitalized amounts are not recoverable based on the estimated cash flows to be generated from the applicable software, any remaining capitalized amounts are expensed. No software development costs were capitalized in 2008 or 2007.

Research and development expenses included in selling, general and administrative expenses were \$1,428,000, \$2,405,000 and \$2,310,000 in 2008, 2007 and 2006, respectively.

*Foreign Currency Translation*

The assets and liabilities of the Company's foreign subsidiary are translated into U.S. dollars at current exchange rates. Revenue and expense accounts of these operations are translated at average rates prevailing during the period. These translation adjustments are accumulated in a separate component of shareholders' equity. Foreign currency transaction gains and losses are included in determining net (loss) income when realized. In December 2008, the Company liquidated its foreign subsidiary, DATATRAK Deutschland GmbH. As a result, the Company eliminated its currency translation adjustment and recorded an operating loss from the liquidation of its foreign subsidiary in the amount of \$381,000 as of December 31, 2008.

*Recently Issued Accounting Standards*

In February 2008, the FASB issued FASB Staff Position ( FSP ) No. 157, Effective Date of FASB Statement No. 157. FSP No. 157 delays the effective date of SFAS No. 157 for nonfinancial assets and nonfinancial liabilities to fiscal years beginning after November 15, 2008. The Company's significant nonfinancial assets and liabilities that could be impacted by this deferral include assets and liabilities initially measured at fair value in a business combination. The adoption of SFAS No. 157 for nonfinancial assets and nonfinancial liabilities is not expected to have a material impact on the Company's results of operations and financial condition.

*Reclassification*

Certain prior year amounts have been reclassified to conform to the current year presentation.

**3. Short-term Investments**

The following is a summary of held-to-maturity securities:

	<b>December 31, 2008</b>		<b>December 31, 2007</b>	
	<b>Cost</b>	<b>Amortized Cost</b>	<b>Cost</b>	<b>Amortized Cost</b>
Obligations of U.S. government sponsored enterprises	\$	\$	\$ 1,996,003	\$ 1,998,140
Corporate obligations	499,457	499,936	4,590,750	4,596,905
	\$ 499,457	\$ 499,936	\$ 6,586,753	\$ 6,595,045

**4. Fair Value Measurements**

On January 1, 2008, the Company adopted the provisions of Statement of Financial Accounting Standards ( SFAS ) No. 157, *Fair Value Measurements* as required for financial assets and liabilities. The adoption of SFAS No. 157 had no material impact on the Company's financial position, results of operations or cash flows during the year ended December 31, 2008. SFAS No. 157 was effective January 1, 2008 for financial assets and liabilities and will be effective January 1, 2009 for non-financial assets and liabilities. The standard provides guidance for establishing a frame work for measuring fair values of assets and liabilities. Under the standard, fair value refers to the price that

would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date (i.e. an exit price). The standard clarifies the principle that fair value should be based on the assumptions or inputs market participants would use when pricing the asset or liability.

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In support of this principle, SFAS No. 157 establishes a three level hierarchy for fair value measurements based on the quality or transparency of inputs used to measure the fair value of an asset or liability at the measurement date.

The three levels are defined as follows:

Level 1 (the highest priority) inputs to the valuation methodology are quoted market prices (unadjusted) for identical financial assets or liabilities in active markets.

Level 2 inputs to the valuation methodology include quoted market prices for similar assets and liabilities in active markets, and inputs that are observable for an asset or liability, either directly or indirectly, for substantially the full term of a financial instrument.

Level 3 (the lowest priority) inputs to the valuation methodology are unobservable and significant to the fair value measurement. These inputs reflect management's own assumptions about the assumptions a market participant would use in pricing a financial instrument.

A financial instrument's categorization within the valuation hierarchy is based upon the lowest level or priority of input that is significant to the fair value measurement of the financial asset or liability.

The Company's only financial assets or liabilities subject to SFAS No. 157 are its investments in cash equivalents and short-term investment instruments consisting primarily of corporate obligations in the form of commercial paper, grade A1 or better. Following is a description of the valuation methodologies used to determine the fair value of the Company's financial assets including the general classification of such instruments pursuant to the valuation hierarchy.

**Cash equivalents** The Company considers all highly liquid investments with a maturity of three months or less when purchased to be cash equivalents. The Company's cash equivalents consist of various money market funds. The money market funds are recorded based on quoted market prices in active markets multiplied by the number of shares owned. The money market funds are classified in Level 1 of the valuation hierarchy.

**Short-term investments** The Company's short-term investments consist primarily of corporate obligations in the form of commercial paper of the highest grade which have maturities of one year or less. There is an active market for these commercial paper securities at quoted market prices determined by the issuer of the commercial paper. The short-term investments are classified in Level 1 of the valuation hierarchy.

The following table presents the financial instruments carried at fair value as of December 31, 2008 by caption on the consolidated balance sheet and by SFAS No. 157 valuation hierarchy as described above.

**Fair Value Measurements at Reporting Date Using**

Description	December 31, 2008	Quoted Prices in Active Markets for Identical Assets (Level 1)			Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Cash Equivalents - Money Market Funds	\$ 1,218,647	\$	1,218,647	\$	\$	
Short-term Investments - Corporate Obligations (i.e. Commercial Paper)	499,936		499,936			
Total	\$ 1,718,583	\$	1,718,583	\$	\$	

**5. Accounts Receivable**

Accounts receivable consist of the following:

**December 31,**  
**2008                      2007**

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Trade accounts receivable	\$ 935,697	\$ 1,023,526
Other	5,318	52,162

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	<b>December 31,</b>	
	<b>2008</b>	<b>2007</b>
Allowance for doubtful accounts	(13,525)	(5,000)
	\$ 927,490	\$ 1,070,688

Included in trade accounts receivable at December 31, 2008 and 2007 is \$168,000 and \$232,000, respectively, from a primary customer. This amount represents the loss the Company would incur in the event that all trade receivables from this customer were deemed uncollectible.

#### **6. Goodwill and Finite-Lived Tangible and Intangible Assets**

As a result of consecutive quarterly operating losses since the first quarter of 2006 and continued decline in market capitalization during 2008, the Company determined that impairment indicators existed as of each quarter-end in 2008. As required by SFAS No. 142, Goodwill and Other Intangible Assets, the Company conducted a two-step impairment test to assess the carrying value of its goodwill. The results of the test and other qualitative factors negatively impacting the Company's expected future performance resulted in a full impairment loss of its goodwill in the amount of \$10,856,000 as of December 31, 2008.

In accordance with SFAS No. 144, Accounting for the Impairment of Long-Lived Assets, the carrying values of long-lived assets are evaluated if circumstances indicate a possible impairment in value. As a result of consecutive quarterly operating losses since the first quarter of 2006 and forecasted continuing operating losses based on current sales trends, the Company determined that impairment indicators for its finite-lived tangible and intangible assets, including its eClinical software, existed as of each quarter-end beginning with June 30, 2007 and continuing through December 31, 2008. The Company conducted impairment testing of its finite-lived tangible and intangible assets as of all these dates. As a result of its testing, the Company recorded an impairment losses of \$144,000 on its ClickFind non-compete intangible asset, \$63,000 for certain German fixed assets, \$25,000 related to our U.S. corporate office space reduction and \$1,700,000 on its DATATRAK eClinical software as of December 31, 2008. Similarly, the Company recorded an impairment charge of \$213,000 against non-compete intangible asset as of December 31, 2007.

#### **7. Accrued Expenses**

Accrued expenses consist of the following:

	<b>December 31,</b>	
	<b>2008</b>	<b>2007</b>
Office rent and utilities	\$ 58,278	\$ 30,947
Payroll and other employee costs	709,956	1,076,438
Professional fees	255,268	226,784
FIN No. 48 tax liability		130,000
Interest		73,558
Other	81,082	69,534
	\$ 1,104,584	\$ 1,607,261

#### **8. Income Taxes**

Income tax expense (benefit) consists of the following:

	<b>Year Ended December 31,</b>		
	<b>2008</b>	<b>2007</b>	<b>2006</b>
Current United States and foreign	\$ (15,000)	\$ 130,000	\$
Deferred United States and foreign	400,000	(176,000)	976,000

\$ 385,000      \$ (46,000)      \$ 976,000

Due to its net operating loss carryforwards, the Company had no state or local income tax expense in 2008, 2007 and 2006.

A reconciliation of income tax expense (benefit) at the U.S. federal statutory rate to the effective income tax rate is as follows:

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	<b>Year Ended December 31,</b>		
	<b>2008</b>	<b>2007</b>	<b>2006</b>
Income tax benefit at the United States statutory rate	\$ (5,580,000)	\$ (3,706,000)	\$ (1,195,000)
Change in valuation allowance	2,289,000	2,073,000	2,025,000
FIN No. 48 liability	(130,000)	130,000	
Foreign tax rate change		839,000	
Foreign net operating loss adjustment		485,000	
Foreign taxes (benefit)	(35,000)	13,000	12,000
Goodwill impairment	3,691,000		
Non-deductible permanent differences	150,000	120,000	162,000
Other			(28,000)
	<b>\$ 385,000</b>	<b>\$ (46,000)</b>	<b>\$ 976,000</b>

Due to uncertainty regarding the realization of the deferred tax asset resulting from its cumulative operating losses through 2008, as well as the closing of its German office in 2008, the Company provided for a full valuation allowance against all its net deferred tax assets at December 31, 2008. The deferred foreign tax provision of \$400,000 in 2008 was the result of additional valuation reserve provided against German deferred tax assets.

At December 31, 2008 the Company had a net operating loss carryforward of approximately \$33,003,000 for United States income tax purposes. An equity transaction completed on January 7, 2002 has limited the Company's net operating loss carryforwards, incurred prior to that date, to a maximum amount of approximately \$1,000,000 per year, under Section 382 of the Internal Revenue Code. All of the Company's United States net operating loss carryforwards will begin expiring in the year 2018 and will be fully expired in the year 2028. The Company also has a net operating loss carryforward of approximately \$5,155,000 euro for German income tax purposes with no expiration date pending the outcome of the liquidation proceedings of Deutschland GmbH.

Due to uncertainty regarding the realization of the deferred tax asset resulting from its cumulative operating losses through 2007, the Company provided a full valuation allowance against its net U.S. deferred tax assets at December 31, 2007. During 2007, the Company reevaluated its valuation allowance and reduced its German valuation allowance by \$319,000 which resulted in an income tax benefit and increased the overall unreserved German deferred tax assets to \$400,000 at December 31, 2007. The \$319,000 benefit was partially offset by a \$130,000 FIN No. 48 liability recorded in the fourth quarter of 2007, a \$22,000 reduction of the net German deferred tax assets due to a decrease in the future German income tax rate and the use of \$121,000 of foreign net operating losses to reduce foreign taxable income.

In August 2007, Germany passed a tax reform bill that lowered the Company's foreign corporate tax rate from 38% to 30%. As a result of this tax rate change, the Company recorded a \$22,000 reduction in its foreign net deferred tax asset. In addition, the Company reduced its foreign deferred tax asset and corresponding valuation reserve by \$817,000.

During 2007 the German tax authority began an audit of the Company's German subsidiary, DATATRAK Deutschland GmbH. In the fourth quarter of 2007 the German tax authority established a position to disallow losses recognized in 2002 and 2003 and to classify such treatment as a constructive dividend to the U.S. parent company. In accordance with FIN No. 48 guidelines, the Company recorded an unrecognized tax benefit in the amount of \$130,000 in association with this examination. This expense along with the associated reduction of the fully reserved deferred tax assets associated with the net operating losses for 2002 and 2003 was recorded in the fourth quarter of 2007.

During the first quarter of 2008, the Company received the German tax audit report associated with the German tax audit of DATATRAK Deutschland GmbH ( Deutschland GmbH ) for the years 2003 through 2005. The report concluded that only the 2003 loss was disallowed and should be classified as a constructive dividend. As a result, the estimated tax assessment due to the German tax authority was \$115,000 and the corresponding FIN No. 48 liability of \$130,000 recorded at December 31, 2007 was adjusted to \$115,000 which was paid in September 2008.

In 2006, DATATRAK reported a net operating loss which placed the Company in a three year cumulative loss position. This cumulative loss resulted in sufficient negative evidence to require a full valuation allowance against the Company's net U.S. deferred tax assets. The tax provision in 2006 primarily resulted from the reinstatement of the Company's U.S. and German valuation allowances.

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As part of the ClickFind acquisition in 2006, DATATRAK acquired \$6,040,000 of amortizable intangible assets. The only remaining intangible asset is the Company's DATATRAK eClinical software in the amount of \$428,000 as of December 31, 2008. The amortization expense related to these intangible assets is not deductible for income tax purposes. The Company will use its net operating loss carryforwards to offset the remaining deferred tax liability of \$145,000 related to the DATATRAK eClinical software which the Company expects to realize fully by 2013.

The significant components of the Company's deferred tax assets, stated in U.S. dollars, are as follows:

	<b>December 31,</b>	
	<b>2008</b>	<b>2007</b>
Deferred tax assets:		
U.S. net operating loss carryforwards	\$ 11,221,000	\$ 10,043,000
Foreign net operating loss carryforwards	2,032,000	2,284,000
Alternative minimum tax credit carryforward	123,000	123,000
Foreign tax credit	115,000	
Allowances and accruals	62,000	71,000
Depreciation and amortization	215,000	212,000
	13,768,000	12,733,000
Valuation allowance	(13,623,000)	(11,334,000)
Gross deferred tax assets recorded	\$ 145,000	\$ 1,399,000

At December 31, 2008, a valuation allowance of approximately \$13,623,000 remains against DATATRAK's deferred tax assets, which consist primarily of net operating loss carryforwards for both U.S. and foreign income taxes. Of the \$13,623,000 total allowance, approximately \$11,221,000 is recorded against the portion of DATATRAK's deferred tax assets that represent net operating loss carryforwards for U.S. income taxes, and approximately \$2,032,000 is recorded against the portion of DATATRAK's deferred tax assets that represent net operating loss carryforwards for German income taxes. The remaining \$370,000 valuation allowance is provided for other non-current deferred tax assets.

The increase in the valuation allowance of approximately \$2.3 million from 2007 to 2008 is primarily due to (i) \$300,000 added reserve against its previous unreserved German deferred tax asset, (ii) \$1,200,000 added reserve against its U.S. net operating loss carryforwards which resulted from 2008 operating losses, (iii) \$900,000 decrease in deferred liabilities resulting from 2008 impairment charges and amortization of its finite-lived intangible assets, (iv) \$200,000 reserve reduction due to income recorded against foreign loss carryforwards and (v) \$100,000 added reserve for a foreign tax credit resulting from its FIN No. 48 liability payment made in 2008.

Effective January 1, 2007, the Company adopted Financial Interpretation (FIN) No. 48, "Accounting for Uncertainty in Income Taxes." In accordance with FIN No. 48, the Company recorded an unrecognized tax benefit of \$130,000 at December 31, 2007 related to DATATRAK Deutschland GmbH's disallowed losses and treatment of such as a constructive dividend to the U.S. parent company, DATATRAK International, Inc. This liability was adjusted to \$115,000 and paid in full in 2008. The Company has no unrecognized tax benefit at December 31, 2008.

A reconciliation of the Company's beginning, at adoption, and ending amount of unrecognized tax benefits is as follows:

Balance @ January 1, 2008	\$ 130,000
Gross amount of increases/(decreases) in 2008 for prior years' tax positions	(15,000)
Gross amount of increases/(decreases) for current year's tax positions	
Amount of decreases related to settlement	(115,000)
Reductions due to lapse of statute of limitations	

Balance @ December 31, 2008

\$ 0

Tax years 2006 through 2008 remain subject to German tax examination. Similarly, tax years 2005 through 2008 remain subject to U.S. tax examination.

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## 9. Restructuring Costs

During 2008, the Company terminated 14 employees due to the closing of its German office and 12 others as a result of its cost cutting initiatives. Significant employee terminations also took place in the second, third and fourth quarters of 2007. As a result, the Company accrued severance charges for severance benefits due to terminated employees in both the years ending December 31, 2008 and 2007. All the accrued severance costs of \$245,000 at December 31, 2008 are expected to be paid by November 30, 2009. Reconciliations of the Company's accrued severance balances for the years ended December 31, 2008 and 2007 are as follows:

<b>Description</b>	<b>Accrued Severance Reconciliation</b>	
	<b>2008</b>	<b>2007</b>
Accrued severance at Jan. 1	\$ 523,000	\$ 7,000
Charges	775,000	915,000
Payments	(1,053,000)	(399,000)
Accrued severance at Dec. 31	\$ 245,000	\$ 523,000

The Company accounts for termination benefits in accordance with Statement of Financial Accounting Standards ( FAS ) No. 146, *Accounting for the Cost of Exit or Disposal Activities*, which requires that termination benefit expenses be recorded ratably over the period during which employees must provide future services in order to obtain the benefit. Termination benefits for employees who will not be retained to render service beyond the minimum notification period are recognized at the communication date. There were no future service requirements in connection with the above noted terminations.

On July 31, 2008, the Company exited its German premises and is in default of certain operating lease agreements. In accordance with FAS No. 146, the Company was required to record rent expense of \$835,000 representing the fair value of the future minimum lease payments including fixed costs of its office and telephone operating leases. No lease payments have been made since the Company recorded this obligation on July 31, 2008. The Company was not able to reach a termination settlement with our German landlord. The original office lease term expires in August 2012.

Effective January 31, 2009, DATATRAK, Inc., a wholly owned subsidiary of the Company, terminated its non-exclusive Marketing Services Agreement ( Agreement ) with DATATRAK Deutschland GmbH ( Deutschland GmbH ) and DATATRAK Inc. As of December 31, 2008, Deutschland GmbH recorded accrued expenses for lease and other obligations incurred through January 31, 2009 totaling \$218,000. As a result of the termination of the Agreement, Deutschland GmbH was required under applicable German law to file a petition for voluntary bankruptcy in the German courts and has on hand \$218,000, designated as restricted cash, to fund these liabilities as of December 31, 2008. Also as part of this liquidation of the Company's foreign investment in Deutschland GmbH, the Company reversed its cumulative currency translation adjustment and recorded additional operating expenses of \$381,000 as of December 31, 2008. Due to the termination of the Agreement and subsequent insolvency filing in January 2009, the Company is no longer liable for previous lease commitments beyond January 31, 2009. As a result, the Company reversed \$692,000 of rent expense related to the previous GmbH lease obligations in December 2008.

## 10. Long-term Debt

Long-term debt at December 31, 2008 and December 31, 2007 is summarized below:

	<b>December 31, 2008</b>	<b>December 31, 2007</b>
Insurance note payable	\$ 8,000	\$
ClickFind Notes		3,425,000
Financing agreement with Oracle Credit Corporation (the Oracle Agreement )	44,000	143,000
Capital lease agreement with Dell Financial Services (the Dell Agreement )	185,000	357,000

	238,000	3,925,000
Less current maturities	196,000	672,000
	\$ 41,000	\$ 3,253,000

The ClickFind Notes were held by certain former shareholders of ClickFind. They earned interest at prime plus 1% and the remaining balloon principal payment of \$3,000,000 would have been due on February 1, 2009. During 2008 the Company had been involved in a dispute relating to certain representations and warranties in the ClickFind Merger Agreement.

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On December 18, 2008, DATATRAK announced the dispute had been resolved and that an agreement to settle all claims with the Defendants in the case had been reached. In connection with such resolution the \$3,000,000 balloon payment due on February 1, 2009 and \$180,000 in accrued interest due the Defendants was forgiven.

On July 17, 2006, Datasci, LLC ( Datasci ) filed a complaint against the Company, ClickFind and CF Merger Sub, Inc. ( Merger Sub ) (Civil Docket No. 8:06-cv-01820-MJG, United States District Court, District of Maryland) alleging infringement of United States Patent No. 6,496,827 (the Datasci claim ). As previously disclosed, on July 31, 2007, the parties entered into a settlement agreement whereby Datasci agreed to dismiss its claims against the Company with prejudice, and no payment was required then or in the future in connection with DATATRAK EDC® or DATATRAK eClinical<sup>0</sup> in their current forms. In connection with the Datasci claim, an arrangement was entered into with certain former ClickFind shareholders for sharing of the expenses associated with that litigation. Under that arrangement, a certain portion of principal payments due under the notes would be used to offset a certain portion of the expenses related to the litigation. Of the \$500,000 payment that was due on February 1, 2007, \$79,000 was held by the Company to satisfy these expenses. As of December 31, 2007, an additional \$75,000 had been recorded as a reduction to the notes payable reducing the February 1, 2008 installment to \$425,000 from the original \$500,000 payment that was due. In July 2007, DATATRAK settled its litigation related to Datasci s patent infringement claim with no liability against the Company.

The Oracle Agreement is for the purchase of certain computer equipment. The terms of the financing agreement require DATATRAK to make 36 monthly payments of \$9,000, including accrued interest, beginning in July 2006 through June 2009.

The Dell Agreements are for the purchase of certain computer equipment. The terms of the lease agreements require DATATRAK to make monthly payments, currently totaling \$16,000, for the 36 month term of each lease. Certain of these leases include bargain purchase options while the more recent ones entered into include fair value purchase options at the end of the lease term.

The Oracle Agreement and the Dell Agreement transactions totaling \$229,000 and \$256,000 for the years ended December 31, 2007 and 2006, respectively, are excluded from the Company s condensed consolidated statement of cash flows. There were no such agreements entered into during 2008.

During May 2008, the Company entered into two separate financing agreements (the Insurance Notes ) with Westfield Bank, FSB for the payment of the Company s insurance premiums. The notes bear interest at 6.9% and 7.2%, respectively, and are due in monthly installments of \$11,000 and \$8,000, including accrued interest, respectively. The origination of the Insurance Notes are excluded from the Company s 2008 condensed consolidated statement of cash flows. At December 31, 2008, \$8,000 was due to Westfield Bank, FSB.

The following table sets forth the future minimum lease payments on the Oracle Agreement, Dell leases and Insurance Notes for the next five years and overall aggregate.

<b>2009</b>	<b>2010</b>	<b>2011</b>	<b>2012</b>	<b>2013</b>	<b>Total</b>
\$213,000	\$35,000				\$248,000

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**11. Operating Leases**

The Company leases certain office equipment and space. Rent expense relating to these operating leases was approximately \$1,171,000, \$1,075,000 and \$795,000 in 2008, 2007 and 2006, respectively. Future minimum lease payments for the Company under non-cancelable operating leases as of December 31, 2008 are as follows:

<b>Year Ending December 31,</b>	<b>Amount</b>
2009	\$ 412,000
2010	280,000
2011	287,000
2012	293,000
Subsequent to 2012	
	\$ 1,272,000

**12. Line of Credit**

We have established a line of credit with a bank. This line allows us to borrow up to a certain percentage of our investments, as determined by the type of investment, held at the bank. As of December 31, 2008, \$468,000 was available to be borrowed. The line of credit bears interest at rates based on the prime rate, and is payable on demand. We had no amounts outstanding against the line of credit at December 31, 2008 or 2007.

**13. Shareholders Equity**

In March of 2007, the Company completed a private placement financing with a group of institutional investors. In connection with this financing, the Company sold 1,986,322 common shares at a price of \$4.75 per share. The terms of the financing included the issuance of five-year warrants to purchase a total of 297,948 common shares at \$6.00 per share to investors in the private placement, and the issuance of five-year warrants to purchase a total of 29,795 common shares at \$6.00 per share to the placement agents who assisted the Company in the private placement. The net proceeds from the sale of the common shares were approximately \$8,648,000 (after deducting offering related expenses). The proceeds were allocated between common shares and common share warrants based on their relative fair values. All the warrants totaling 327,743 were outstanding as of December 31, 2008 and 2007.

In connection with March 2007 financing, we granted registration rights for the purchased common shares and the common shares issuable upon exercise of the warrants. The registration rights agreement specifies filing and effectiveness deadlines and requires the Company to, except under certain limited circumstances, keep the registration statement effective until certain threshold dates. The registration rights agreement also requires the Company to maintain (e.g. maintenance requirement) a sufficient number of common shares to satisfy all the warrants if they were exercised now or in the future. DATATRAK has sufficient authorized, unregistered common shares to permit exercise of the warrants. Accordingly, the Company classified the warrants as equity instruments. On April 13, 2007, the Company filed its S-3 registration statement to register sufficient common shares to cover the purchased common shares and the common shares issuable upon exercise of the warrants issued as part of the private placement financing. The registration statement was declared effective on May 14, 2007 by the Securities and Exchange Commission.

In the event the Company fails to meet the registration maintenance requirement, DATATRAK will have to pay each holder an amount equal to 1.0% of the aggregate purchase price for each month of such failure. The aggregate amount of these registration failure payments will not exceed a total of 10% of the aggregate purchase price of the shares. The Company believes it is not probable that it will be required to pay a registration failure payment and thus has not recorded a liability with respect to the registration payment arrangement. The registration maintenance requirement expires in May 2009.

During 2008, 15,680 warrants expired which had an exercise price of \$3.20 per share. There are 327,743 warrants outstanding at December 31, 2008 which have original terms of 5 years and an exercise price of \$6.00 per share. In December 2007, 141,399 warrants expired which had an exercise price of \$9.60 per share.

### *Reserved Shares*

At December 31, 2008, the Company had reserved 1,469,326 common shares for the exercise of common share options and warrants. Of the 1,469,326 reserved shares, 411,750 shares are reserved for future grants under the Company's previously established share option plans. Because the Omnibus Plan was approved, the 411,750 common share options that could have been granted pursuant to the Company's previously established share option plans are not expected to be granted.

In addition, at December 31, 2008 the Company had reserved a total of 844,092 common shares including 366,376 for future awards and 477,716 for the exercise of stock options pursuant to the Omnibus Plan.

### *Shareholder Rights Plan*

Effective September 5, 2007, in connection with the adoption of the rights agreement between the Company and National City Bank as Rights Agent dated September 5, 2007 (the Rights Agreement), the Board of Directors declared a dividend of one preferred share purchase right (a Right) for each outstanding common share, payable to the Company's shareholders of record as of September 17, 2007 (the Record Date). Each Right entitles the registered holder of the common shares on the Record Date to buy one one-hundredth of a share of Series A Junior Participating Preferred stock (a Preferred Share) at an exercise price of \$11.70, subject to adjustment as provided in the Rights Agreement.

The Rights are not exercisable until the earlier to occur of (i) ten (10) days following a public announcement that a person or group of affiliated or associated persons (an Acquiring Person) has acquired beneficial ownership of 15% or more of the Company's outstanding common shares or (ii) ten (10) business days (or such later date as may be determined by action of the Board of Directors prior to such time as any person or group of affiliated persons becomes an Acquiring Person) following the commencement of, or announcement of an intention to make, a tender offer or exchange offer, the consummation of which would result in the beneficial ownership by a person or group of 15% or more of the Company's outstanding common shares (the earlier of such dates being called the Distribution Date).

Until the Rights are exercised, the holder has no rights as a shareholder of the Company, including, without limitation, the right to vote or to receive dividends. Except as provided for in the Rights Agreement, the Rights shall not be traded separately from the common shares and will expire on the earliest of (i) the close of business on September 5, 2017, (ii) the time at which the Rights are redeemed or (iii) the time at which such Rights are exchanged. Pursuant to the Rights Agreement, the purchase price payable and number of Preferred Shares issuable upon exercise of the Rights are subject to adjustment from time to time to prevent dilution upon the occurrence of certain events such as a stock dividend on, or a subdivision, combination or reclassification of the Preferred Shares.

## **14. Share-Based Payment Awards**

### **The 2005 Omnibus Plan**

On July 22, 2005, the Company's shareholders approved the DATATRAK International, Inc. 2005 Omnibus Equity Plan (the Omnibus Plan). The Omnibus Plan is intended to be the primary share-based award program for covered employees and directors. The Omnibus Plan gives the Compensation Committee of the Board of Directors flexibility to grant a wide variety of share-based awards by taking into account such factors as the type and level of employee, relevant business and performance goals and the prevailing tax and accounting treatments.

#### *Restricted Stock Awards*

Pursuant to the Omnibus Plan, restricted common shares were granted to a few key employees. These restricted stock awards vest ratably over a period of 12, 24 and 12 months following the grant date for the 2008, 2007 and 2006 restricted stock grants, respectively.

The following table summarizes the status of restricted stock awards as of December 31, 2008 and 2007 and changes during the year then ended:

	<b>Number of Shares</b>	<b>Weighted- Average Fair Value</b>
Restricted stock awards at January 1, 2007	21,364	\$4.65
Granted	35,000	4.53
Vested	(21,364)	4.65
Forfeited	-0-	-0-
Restricted stock awards at December 31, 2007	35,000	4.53
Granted	35,000	0.70
Vested	-0-	-0-
Forfeited	-0-	-0-
Restricted stock awards at December 31, 2008	70,000	\$2.62

During 2006, there were 21,364 restricted shares granted with a weighted-average fair value of \$4.65 per share.

We recognize compensation expense related to restricted stock awards on a straight-line basis over the vesting periods. Total compensation expense related to restricted stock awards was \$95,000, \$124,000 and \$25,000 for the years ended December 31, 2008, 2007 and 2006, respectively. As of December 31, 2008, there was \$39,000 of unrecognized compensation cost related to non-vested restricted stock awards. We expect to recognize all of that cost in 2009.

#### *Director and Key Employee Stock Option Awards*

During the fourth quarter of 2007, the Board of Directors decided that it would be in the best interest of the Company to conserve cash by modifying its then existing director compensation program which consisted of payments in the form of cash and fully vested stock to non-employee Directors. Under the prior model of the director compensation program, in consideration of their services to the Company, each non-employee member of the Board of Directors received, in addition to certain cash payments, an annual compensation grant of \$16,000 worth of fully-vested common shares. In addition, non-employee Directors received additional awards of common shares as compensation for attendance at Board and Committee meetings, as well as for chairing a Committee of the Board. Under the modified director compensation program, non-employee members of the Board of Directors receive fully vested common share options for the above mentioned services limited to an aggregate 42,000 common share options per quarter effective beginning with the fourth quarter of 2007. During 2008, the Board of Directors approved the annual grant of additional common share options (to be granted during the last quarter of the year) to Mr. Birch in connection with his position as Chairman. This annual grant is an amount equal to the difference between 50,000 and the number of options he has been granted during the year in connection with the standard board compensation program.

The following tables summarize the status of the director and key employee common share option awards as of December 31, 2008 and changes during the year then ended:

	<b>Director Options</b>	<b>Key Employee Options</b>	<b>Total Options</b>	<b>Weighted Average Exercise Price</b>	<b>Aggregate Intrinsic Value</b>	<b>Weighted-Average Remaining Contractual Life</b>
Outstanding at January 1, 2008	42,000	-0-	42,000	\$ 2.20	\$ (4,000)	9.9 years
Granted	185,557	295,000	480,557	\$ 0.44		
Exercised	-0-	-0-	-0-	-0-		
Cancelled	(19,841)	(25,000)	(44,841)	\$ 1.56		
	207,716	270,000	477,716	\$ 0.61	\$ (191,000)	9.5 years

Outstanding at  
December 31, 2008

Vested or expected to  
vest at December 31,  
2008

207,716	270,000	477,716	\$	0.61	\$ (191,000)	9.5 years
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Exercisable at  
December 31, 2008

207,716	-0-	207,716	\$	0.92	\$ (148,000)	9.4 years
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The Director common share options are fully vested and the key employee options vest one-third per year. Stock compensation expense of \$103,000 and \$10,000 related to the 2008 Director and key employee option

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grants, respectively, was recognized in 2008. As of December 31, 2008, there was \$68,000 of unrecognized compensation cost related to the non-vested key employee option awards. We expect to recognize all this cost by August 2011 when all the key employee options are expected to be fully vested.

During 2007, the Company granted 42,000 options to Directors at a strike price of \$2.20 per share. As a result, the Company recorded compensation expense of \$71,400 in the fourth quarter of 2007. There were no common share options exercised or cancelled in 2007 under the Omnibus Plan.

*Director common share awards*

During the year ended December 31, 2007, non-employee Directors were awarded 33,323 common shares. Stock compensation expense of \$136,000 was recorded in 2007 as a result of the common shares granted under the previous model of the director compensation program.

During the year ended December 31, 2006, non-employee Directors were awarded 25,104 common shares. Stock compensation expense of \$153,000 was recorded in 2006 as a result of the common shares granted under the previous model of the director compensation program.

**Share Option Plans (pre- Omnibus Plan)**

The Company has three original share option plans with unexpired options that may be exercised by the holders of such options. At December 31, 2008, the Company had reserved 1,141,583 common shares for the exercise of options outstanding and future option grants. The Company has granted 2,162,384 options to purchase common shares to employees, directors and others of which 1,432,551 have been previously exercised. There are 411,750 options to purchase common shares available for future grants; however, no future option grants are expected to be made under these share option plans. All future grants are expected to be made under the Company's Omnibus Plan or any successor plan. The weighted-average remaining contractual life of all options outstanding was 2.9 years as of December 31, 2008.

The Amended and Restated 1996 Outside Directors' Stock Option Plan, as amended (the 1996 Director Plan) was established by the Company to provide common share options as compensation to directors of the Company. This option plan terminated on September 20, 2006 and as a result no future option grants can be made from this plan. All options outstanding at the time of the termination of the 1996 Director Plan shall continue in full force and effect in accordance with and subject to the terms and conditions of the Plan. All compensation expense related to these common share options has been previously recognized by the Company. Vesting of options awarded under the 1996 Director Plan ranged from 6 to 36 months. All options granted under the 1996 Director Plan expire ten years after the grant date. At December 31, 2008 there were no options outstanding under the 1996 Director Plan.

The Amended and Restated 1996 Key Employees' and Consultants Stock Option Plan (the 1996 Plan) provides for the granting of options to purchase common shares to key employees and consultants of the Company and its affiliates. This option plan terminated on February 29, 2007 and as a result no future option grants can be made from this Plan. All options outstanding at the time of the termination of the 1996 Plan shall continue in full force and effect in accordance with and subject to the terms and conditions of the Plan. Vesting of options awarded under the 1996 Plan ranges from two to four years, as determined by the Board of Directors' Compensation Committee, and all options granted under the 1996 Plan expire ten years after the grant date. At December 31, 2008 there were 410,333 options outstanding under the 1996 Plan all of which were 100% vested. These options had a weighted-average remaining contractual life of 3.0 years and a weighted-average exercise price of \$3.22.

The Amended and Restated Outside Director Stock Option Plan (the Director Plan) provides for the granting of options to purchase common shares to outside directors of the Company. All compensation expense related to these common share options has been previously recognized by the Company. Options fully vest one year following the grant date. All options granted under the Director Plan expire ten years after the grant date. At December 31, 2008 there were 319,500 options outstanding under the Director Plan all of which were 100% vested. These options had a weighted-average contractual life of 2.8 years and a weighted-average exercise price of \$3.06.

The Company's share option activity for these plans and related information for the year ended December 31, 2008 is summarized below:

	<b>Options</b>	<b>Weighted Average Exercise Price</b>	<b>Aggregate Intrinsic Value</b>	<b>Weighted-Average Remaining Contractual Life</b>
Outstanding at January 1, 2008	1,106,110	\$ 3.31		
Granted	-0-	-0-		
Exercised	-0-	-0-		
Cancelled	(376,277)	(3.61)		
Outstanding at December 31, 2008	729,833	\$ 3.15	\$ (2,148,000)	2.9 Years
Vested or expected to vest at December 31, 2008	729,833	\$ 3.15	\$ (2,148,000)	2.9 Years
Exercisable at December 31, 2008	729,833	\$ 3.15	\$ (2,148,000)	2.9 Years

Total compensation expense recognized to these share options plans was \$54,000, \$160,000 and \$388,000 in 2008, 2007 and 2006, respectively.

There were no options granted under these share option plans in 2007. During 2007, options totaling 99,783 were exercised at a weighted-average price of \$2.74 per share and had an aggregate intrinsic value of \$133,000. Also during 2007, there were 184,556 options cancelled at a weighted-average of \$5.20 per share.

#### **Stock Option Valuation Method and Assumptions**

We estimate the fair-value of stock options using the Black-Scholes valuation model. Significant assumptions used in the model are: (i) expected volatility based on the historical volatility of our common stock prices, (ii) risk-free interest rate based on the U.S. Treasury yield curve in effect at the time of the grant and (iii) expected term of the option based on past history of the average time from the grant date to the option exercise date.

The fair-value of stock option awards were calculated at their respective grant dates using the Black-Scholes model which incorporated the following assumptions:

	December 31, 2008	December 31, 2007
Expected volatility	84.1% to 86.3%	84.0%
Risk-free interest rate	3.36% to 3.78%	4.28%
Expected term (in years)	7 years	7 years
Expected dividend yield	0.0%	0.0%

The Company began granting options under the Omnibus Plan in the fourth quarter of 2007.

#### **15. Retirement Savings Plan**

The Company sponsors The DATATRAK International, Inc. Retirement Savings Plan (the Plan) as defined by Section 401(k) of the Internal Revenue Code of 1986, as amended. The Plan covers substantially all United States employees who elect to participate. Participants may contribute their annual compensation into a variety of mutual fund options. Matching and profit sharing contributions by the Company are discretionary. The Company did not make any matching or profit sharing contributions in 2008 or 2007.

#### **16. Net Loss Per Share**

The following table sets forth the computation of basic and diluted net loss per share.

	<b>Year Ended December 31,</b>		
	<b>2008</b>	<b>2007</b>	<b>2006</b>

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Net loss used in the calculation of basic and diluted loss per share	\$ (16,796,605)	\$ (10,853,503)	\$ (4,490,410)
Denominator for basic net loss per share weighted-average common shares outstanding	13,681,901	13,197,706	11,273,382

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	<b>Year Ended December 31,</b>		
	<b>2008</b>	<b>2007</b>	<b>2006</b>
Effect of dilutive common share options and warrants			
Denominator for diluted net loss per share	13,681,901	13,197,706	11,273,382
Basic net loss per share	\$ (1.23)	\$ (0.82)	\$ (0.40)
Diluted net loss per share	\$ (1.23)	\$ (0.82)	\$ (0.40)
Weighted-average common share options and warrants excluded from the computation of diluted net loss per share because they would have an anti-dilutive effect on net loss per share	1,547,615	1,680,505	1,721,305

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**17. Segment Information**

The Company operates in one business segment: the eClinical solutions business.

*Enterprise-Wide Disclosures**Geographic Information*

<b>Year Ended December 31,</b>	<b>United States</b>	<b>Germany</b>	<b>Total</b>
Revenue from external customers:			
2008	\$ 8,826,060	\$	\$ 8,826,060
2007	10,561,868		10,561,868
2006	17,690,336		17,690,336
Net income (loss):			
2008	\$(14,800,200)	\$(1,996,405)	\$(16,796,605)
2007	(6,216,583)	(4,636,920)	(10,853,503)
2006	340,921	(4,831,331)	(4,490,410)
Long-lived assets, net at December 31,			
2008	\$ 785,549	\$	\$ 785,549
2007	14,770,246	141,124	14,911,370

*Major Customers*

The following sets forth the percentage of revenue generated by customers who accounted for more than 10% of the Company's revenue during each of the periods presented:

<b>Customer</b>	<b>2008</b>	<b>2007</b>	<b>2006</b>
Otsuka Research Institute	*	15%	44%
Gilead Sciences, Inc.	18%	14%	*
Allergan, Inc.	*	12%	*
Seattle Genetics, Inc.	15%	*	*

\* Less than 10% of revenue.

**18. Restricted Cash**

The Company's wholly owned subsidiary, DATATRAK Deutschland GmbH ( Deutschland GmbH ), was required to provide a bank guarantee to the lessor of its office space equal to three months of rent. The terms of the bank guarantee require Deutschland GmbH to maintain a restricted cash balance of 59,000 Euros with the bank. In 2008, Deutschland GmbH closed its office in Germany. In addition, Deutschland GmbH defaulted on its office lease agreement and the German landlord exercised its claim on the restricted cash reserve. Therefore, the Company wrote off the restricted cash balance of 59,000 Euros in 2008. Long-term restricted cash balances were \$0 at December 31, 2008 and \$87,000 at December 31, 2007.

Effective January 31, 2009, DATATRAK, Inc., a wholly owned subsidiary of the Company, terminated its non-exclusive Marketing Service Agreement ( Agreement ) with DATATRAK Deutschland GmbH ( Deutschland GmbH ) and DATATRAK Inc. As of December 31, 2008, Deutschland GmbH recorded accrued expenses for lease and other obligations incurred through January 31, 2009 totaling \$218,000. As a result of the termination of the Agreement, Deutschland GmbH was required under applicable German law to file a petition for voluntary bankruptcy in the German courts and has on hand \$218,000, designated as restricted cash, to fund these liabilities as of December 31, 2008.

**19. Quarterly Data (Unaudited)**

Selected quarterly data is as follows (in thousands, except per share data):

	<b>Year Ended December 31, 2008</b>			
	<b>First Quarter</b>	<b>Second Quarter</b>	<b>Third Quarter</b>	<b>Fourth Quarter</b>
Revenue	\$ 2,088	\$ 2,249	\$ 2,367	\$2,122
Gross profit	1,155	1,350	1,799	1,689
Loss from operations (1)	(2,225)	(15,572)	(1,567)	(109)
Net income (loss) (2)	(2,233)	(16,000)	(1,599)	3,035
Basic net income (loss) per share	(0.16)	(1.17)	(0.12)	0.22
Diluted net income (loss) per share	(0.16)	(1.17)	(0.12)	0.22

(1) Second quarter loss from operations included a \$12.8 million impairment loss.

(2) Fourth quarter net income included a \$3.0 million reversal of the ClickFind debt obligation.

During the first, second, third and fourth quarters of 2008, the Company recorded charges of \$26,000, \$579,000, \$47,000 and \$123,000, respectively for severance benefits due to terminated employees. These charges were primarily related to staff reductions of 26 employees.

	<b>Year Ended December 31, 2007</b>			
	<b>First Quarter</b>	<b>Second Quarter</b>	<b>Third Quarter</b>	<b>Fourth Quarter</b>
Revenue	\$ 3,542	\$ 3,065	\$ 2,116	\$ 1,839
Gross profit	2,205	1,845	1,055	874
Loss from operations	(1,840)	(2,999)	(3,497)	(2,632)
Net loss	(1,895)	(2,966)	(3,506)	(2,487)
Basic net loss per share	(0.16)	(0.22)	(0.26)	(0.18)
Diluted net loss per share	(0.16)	(0.22)	(0.26)	(0.18)

During the second, third and fourth quarters of 2007, the Company recorded charges of \$337,000, \$386,000 and \$192,000, respectively for severance benefits due to terminated employees. These charges were related to staff reductions of 45 employees.

**20. Contingencies**

In the ordinary course of business, the Company is involved in employment related legal proceedings. The Company is of the opinion that the ultimate resolution of these matters will not have a material adverse effect on the results of operations, cash flows or the financial position of DATATRAK.

On July 17, 2006, Datasci, LLC ( Datasci ) filed a complaint against the Company, ClickFind, and CF Merger Sub, Inc. ( Merger Sub ) alleging a patent infringement. In July 2007, the Company settled its litigation related to Datasci's

patent infringement claim with no liability against the Company.

**21. Subsequent Event**

In January of 2009 we announced the retirement of our Chief Executive Officer, Dr. Jeffrey A. Green. The Company will record a severance charge of approximately \$463,000 in the first quarter of 2009 related to Dr. Green's retirement which is expected to be paid over a two-year period.

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**Exhibit Index**

<b>Exhibit No.</b>	<b>Description</b>	<b>Page</b>
2.1	Agreement and Plan of Merger among DATATRAK International, Inc., CF Merger Sub, Inc., ClickFind, Inc., each of the shareholders of ClickFind, Inc and Jim Bob Ward, dated February 13, 2006	(10)
3.1	Sixth Amended and Restated Articles of Incorporation	(1)
3.2	Third Amended and Restated Code of Regulations	(2)
3.3	Amendment to the Third Amended and Restated Code of Regulations	(2)
3.4	Amendment to the Third Amended and Restated Code of Regulations	(1)
3.5	Amendment to the Third Amended and Restated Code of Regulations	(15)
4.1	Specimen Certificate of the Company's Common Shares, without par value	(5)
4.3	Registration Rights Agreement among DATATRAK International, Inc. and the Cash and Securities Recipients, dated February 13, 2006	(10)
4.4	Rights Agreement, dated September 5, 2007, by and among the Company and National City Bank, as Rights Agent, which includes the Form of Rights Certificate as Exhibit A and the summary of Rights as Exhibit B	(14)
4.6	Form of Warrant, dated March 19, 2007	(13)
10.1	Amended and Restated 1996 Outside Directors' Stock Option Plan*	(4)
10.2	Amendment No. 1 to the Amended and Restated 1996 Outside Directors' Stock Option Plan*	(2)
10.3	Amendment No. 2 to the Amended and Restated 1996 Outside Directors' Stock Option Plan*	(2)
10.4	Amendment to the Amended and Restated 1996 Outside Directors' Stock Option Plan*	(2)
10.5	DATATRAK International, Inc. 2005 Omnibus Equity Plan*	(9)
10.6	Amendment No. 1 to the DATATRAK International, Inc. 2005 Omnibus Equity Plan*	(15)
10.7	Amendment No. 2 to the DATATRAK International, Inc. 2005 Omnibus Equity Plan*	(16)
10.8	Amended and Restated 1996 Key Employees' and Consultants Stock Option Plan*	(4)
10.9	Amendment No. 1 to the Amended and Restated 1996 Key Employees' and Consultants Stock Option Plan*	(2)
10.10	Amendment No. 2 to the Amended and Restated 1996 Key Employees' and Consultants Stock Option Plan*	(2)

10.11	Amendment No. 3 to the Amended and Restated 1996 Key Employees and Consultants Stock Option Plan*	(2)
10.12	Amendment to the Amended and Restated 1996 Key Employees and Consultants Stock Option Plan*	(2)
10.13	Amended and Restated Outside Director Stock Option Plan*	(8)
10.14	Form of Indemnification Agreement*	(3)
10.15	Employment Agreement between the Company and Jeffrey A. Green, dated February 5, 2001*	(11)
10.16	Employment Agreement between the Company and Raymond J. Merk, dated April 14, 2008*	(17)
10.17	Employment Agreement between the Company and G. Matthew Delaney, dated June 16, 2008*	(15)
10.18	Separation Agreement and Release of Claims between the Company and Terry C. Black, dated July 7, 2008*	(18)
10.19	Separation Agreement and Release of Claims between the Company and Jeffrey A. Green, dated January 20, 2009*	(19)

<b>Exhibit No.</b>	<b>Description</b>	<b>Page</b>
10.20	Form of Non-Qualified Stock Option Agreement for Employees	(16)
10.21	Employment Agreement between the Company and Jim Bob Ward, dated February 13, 2006*	(10)
10.22	Amendment to Employment Agreement between the Company and Jim Bob Ward, dated December 17, 2008 *	(20)
10.23	DATATRAK International, Inc. Retirement Savings Plan*	(6)
10.24	Limited Software License Agreement between DATATRAK International, Inc. and Jim Bob Ward, dated February 13, 2006	(10)
10.25	Security Agreement with KeyBank National Association and related Demand Master Promissory Note, each dated August 31, 2006	(12)
10.26	Securities Purchase Agreement by and among the Company and the Purchasers named on Schedule A(3) thereto, dated March 16, 2007	(13)
14.1	Code of Business Conduct and Ethics	(12)
14.2	Financial Code of Ethics	(7)
21.1	Subsidiaries of the Company	(20)
23.1	Consent of Ernst & Young LLP	(21)
31.1	Rule 13a-14(a)/15d-14(a) Certification of Chief Executive Officer	
31.2	Rule 13a-14(a)/15d-14(a) Certification of Chief Financial Officer	
32.1	Section 1350 Certification of Chief Executive Officer	
32.2	Section 1350 Certification of Chief Financial Officer	

\* Management compensatory plan or arrangement.

(1) Incorporated herein by reference to the Company's Form 10-Q for the quarter ended June 30, 2003

(File  
No. 000-20699).

(2) Incorporated  
herein by  
reference to the  
Company's Form  
10-K for the year  
ended  
December 31,  
2002 (File  
No. 000-20699).

(3) Incorporated  
herein by  
reference to the  
Company's Form  
S-1 Registration  
Statement filed  
on March 8,  
1996, as  
amended by  
Amendment  
No. 1 filed on  
May 10, 1996  
and as amended  
by Amendment  
No. 2 filed on  
June 10, 1996  
(File  
No. 333-2140).

(4) Incorporated  
herein by  
reference to the  
Company's Form  
S-8 Registration  
Statement filed  
on November 13,  
1996 (File  
No. 333-16061).

(5) Incorporated  
herein by  
reference to the  
Company's Form  
10-K for the year  
ended  
December 31,  
2004 (File  
No. 000-20699).



- (6) Incorporated herein by reference to the Company's Form S-8 Registration Statement filed on April 30, 1997 (File No. 333-26251).
- (7) Incorporated herein by reference to the Company's Form 10-K for the year ended December 31, 2003 (File No. 000-20699).
- (8) Incorporated herein by reference to the Company's Form 10-Q for the quarter ended June 30, 2004 (File No. 000-20699).
- (9) Incorporated herein by reference to the Company's current report on Form 8-K dated July 22, 2005 (File No. 000-20699).
- (10) Incorporated herein by reference to the Company's current report on Form 8-K dated February 13, 2006 (File No. 000-20699).

(11) Incorporated  
herein by  
reference to the  
Company's Form  
10-K for the year  
ended  
December 31,  
2005 (File  
No. 000-20699).

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- (12) Incorporated herein by reference to the Company's Form 10-K for the year ended December 31, 2006 (File No. 000-20699).
- (13) Incorporated herein by reference to the Company's current report on Form 8-K dated March 20, 2007 (File No. 000-20699).
- (14) Incorporated herein by reference to the Company's current report on Form 8-K dated September 11, 2007 (File No. 000-20699).
- (15) Incorporated herein by reference to the Company's Form 10-Q for the quarter ended June 30, 2008 (File No. 000-20699).
- (16) Incorporated herein by reference to the Company's Form 10-Q for the quarter ended September 30, 2008 (File No. 000-20699).

(17) Incorporated herein by reference to the Company's Form 10-Q for the quarter ended March 31, 2008 (File No. 000-20699).

(18) Incorporated herein by reference to the Company's Form 8-K dated July 10, 2008 (File No. 000-20699).

(19) Incorporated herein by reference to the Company's Form 8-K dated January 20, 2009 (File No. 000-20699).

(20) Incorporated herein by reference to the Company's Form 10-K for the year ended December 31, 2008 as filed on March 16, 2009 (File No. 001-33688)

(21) Consent of Independent Registered Public Accounting Firm