

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.

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.

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

	December 31,	
ASSETS	2008	2007
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
LIABILITIES AND SHAREHOLDERS' EQUITY		
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

	For the Year Ended December 31,		
	2008	2007	2006
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			
Balance at January 1, 2016	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
Balance at December 31, 2016	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)
Balance at December 31, 2017	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)
Consolidation of foreign subsidiary loss								380,798	380,798
Balance at December 31, 2018	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

	For the Year Ended December 31,		
	2008	2007	2006
Operating Activities			
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
Investing Activities			
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)
Financing Activities			
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 advan