DATATRAK INTERNATIONAL INC
Form 10-Q
August 09, 2007

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Securities and Exchange Commission
Washington, D.C. 20549
Form 10-Q
Quarterly Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934
For the Quarterly Period Ended June 30, 2007
Commission file number 000-20699
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 Heights, Ohio (Address of principal executive offices)	44124 (Zip Code)

(440) 443-0082

(Registrants telephone number, including area code)

(Former name, former address and former fiscal year, if changed since last report)

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

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer (See definition of large accelerated filer and accelerated filer in Exchange Act Rule 12b-2).

Large accelerated filer o Accelerated filer þ Non-accelerated filer o

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

Indicate the number of shares outstanding of each of the issuer s classes of common stock, as of the latest practical date.

The number of Common Shares, without par value, outstanding as of July 31, 2007 was 13,666,257.

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Part I. Financial Information
Item 1 Financial Statements

DATATRAK INTERNATIONAL, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED BALANCE SHEETS

	June 30, 2007 (Unaudited)	December 31, 2006 (Note A)
ASSETS		
Current assets		
Cash and cash equivalents	$ 1,336,776	$ 3,019,184
Short-term investments	9,442,557	1,996,393
Accounts receivable, net	1,838,043	2,226,317
Deferred tax asset current	113,100	113,100
Prepaid expenses and other current assets	671,287	488,112
Total current assets	13,401,763	7,843,106
Property and equipment, at cost net of accumulated depreciation and amortization	4,183,678	4,736,233
Other assets		
Restricted cash	79,612	78,005
Deferred tax asset	1,375,300	1,745,700
Deposit	39,549	39,549
Other intangible assets, net of accumulated amortization	1,199,724	1,914,206
Goodwill	10,863,383	10,863,383
Total other assets	13,557,568	14,640,843
Total assets	$ 31,143,009	$ 27,220,182
LIABILITIES AND SHAREHOLDERS EQUITY		
Current liabilities		
Accounts payable	$ 610,382	$ 568,697
Current portion of long-term debt	648,123	733,548
Accrued expenses	1,883,261	1,419,065
Deferred revenue	1,303,525	988,175
Total current liabilities	4,445,291	3,709,485
Long-term liabilities		
Long-term debt	3,299,140	3,811,903
Deferred tax liability	1,311,000	1,634,800
Total long-term liabilities	4,610,140	5,446,703
Shareholders equity		
Serial preferred shares, without par value, 1,000,000 shares authorized, none issued		
Common shares, without par value, authorized 25,000,000 shares; issued 16,913,303 shares as of June 30, 2007 and 14,862,473 shares as of December 31, 2006; outstanding 13,613,303 shares as of June 30, 2007 and	78,525,190	70,742,073

11,562,473 shares as of December 31, 2006		
Treasury shares, 3,300,000 shares at cost	(20,188,308)	(20,188,308)
Common share warrants	1,835,108	700,176
Accumulated deficit	(37,776,666)	(32,915,699)
Foreign currency translation	(307,746)	(274,248)
Total shareholders equity	22,087,578	18,063,994
Total liabilities and shareholders equity	$ 31,143,009	$ 27,220,182

Note A: The condensed consolidated balance sheet at December 31, 2006 has been derived from the audited consolidated financial statements at that date, but does not include all of the information and footnotes required by accounting principles generally accepted in the United States for complete financial statements.

See notes to condensed consolidated financial statements.

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DATATRAK INTERNATIONAL, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS
(Unaudited)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2007	**2006**	**2007**	**2006**
Revenue	$ 3,064,710	$ 4,829,445	$ 6,606,805	$ 9,330,313
Direct costs	1,219,298	1,377,998	2,556,769	2,549,874
Gross profit	1,845,412	3,451,447	4,050,036	6,780,439
Selling, general and administrative expenses	3,621,138	3,538,358	7,043,809	6,519,570
Severance expense	337,061	294,974	337,061	294,974
Depreciation and amortization	886,641	596,362	1,509,044	1,035,044
Loss from operations	(2,999,428)	(978,247)	(4,839,878)	(1,069,149)
Interest income	151,513	50,268	221,705	131,369
Interest expense	(95,825)	(91,611)	(194,494)	(141,880)
Other expense	(1,700)	0	(1,700)	0
Loss before income taxes	(2,945,440)	(1,019,590)	(4,814,367)	(1,079,660)
Income tax (benefit) expense	20,300	(318,000)	46,600	(297,000)
Net loss	$ (2,965,740)	$ (701,590)	$ (4,860,967)	$ (782,660)
Net loss per share:				
Basic:				
Net loss per share	$ (0.22)	$ (0.06)	$ (0.38)	$ (0.07)
Weighted-average shares outstanding	13,584,037	11,371,919	12,726,259	11,113,677
Diluted:				
Net loss per share	$ (0.22)	$ (0.06)	$ (0.38)	$ (0.07)
Weighted-average shares outstanding	13,584,037	11,371,919	12,726,259	11,113,677

See notes to condensed consolidated financial statements.

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DATATRAK INTERNATIONAL, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(Unaudited)

	Six Months Ended June 30, 2007	Six Months Ended June 30, 2006
Operating activities		
Net loss	$ (4,860,967)	$ (782,660)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation and amortization	1,509,044	1,035,044
Stock-based compensation	193,705	318,875
Accretion of discount on investments	(157,405)	(58,788)
Loss from disposal of equipment	1,700	
Changes in operating assets and liabilities:		
Accounts receivable	388,274	(249,204)
Prepaid expenses and other current assets	(183,175)	31,163
Deferred taxes, net	46,600	(297,000)
Accounts payable and accrued expenses	474,496	3,971
Deferred revenue	315,350	(270,075)
Net cash used in operating activities	(2,272,378)	(268,674)
Investing activities		
Acquisition of business, less cash acquired		(4,659,594)
Purchases of property and equipment	(99,744)	(337,786)
Maturities of short-term investments	11,500,000	4,811,616
Purchases of short-term investments	(18,788,759)	(1,795,557)
Net cash used in investing activities	(7,388,503)	(1,981,321)
Financing activities		
Proceeds from exercise of stock options and warrants	76,492	140,398
Gross tax benefits from share-based awards		8,000
Proceeds from issuance of common shares, net of paid issuance costs	8,667,852	
Payments of long-term debt	(726,485)	(117,241)
Net cash provided by financing activities	8,017,859	31,157
Effect of exchange rate changes on cash	(39,386)	(12,668)
Decrease in cash and cash equivalents	(1,682,408)	(2,231,506)
Cash and cash equivalents at beginning of period	3,019,184	4,407,431
Cash and cash equivalents at end of period	$ 1,336,776	$ 2,175,925
Unpaid acquisition costs	$	$ 61,780
Unpaid share issuance costs	$ 20,000	$

See notes to condensed consolidated financial statements.

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DATATRAK INTERNATIONAL, INC. AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
June 30, 2007
(Unaudited)

1. Basis of Presentation

The accompanying unaudited condensed consolidated financial statements of DATATRAK International, Inc. and subsidiaries (DATATRAK or the Company) have been prepared in accordance with accounting principles generally accepted in the United States for interim financial information and with the instructions to Form 10-Q and Article 10 of Regulation S-X. Accordingly, they do not include all of the information and footnotes required by accounting principles generally accepted in the United States for complete financial statements. In the opinion of management, all adjustments (consisting of normal recurring accruals) considered necessary for a fair presentation have been included. Operating results for the three and six month periods ended June 30, 2007 are not necessarily indicative of the results that may be expected for the year ending December 31, 2007. For further information, refer to the consolidated financial statements and footnotes thereto included in the Company s Form 10-K for the year ended December 31, 2006.

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.

2. 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 condensed consolidated statement of cash flows. The notes payable bear interest at prime plus 1% and have remaining principal payments of $445,000 due February 1, 2008 and $3,000,000 due February 1, 2009.

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. The Company did obtain a third party valuation of certain tangible and intangible assets acquired at the time of acquisition.

DATATRAK s acquisition resulted in deferred tax liabilities of $2,054,000. The Company will utilize its deferred tax assets to offset its 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	$ 254,000
Amortizable intangible assets	6,040,000
Goodwill	10,863,000
Accounts payable and other current liabilities	(421,000)
Long-term debt	(117,000)

Total acquisition cost	$ 16,619,000

Goodwill decreased by $2,054,000 from the original purchase allocation as the deferred tax liabilities acquired in the acquisition are fully offset by the Company s realizable deferred tax assets. Subsequent to the acquisition, the $117,000 of assumed long-term debt was paid in full.

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 acquired intangible assets are being amortized as follows: (i) the software over seven years; (ii) the employee non-compete agreements over three years; and (iii) the contracts and customer relationships over three years. The $10,863,000 of goodwill is not deductible for income tax purposes.

As a result of six consecutive quarterly operating losses, and forecasted continuing operating losses based on current sales trends, the Company determined that impairment indicators existed as of June 30, 2007 and as such conducted interim impairment testing of its goodwill and finite-lived tangible and intangible assets and determined that no impairment had occurred.

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 six months ended June 30, 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.

	Six Months Ended June 30, 2006
Pro forma revenue	$ 9,538,000
Pro forma net loss	$ (1,060,000)
Pro forma basic loss per share	$ (0.09)
Pro forma diluted loss per share	$ (0.09)

3. Change in Accounting Estimate

During the second quarter of 2007, the Company recorded $262,816 of additional amortization expense related to its contract and customer relationship intangible asset. The change in estimate was made as the Company s revenues from contracts acquired during the ClickFind acquisition greatly exceeded the Company s estimates during the first twelve months after acquisition; however, revenues are now expected to stabilize or decline during the remaining life of each contract.

4. Net Loss per Share

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2007	2006	2007	2006
Net loss used in the calculation of basic and diluted earnings per share	$ (2,965,740)	$ (701,590)	$ (4,860,967)	$ (782,660)
Denominator for basic net loss per share weighted-average common shares outstanding	13,584,037	11,371,919	12,726,259	11,113,677
Effect of dilutive common share options and warrants				
Denominator for diluted net loss per share	13,584,037	11,371,919	12,726,259	11,113,677

Basic net loss per share	$	(0.22)	$	(0.06)	$	(0.38)	$	(0.07)
Diluted net loss per share	$	(0.22)	$	(0.06)	$	(0.38)	$	(0.07)
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		1,811,469		1,756,729		1,680,937		1,756,777

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5. Comprehensive Loss

The following table sets forth the comprehensive loss of the Company.

	Three Months Ended June 30,		Six Months Ended June 30,	
	2007	2006	2007	2006
Net loss	$ (2,965,740)	$ (701,590)	$ (4,860,967)	$ (782,660)
Foreign currency translation	(15,034)	15,389	(33,498)	2,242
Comprehensive loss	$ (2,980,774)	$ (686,201)	$ (4,894,465)	$ (780,418)

6. 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 are outstanding as of June 30, 2007.

In connection with the 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 specify filing and effectiveness deadlines and require the Company to, except under certain limited circumstances, keep the registration statement effective until certain threshold dates. The agreement also requires the Company to maintain (e.g. maintenance requirement) 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 shall pay each holder an amount equal to 1% of the aggregate purchase price for each month of such failure. The aggregate amount of these registration failure payments shall 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.

There are 157,079 warrants outstanding at June 30, 2007 from prior year issuances which have original terms of 3 to 5 years and exercise prices ranging from $3.20 to $9.60 per share. During the six months ended June 30, 2007, the holders of 22,579 common share options, at a weighted average exercise price of $3.39, exercised the options and purchased 22,579 shares.

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7. Operating Leases

The Company leases certain office equipment and space. Future minimum lease payments for the Company under non-cancelable operating leases as of June 30, 2007 are as follows:

Twelve Months ended June 30,	Amount
2008	$ 938,000
2009	889,000
2010	618,000
2011	602,000
2012	608,000
Subsequent to June 30, 2012	200,000
	$ 3,855,000

8. Income Taxes

Income tax expense (benefit) consists of the following:

	Six Months Ended June 30, 2007	2006
Current:		
Federal	$	$ (374,000)
State and local		
Foreign		
	$	$ (374,000)
Deferred:		
Federal	$	$
State and local		
Foreign	47,000	77,000
	$ 47,000	$ (297,000)

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

	Six Months Ended June 30, 2007	2006
Income tax benefit at the United States statutory rate	$ (1,636,000)	$ (367,000)
Increase in valuation allowance	1,619,000	
Foreign taxes	5,000	
Non-deductible permanent differences	59,000	70,000
	$ 47,000	$ (297,000)

For the six months ended June 30, 2007, the Company s pre-tax loss was $4,814,000. Due to uncertainty regarding the realization of the deferred tax asset resulting from this loss, DATATRAK provided for a full valuation allowance against this deferred tax asset.

In July 2006, the FASB issued Financial Interpretation (FIN) No. 48, *Accounting for Uncertainty in Income Taxes*. FIN No. 48 clarifies the accounting for uncertain tax positions recognized in an entity s financial statements in accordance with SFAS No. 109, *Accounting for Income Taxes*. This interpretation was effective for the Company on January 1, 2007. There was no impact upon adoption.

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9. Long-term Debt

Long-term debt at June 30, 2007 and December 31, 2006 is summarized below:

	June 30, 2007	December 31, 2006
Insurance note payable	$	$ 74,000
Notes payable ClickFind (the ClickFind Notes)	3,445,000	4,000,000
Financing agreement with Oracle Credit Corporation (the Oracle Agreement)	189,000	234,000
Capital lease agreements with Dell Financial Services (the Dell Agreements)	313,000	238,000
	3,947,000	4,546,000
Less current maturities	648,000	734,000
	$ 3,299,000	$ 3,812,000

The ClickFind Notes are held by certain former shareholders of ClickFind. They bear interest at prime plus 1% and remaining principal payments are due in installments of $445,000 and $3,000,000 on February 1, 2008 and 2009, respectively. Of the $3,445,000, $2,291,000 is held by an executive officer of the Company who was the founder of ClickFind. Of the remaining $1,154,000 of ClickFind Notes, $850,000 is held by other current employees of 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 $12,000, for the 36 month term of each lease.

The Oracle Agreement and the Dell Agreement transactions are excluded from the Company s condensed consolidated statement of cash flows. During the first six months of 2007 the Company entered into new Dell Agreements totaling $140,000.

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 due on February 1, 2007, $79,000 was held by the Company to satisfy these expenses. The Company is permitted to withhold additional portions of future principal payments to cover further costs associated with this claim. As of June 30, 2007, an additional $55,000 has been recorded as a reduction to the notes payable reducing the February 1, 2008 installment to $445,000 from the original $500,000. In July 2007, DATATRAK settled its litigation related to Datasci s patent infringement claim with no liability against the Company.

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10. Severance Expense

During the second quarter of 2007, the Company recorded a charge of $337,000 for severance benefits due to terminated employees. This charge was related to a June 2007 staff reduction of 17 employees. As of June 30, 2007, $50,000 of these costs had been paid. The Company anticipates that all but $76,000 of these costs will be paid prior to December 31, 2007, with the remaining amount to be paid prior to June 30, 2008.

During the second quarter of 2006, the Company recorded a charge of $295,000 for severance benefits related to a June 2006 staff reduction of 10 employees whose positions became redundant as a result of the ClickFind acquisition.

The Company accounts for termination benefits in accordance with SFAS 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.

11. Restricted Cash

The Company s wholly owned subsidiary, DATATRAK GmbH, is 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 DATATRAK GmbH to maintain a restricted cash balance of 59,000 euros with the bank. The U.S. dollar equivalent of this amount was $80,000 at June 30, 2007 and $78,000 at December 31, 2006.

12. 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 net carrying value for capitalized software development costs was $2,811,000 and $3,119,000 as of June 30, 2007 and December 31, 2006, respectively. The Company performs a review of the recoverability of such capitalized software costs when impairment indicators arise. 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 impairment amounts are expensed. As of June 30, 2007 and December 31, 2006, all capitalized software development costs were estimated to be recoverable over their estimated useful lives.

Research and development expenses included in selling, general and administrative expenses were $1,330,000 and $1,264,000 for the six months ended June 30, 2007 and 2006, respectively.

13. Reclassification

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

14. 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.

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

The information set forth and discussed below for the three and six month periods ended June 30, 2007 is derived from, and should be read in conjunction with, the condensed consolidated financial statements included elsewhere herein. The financial information set forth and discussed below is unaudited, but in the opinion of management, reflects all adjustments (consisting of normal recurring accruals) necessary for a fair presentation of such information. The Company s results of operations for a particular quarter may not be indicative of results expected during the other quarters or for the entire year.

General

DATATRAK is a provider of software and other related services, commonly referred to as an application service provider, or ASP. DATATRAK s customers use the software known as DATATRAK EDC(R) and DATATRAK eClinical (TM) to collect and transmit clinical trial data, commonly referred to as electronic data capture, or EDC. The Company s services assist companies in the clinical pharmaceutical, biotechnology, contract research organization and medical device industries, in accelerating the completion of clinical trials. Approximately 35% of the Company s total assets, or $10,779,000, is held in cash, cash equivalents and short-term investments, and goodwill accounts for approximately 35%, or $10,863,000, of the Company s total assets. The Company is continuing to enhance and commercialize its business and software, and anticipates that its operating results may fluctuate significantly from period to period. There can be no assurance of the Company s long-term future prospects.

On February 13, 2006, we acquired all of the outstanding stock of ClickFind, a company focused on the application of a unified technology platform for clinical trials, located in Bryan, Texas. The operating results of ClickFind have been included in our consolidated results of operations for all periods subsequent to February 13, 2006. As a result of the acquisition, we believe we have the most extensive software suite in the clinical trials industry.

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 condensed consolidated statement of cash flows. The notes payable have a current outstanding balance of $3,445,000 and bear interest at prime plus 1%. Remaining principal payments are due in installments of $445,000 and $3,000,000 on February 1, 2008 and 2009, respectively.

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 due on February 1, 2007, $79,000 was held by the Company to satisfy these expenses. The Company is permitted to withhold additional portions of future principal payments to cover further costs associated with this claim. As of June 30, 2007, an additional $55,000 has been recorded as a reduction to the notes payable reducing the February 1, 2008 installment to $445,000 from the original $500,000. In July 2007, DATATRAK settled its litigation related to Datasci s patent infringement claim with no liability against the Company.

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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 the price of items included in multiple-element arrangements using objective, reliable evidence of fair value. This evidence is based on the vendor-specific 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:

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 per hour for those services.

Data items revenue is earned based on a price per data unit as data items are entered into our 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 under the contract.

Services provided by us that are in addition to those provided for in our 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 our clients, and for which we do 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.

Backlog consists of anticipated revenue from authorization letters to commence services and signed contracts yet to be completed. Potential contracts or authorization letters that have passed the verbal stage, but have not yet been signed, are excluded from backlog. At June 30, 2007, DATATRAK s backlog was $13,309,000. DATATRAK s contracts can be cancelled or delayed at anytime and, therefore, the Company s backlog, at any point in time, is not an accurate predictor of future levels of revenue. As a result of DATATRAK s transactional and service-based business model combined with the dynamic nature of the clinical trials market where changes in scope are common, backlog has historically not been an accurate predictor of short-term revenue.

Critical Accounting Policies

In response to the SEC s Release No. 33-8040, Cautionary Advice Regarding Disclosure About Critical Accounting Policies, the Company has identified the most critical accounting principles upon which its financial status depends. Critical principles were determined by considering accounting policies that involve the most complex or subjective decisions or assessments. The most critical accounting policies were identified to be those related to revenue recognition, software development costs, stock-based compensation, goodwill and other intangible assets and income taxes.

A summary of the Company s critical accounting policies related to revenue recognition, software development costs, stock-based compensation, goodwill and other intangible assets and income taxes can be found in the Company s Annual Report on Form 10-K, filed on March 16, 2007, (Annual Report) under the heading Critical Accounting Policies in Management s Discussion and Analysis of Financial Condition and Results of Operations.

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Results of Operations

Three months ended June 30, 2007 compared with three months ended June 30, 2006

Revenue for the three months ended June 30, 2007 decreased $1,764,000, or 37%, to $3,065,000, as compared to $4,829,000 for the three months ended June 30, 2006. During the second quarter of 2007, DATATRAK recorded revenue related to 116 contracts compared to 108 contracts during the three months ended June 30, 2006. For the three months ended June 30, 2007, $2,368,000 of revenue was the result of contracts that were in backlog at December 31, 2006, $514,000 was the result of new business signed since January 1, 2007, and $183,000 was the result of contracts acquired from ClickFind. For the second quarter of 2006, $3,715,000 of revenue was generated from contracts that were in backlog at December 31, 2005, $667,000 of revenue was the result of new business signed since January 1, 2006, and $447,000 was the result of contracts acquired from ClickFind. The reduction in revenue for the three months ended June 30, 2007 compared to the same prior year three month period was primarily the result of a significant decrease attributable to one client, Otsuka Research Institute, which accounted for 17% of our total revenue in the second quarter of 2007 compared to 45% of total revenue in the second quarter of 2006. For the remainder of 2007 we expect revenue from Otsuka Research Institute to be significantly lower, as a percent of our total revenue, compared to 2006 as a result of the successful early completion of several large trials.

Direct costs of revenue, mainly personnel costs, were $1,219,000 and $1,378,000 during the three months ended June 30, 2007 and 2006, respectively. The net decrease of $159,000, or 11.5%, was mainly a result of lower other direct costs. DATATRAK s gross margin decreased to 60.2% for the three months ended June 30, 2007 compared to 71.5% for the three months ended June 30, 2006 primarily as a result of the 37% decrease in revenue.

Selling, general and administrative expenses (SG&A) include all administrative personnel costs, business and software development costs, and all other expenses not directly chargeable to a specific contract. SG&A expenses increased by $83,000, or 2.3%, to $3,621,000 from $3,538,000 for the three months ended June 30, 2007 and 2006, respectively. Staff and other payroll cost increased $200,000 in the second quarter of 2007 compared to the same time period in 2006. The net increase in personnel costs, in part, was caused by additional investment in sales personnel. Also, a portion of the additional personnel costs were necessary to bring certain development functions in-house and to allow for the discontinuation of outsourced research and development. The discontinuation of outsourced research and development resulted in a cost savings of $190,000 in the second quarter of 2007 compared to the same period of the prior year. The impact of the additional sales and development personnel was partially offset by the savings resulting from the June 2006 staff reductions.

During the three months ended June 30, 2007, DATATRAK recorded a charge of $337,000 for severance benefits due to terminated employees. The reduction of 17 employees in June 2007 is expected to decrease annual direct costs by approximately $515,000 and annual SG&A expenses by approximately $875,000. During the three months ended June 30, 2006, DATATRAK recorded a charge of $295,000 for severance benefits due to 10 terminated employees.

Depreciation and amortization expense increased $290,000, or 48.7%, primarily as a result of a change in accounting estimate requiring additional amortization expense to be recorded on the contract and customer relationship intangible asset related to the ClickFind acquisition. Depreciation and amortization expense was $887,000 for the three months ended June 30, 2007 compared to $596,000 for the three months ended June 30, 2006.

Interest income increased by $101,000, to $151,000 in the second quarter of 2007 from $50,000 in the second quarter of 2006 primarily as a result of investing the proceeds from the March 2007 private placement.

Interest expense remained relatively unchanged at $96,000 in the second quarter of 2007 compared to $92,000 in the second quarter of 2006.

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Six months ended June 30, 2007 compared with six months ended June 30, 2006

Revenue for the six months ended June 30, 2007 decreased $2,723,000, or 29%, to $6,607,000, as compared to $9,330,000 for the six months ended June 30, 2006. During the first half of 2007, DATATRAK recorded revenue related to 132 contracts compared to 114 contracts during the six months ended June 30, 2006. For the six months ended June 30, 2007, $5,550,000 of revenue was the result of contracts that were in backlog at December 31, 2006, $633,000 was the result of new business signed since January 1, 2007, and $424,000 was the result of contracts acquired from ClickFind. For the first six months of 2006, $7,785,000 of revenue was generated from contracts that were in backlog at December 31, 2005, $872,000 of revenue was the result of new business signed since January 1, 2006, and $673,000 was the result of contracts acquired from ClickFind. The reduction in revenue for the six months ended June 30, 2007 compared to the same prior year six month period was primarily the result of a significant decrease attributable to one client, Otsuka Research Institute, which accounted for 21% of our total revenue in the first six months of 2007 compared to 48% of total revenue in the first six months of 2006. For the remainder of 2007 we expect revenue from Otsuka Research Institute to be significantly lower, as a percent of our total revenue, compared to 2006 as a result of the successful early completion of several large trials.

Direct costs of revenue, mainly personnel costs, remained relatively unchanged overall at $2,557,000 and $2,550,000 during the six months ended June 30, 2007 and 2006, respectively. DATATRAK s gross margin decreased to 61.3% for the six months ended June 30, 2007 compared to 72.7% for the six months ended June 30, 2006 as a result of the 29% decrease in revenue.

SG&A expenses increased by $524,000, or 8.0%, to $7,044,000 from $6,520,000 for the six months ended June 30, 2007 and 2006, respectively. Staff and other payroll cost increased $506,000, representing approximately 96.6% of the increase. The net increase in personnel costs, in part, was caused by additional investment in sales personnel. Also, a portion of the additional personnel costs were necessary to bring certain development functions in-house and to allow for the discontinuation of outsourced research and development. The discontinuation of outsourced research and development resulted in a cost savings of $389,000 in the first-half of 2007 compared to the same period of the prior year. The current year increase also reflects a full six months of expense for employees who joined DATATRAK as part of the ClickFind acquisition compared to only four-and-a-half months in 2006 (February 13, 2006 acquisition date). The impact of the additional sales and development personnel was partially offset by the savings resulting from the June 2006 staff reductions.

During the six months ended June 30, 2007, DATATRAK recorded a charge of $337,000 for severance benefits due to terminated employees. The reduction of 17 employees in June 2007 is expected to decrease annual direct costs by approximately $515,000 and annual SG&A expenses by approximately $875,000. During the six months ended June 30, 2006, DATATRAK recorded a charge of $295,000 for severance benefits due to terminated employees.

Depreciation and amortization expense increased $474,000, or 45.8%, primarily as a result of the software and intangible assets acquired in the ClickFind acquisition in February 2006 and the additional amortization recorded in the second quarter of 2007 due to a change in accounting estimate. Depreciation and amortization expense was $1,509,000 for the six months ended June 30, 2007 and $1,035,000 for the six months ended June 30, 2006. Depreciation and amortization expense on the software and intangible assets acquired in the ClickFind acquisition was $952,000 in the first half of 2007 compared to $542,000 in the same time period of 2006, a $411,000 increase. The increase was primarily due to additional amortization recorded from a change in accounting estimate related to the contract and customer relationship intangible asset related to the ClickFind acquisition. In addition, amortization was recorded for the full six month period in 2007 compared to only four-and-a-half months in the first half of 2006 (February 13, 2006 acquisition date). Hardware purchases since July 2006 contributed to the increase as well.

Interest income increased by $91,000, to $222,000 in the first half of 2007 from $131,000 in the first half of 2006 primarily as a result of investing the proceeds from the March 2007 private placement.

Interest expense increased by $52,000 to $194,000 in the first six months of 2007 compared to $142,000 in the same time period of 2006 primarily as a result of the ClickFind Notes being outstanding for the entire first half of 2007 compared to only four-and-a-half months in the comparable 2006 period.

Liquidity and Capital Resources

The Company s principal sources of cash are cash flow from operations and proceeds from the sale of equity securities. The Company s investing activities primarily reflect capital expenditures and sales and purchases of short-term investments. Financing activities include debt repayments on the ClickFind Notes, the Oracle Agreement and the Dell Agreements. During 2006, the Company used approximately $4,669,000 in cash for the ClickFind acquisition.

On March 19, 2007, we completed a private placement financing with a group of institutional investors. In connection with this financing, we sold 1,986,322 common shares at a price of $4.75 per share. The terms of this 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 the offering related expenses). In connection with the agreement executed by the parties, we granted registration rights for the purchased common shares and the common shares issuable upon exercise of the warrants.

As a result of six consecutive quarterly operating losses, and forecasted continuing operating losses based on current sales trends, the Company determined that impairment indicators existed as of June 30, 2007 and as such conducted interim impairment testing of its goodwill and long-lived tangible and intangible assets with a definite life as of that date. In accordance with SFAS No. 142, Goodwill and Other Intangible Assets , the Company tested for impairment of its goodwill as of June 30, 2007 and determined no impairment had occurred. In accordance with SFAS No. 144, Accounting for the Impairment or Disposal of Long-Lived Assets , DATATRAK tested for impairment of its long-lived tangible and intangible assets as of June 30, 2007 and determined no impairment had occurred.

Contracts with our customers usually require a portion of the contract amount to be paid at the time the contract is initiated. Additional payments are generally received monthly as work on the contract progresses. We record all amounts received as a liability (deferred revenue) until work has been completed and revenue is recognized. Cash receipts do not necessarily correspond to costs incurred or revenue recognized. We typically receive a low volume of large-dollar receipts and our accounts receivable will fluctuate due to the timing and size of cash receipts. Our contracting and collection practices are designed to encourage customer payment of accounts receivable balances between one to three months from invoice date. Previously, we disclosed our average collection period , but we believe the days sales outstanding is a more relevant financial ratio and indicator of the quality of our accounts receivable at a point in time. Any increase in our days sales outstanding is an indicator that our cash flow from operations and our working capital has been negatively impacted. At June 30, 2007, our days sales outstanding was 54 days compared to 51 days at December 31, 2006. Accounts receivable (net of allowance for doubtful accounts) was $1,838,000 at June 30, 2007 and $2,226,000 at December 31, 2006. Deferred revenue was $1,303,000 at June 30, 2007 compared to $988,000 at December 31, 2006.

Cash and cash equivalents decreased $1,682,000 during the six months ended June 30, 2007. This was the net result of $2,272,000 used in operating activities, $7,389,000 used in investing activities and $8,017,000 provided by financing activities. Foreign currency fluctuations caused a $39,000 decrease in cash and cash equivalents. Cash used in operating activities was mainly the net result of our net loss of $4,861,000 offset primarily by non-cash depreciation and amortization of $1,509,000, non-cash stock-based compensation of $194,000 and a change of $1,042,000 in operating assets and liabilities. Investing activities included $100,000 used to purchase property and equipment, and net purchases of short-term investments totaling $7,289,000 (primarily the net proceeds from our March 19, 2007 private placement). In addition to the $100,000 used to purchase property and equipment we entered into lease agreements during the first six months of 2007 to purchase $140,000 of property and equipment which is excluded from the Company s consolidated statement of cash flows. Financing activities primarily consist of net proceeds of $8,668,000 (excluding $20,000 of unpaid share issuance costs to be paid in the third quarter of 2007) from the March 19, 2007 private placement, offset by debt repayments of $555,000 for the ClickFind Notes, $74,000 repayment of an insurance note and $97,000 for the repayment of capital expenditure equipment lease and financing agreements.

At June 30, 2007, we had working capital of $8,956,000, and our cash, cash equivalents and short-term investments totaled $10,779,000. Our working capital increased by $4,823,000 since December 31, 2006. The increase was primarily the net result of: (i) the $7,289,000 of additional short-term investments, caused mainly by the $8,668,000 of net proceeds from the March 19, 2007 private placement; (ii) cash used in operating activities of $2,272,000; and (iii) debt repayments totaling $726,000.

We are party to a lease agreement that requires us to maintain a restricted cash balance. Our restricted cash balance was $80,000 at June 30, 2007.

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We have established a line of credit with a bank. The line allows us to borrow up to a certain percentage of our investments, as determined by the type of investment, held at the bank. 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 June 30, 2007. Our second line of credit with a separate bank expired during the second quarter and was not renewed.

At December 31, 2006, we had a note payable of $73,807 due to Westfield Bank. The final payment on this note of $75,233, including accrued interest, was made in January 2007. At June 30, 2007, we had a note payable in the amount of $189,000 to Oracle Credit Corporation, payable in monthly payments of $9,012, including accrued interest through June 2009. Additionally, at June 30, 2007, we had various capital lease agreements in the amount of $313,000 with Dell Financial Services, payable in 36 monthly installments currently totaling approximately $12,000, including accrued interest.

The terms of our acquisition of ClickFind required us to pay approximately $4,000,000 of cash to the former shareholders of ClickFind in February 2006. We also issued notes payable to the former shareholders of ClickFind in the amount of $4,000,000. The notes payable have a current outstanding balance of $3,445,000 and bear interest at prime plus 1%.

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 due on February 1, 2007, $79,000 was held by the Company to satisfy these expenses. The Company is permitted to withhold additional portions of future principal payments to cover further costs associated with this claim. As of June 30, 2007, an additional $55,000 has been recorded as a reduction to the notes payable reducing the February 1, 2008 installment to $445,000 from the original $500,000. In July 2007, DATATRAK settled its litigation related to Datasci s patent infringement claim with no liability against the Company. Of the $3,445,000 of ClickFind Notes outstanding at June 30, 2007, $2,291,000 is held by one of our executive officers who was the founder of ClickFind. Of the remaining $1,154,000 of ClickFind Notes, $850,000 is held by other current employees of DATATRAK.

We intend to continue to fund the maintenance and testing of the DATATRAK EDC® software, as well as invest in the development, enhancement and testing of DATATRAK eClinical(TM). In 2007, we expect revenue from our largest customer to significantly decrease. We expect to have negative cash flow from operations during 2007 as we transition from dependence on a major customer to a broader customer base with the expansion of our eClinical product offering. We also expect to record a net loss in 2007. We anticipate cash expenditures for property and equipment of approximately $875,000 during 2007, for the continued commercialization, enhancement and maintenance of our two clinical trial product offerings as well as improvements to our internal operating systems. We anticipate financing approximately 50% of the $875,000 of property and equipment. A portion of the anticipated property and equipment expenditures are dependent on our growth, and are therefore discretionary in nature.

We record our research and development expenditures as part of SG&A expenses. Our research and development expenditures will be for the maintenance and testing of our DATATRAK EDC® software and the development, enhancement and testing of our DATATRAK eClinical(TM) software products. For the six months ended June 30, 2007, we expensed approximately $1,330,000 for research and development. During 2007, we anticipate that our research and development expenditures will increase by approximately $200,000 to $400,000 compared to the full year 2006 amount of $2,310,000.

We expect to fund our working capital requirements from existing cash and cash equivalents, maturities of short-term investments, cash flow from operations, equipment financing, borrowings against our line of credit and the net proceeds from our March 2007 private placement of approximately $8,648,000. We believe that, with the net proceeds from our March 2007 private placement, our cash and cash equivalents, maturities of short-term investments, equipment financing and cash flow from operations will be sufficient to meet our short-term working capital and capital expenditure requirements for the next 12 months. However, we may need to raise additional funds to offset delays or cancellations of contracts, respond to competitive pressures, acquire complementary technology or take advantage of unanticipated opportunities. If existing sales trends continue, we may need to raise additional funds in order to meet our longer-term capital requirements including our $3 million February 1, 2009 payment obligation under the ClickFind Notes. If we are unable to generate sufficient cash flow to service our ClickFind Notes obligations, we may need to refinance or restructure our debt, reduce or delay capital investments, or seek to raise additional capital. We may raise additional funds by selling debt or equity securities, by entering into strategic relationships or through other arrangements. Additional capital may not be available on acceptable terms, if at all. To the extent that additional equity capital is raised, it could have a dilutive effect on our existing shareholders.

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Inflation

To date, the Company believes the effects of inflation have not had a material adverse effect on its results of operations or financial condition.

Information About Forward-Looking Statements

Certain statements made in this Form 10-Q, other SEC filings, written materials or orally by the Company or its representatives may constitute forward-looking statements that are based on management s current beliefs, estimates and assumptions concerning the operations, future results and prospects of the Company and the clinical pharmaceutical research industry in general. All statements that address operating performance, events or developments that management anticipates will occur in the future, including statements related to future revenue, profits, expenses, income and earnings per share or statements expressing general optimism about future results, are forward-looking statements within the meaning of Section 21E of the Securities Exchange Act of 1934, as amended (Exchange Act). In addition, words such as expects, anticipates, intends, plans, believes, estimates, variati words, and similar expressions are intended to identify forward-looking statements. Forward-looking statements are subject to the safe harbors created in the Exchange Act. Factors that may cause actual results to differ materially from those in the forward-looking statements include the limited operating history on which the Company s performance can be evaluated; the ability of the Company to continue to enhance its software products to meet customer and market needs; fluctuations in the Company s quarterly results; the viability of the Company s business strategy and its early stage of development; the timing of clinical trial sponsor decisions to conduct new clinical trials or cancel or delay ongoing trials; the Company s dependence on major customers; government regulation associated with clinical trials and the approval of new drugs; the ability of the Company to compete in the emerging EDC market; losses that potentially could be incurred from breaches of contracts or loss of customer data; the inability to protect intellectual property rights or the infringement upon other s intellectual property rights; the Company s success in integrating ClickFind s operations into its own operations and the costs associated with maintaining and/or developing two product suites; and general economic conditions such as the rate of employment, inflation, interest rates and the condition of capital markets. This list of factors is not all inclusive. In addition, the Company s success depends on the outcome of various strategic initiatives it has undertaken, all of which are based on assumptions made by the Company concerning trends in the clinical research market and the health care industry. Any forward-looking statement speaks only as of the date on which such statement is made and the Company does not undertake any obligation to update any statements whether as a result of new information, future events or otherwise.

Item 3. Quantitative and Qualitative Disclosures About Market Risk

The Company is exposed to market risk from changes in interest rates and foreign currency exchange rates since it funds its operations through short-term investments, has issued variable rate debt and has business transactions in euros. A summary of the Company s market risk exposures is presented below.

Interest Rate Risk

DATATRAK has fixed income investments consisting of cash equivalents and short-term investments, and short and long-term notes payable which may be affected by changes in market interest rates. The Company does not use derivative financial instruments in its investment portfolio. The Company places its cash equivalents and short-term investments with high-quality financial institutions, limits the amount of credit exposure to any one institution and has established investment guidelines relative to diversification and maturities designed to maintain safety and liquidity. Investments are reported at amortized cost, which approximates fair value. A 1.0 percentage point change in interest rates during the six months ended June 30, 2007, would have resulted in a $40,000 change in DATATRAK s interest income during the period.

The Company s notes payable to certain former shareholders of ClickFind bear interest at prime plus 1%, and interest is paid quarterly. A 1.0 percentage point change in the prime rate during the six months ended June 30, 2007, would have resulted in a $19,000 change in DATATRAK s interest expense during the period.

Foreign Currency Risk

DATATRAK s foreign results of operations are subject to the impact of foreign currency fluctuations through both foreign currency transaction and foreign currency translation adjustments. The Company manages its risk to foreign currency transaction adjustments by maintaining foreign currency bank accounts in currencies in which we regularly transact business. DATATRAK does not currently hedge against the risk of exchange rate fluctuations.

DATATRAK s financial position and results of operations are impacted by translation adjustments caused by the conversion of foreign currency accounts and operating results into U.S. dollars for financial reporting purposes. A 1.0% fluctuation in the exchange rate between the U.S. dollar and the euro at June 30, 2007, would have resulted in a $7,000 change in the foreign currency translation amount recorded on the Company s balance sheet, due to foreign currency translations. A 1.0% fluctuation in the average exchange rate between the U.S. dollar and the euro for the six months ended June 30, 2007, would have resulted in a $23,000 change in the Company s net loss for the six months ended June 30, 2007, due to foreign currency transactions. During the six months ended June 30, 2007, the average exchange rate between the euro and the U.S. dollar increased by approximately 8.0% compared to the six months ended June 30, 2006. The conversion of the Company s foreign operations into U.S. dollars upon consolidation resulted in a net loss that was approximately $173,000 more than would have been recorded had the exchange rate between the euro and the U.S. dollar remained consistent with 2006 rates.

Item 4. Controls and Procedures

Evaluation of Disclosure Controls and Procedures

The Company carried out an evaluation, under the supervision and with the participation of the Company s management, including the chief executive officer and chief financial officer, of the design and operation of the Company s disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-14(e)) as of the end of the period covered by this report. Based upon that evaluation the Company s management, including the chief executive officer and chief financial officer, have concluded that, as of June 30, 2007, the Company s disclosure controls and procedures were effective to ensure that information required to be disclosed by the Company in the reports it files and submits under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the SEC s rules and forms.

Changes in Internal Controls

There were no changes in the Company s internal controls over financial reporting that occurred during the fiscal quarter covered by this report that have materially affected, or are reasonably likely to materially affect, the Company s internal controls over financial reporting.

Part II. Other Information

Item 1. Legal Proceedings

On July 17, 2006, Datasci, LLC (Datasci) filed a complaint against the Company, ClickFind, Inc. (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. As previously disclosed, on February 13, 2006, the Company acquired ClickFind pursuant to a merger agreement between the Company, ClickFind and Merger Sub, a wholly owned subsidiary of the Company. On July 31, 2007, the Company issued a press release announcing that it had settled its litigation related to Datasci s Patent, and entered into a settlement agreement whereby Datasci agreed to dismiss its claims against the Company with prejudice. In addition, no payments will be required now or in the future in connection with DATATRAK EDC or DATATRAK eClinical in their current forms. In connection with this settlement, the Company also accepted a non-exclusive license from Datasci on a going-forward basis for DATATRAK products which may be released in the future which implement Datasci s patent. However, the Company does not currently intend to use such license, and accordingly, the Company does not intend to pay any royalties thereunder to Datasci in connection with any of DATATRAK s product offerings.

Item 1A. Risk Factors

There are no material changes to the Risk Factors described under the title Risk Factors in the Company s Annual Report on Form 10-K for the fiscal year ended December 31, 2006.

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Item 2. Unregistered Sales of Equity Securities and Use of Proceeds

None.

Item 3. Defaults Upon Senior Securities

None.

Item 4. Submission of Matters to a Vote of Security Holders

At the Annual Meeting of Shareholders held on June 14, 2007, the Company s shareholders voted to elect Laurence P. Birch, Timothy G. Biro, Jerome H. Kaiser and Robert M. Stote each to an additional two-year term as a director of the Company.

The following is a summary of the voting:

Votes	Laurence P. Birch	Timothy G. Biro	Jerome H. Kaiser	Robert M. Stote
For	10,958,835	10,984,642	11,014,127	11,014,142
Withheld	231,930	206,123	176,638	176,623

Item 5. Other Information

None.

Item 6. Exhibits

31.1 Rule 13a-14(a)/15d-14(a) Certification of Chief Executive Officer

31.2 Rule 13a-14(a)/15d-14(a) Certification of Chief Financial Officer

32.1 Section 1350 Certification of Chief Executive Officer

32.2 Section 1350 Certification of Chief Financial Officer

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

DATATRAK International, Inc.
Registrant

Date: August 9, 2007

/s/ Jeffrey A. Green
Jeffrey A. Green,
President and Chief Executive Officer and a Director (Principal Executive Officer)

Date: August 9, 2007

/s/ Terry C. Black
Terry C. Black
Vice President of Finance, Chief Financial Officer, Treasurer and Assistant Secretary (Principal Financial and Accounting Officer)