
DATATRAK
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***DATATRAK* International, Inc.**
Quarterly Report
June 30, 2016

(OTC Pink Basic Disclosure Guidelines)

1) Name of the issuer and its predecessors (if any)

DATATRAK International, Inc. hereinafter referred to as "*DATATRAK*" or the "Company".

2) Address of the issuer's principal executive offices

Company Headquarters
5900 Landerbrook Dr.
Suite 170
Mayfield Heights, OH 44124
Phone: (440) 443-0082
Email: marketing@datatrak.com
Website: www.datatrak.com

Investor Relations Contact
Alex Tabatabai, Chairman of the Board of Directors
5900 Landerbrook Dr.
Suite 170
Mayfield Heights, OH 44124
Phone: (440) 443-0082
Email: investor@datatrak.com
Website(s): www.datatrak.com

3) Security Information

Trading Symbol: DTRK

Exact title and class of securities outstanding as of June 30, 2016:

Common Shares

The Company is authorized to issue 25,000,000 no par value Common Shares (the "Common Shares"). The Common Shares are traded through the OTC Pink Markets under the symbol "DTRK" (CUSIP 238134209). As of June 30, 2016, 1,715,002 Common Shares were outstanding.

	Jun. 30, 2016	Dec. 31, 2015
Shares authorized	25,000,000	25,000,000
Shares outstanding	1,715,002	1,514,718
No. of beneficial shareholders	Greater than 100	Greater than 100
No. of shareholders of record	68	68

Preferred Shares

The Company is authorized to issue 1,000,000 no par value Preferred Shares (the "Preferred Shares") with such rights and preferences and in such series as determined by the Articles of Incorporation and/or the Board of Directors at the time of issuance. No Preferred Shares were issued or outstanding as of June 30, 2016.

	Jun. 30, 2016	Dec. 31, 2015
Shares authorized	1,000,000	1,000,000
Shares outstanding	-	-
No. of beneficial shareholders	-	-
No. of shareholders of record	-	-

Transfer Agent
By Mail:
Computershare Investor Services
P.O. Box 43078
Providence, RI 02940

By Overnight Delivery:
Computershare Investor Services
250 Royall Street
Canton, MA 02021

By Telephone:
1-800-622-6757 (toll free within the United States, Canada and Puerto Rico)
1-781-575-4735 (international direct dial)

Computershare, Inc. is currently registered under the Securities Exchange Act of 1934, as amended (the "Exchange Act"), and is an authorized transfer agent subject to regulation by the U.S. Securities and Exchange Commission (the "SEC").

List any restrictions on the transfer of security:

DATATRAK International, Inc. Common Shares are not registered with the SEC and, therefore, have a restricted legend affixed to the front of any share certificates. For non-affiliates, the restriction can be removed once the shares have been held for a period of one year.

Describe any trading suspension orders issued by the SEC in the past 12 months:
None

List any stock split, stock dividend, recapitalization, merger, acquisition, spin-off, or reorganization either currently anticipated or that occurred within the past 12 months:
None

4) Issuance History

As of January 1, 2014 the Company had 1,366,996 Common Shares outstanding.

The Company awarded retention bonuses to certain officers and key employees in the form of restricted stock units, which were effective after the close of business on August 16, 2011. An aggregate of 46,851 restricted stock units, with a fair value of $330,000, were granted under the Company's 2011 Omnibus Plan. Due to the departure of a key employee during 2013, 6,033 restricted stock units were forfeited. The remaining restricted stock units vested on January 2, 2014. The Compensation Committee of the Board of Directors decided that the restricted stock units were to be paid in Common Shares, net of applicable taxes. Therefore, only 30,141 restricted Common Shares were awarded.

On January 22, 2014, the Company made a discretionary contribution to each eligible employee's 401(k) account in restricted Common Shares of *DATATRAK*'s stock with a value equal to 3% of eligible employee's salaries, not to exceed the amount contributed by the employee. The total number of restricted shares granted in connection with such match was 14,824. The shares were issued out of the authorized but unissued share account.

On March 18, 2014, the Company made restricted share grants to certain officers and key employees in lieu of the payment of bonus amounts under the 2013 Cash Incentive Plan. Based on the closing stock price on March 18, 2014, 20,748 restricted shares were awarded to certain officers and key employees outside of the 2013 Omnibus Plan. These shares are subject to certain restrictions, including a provision that the participant's shares shall be forfeited if such participant ceases to be employed by the Company prior to the one-year anniversary of the grant. Subsequent to the grant, a former key employee terminated employment with *DATATRAK*, thereby forfeiting 181 of the restricted shares granted on March 18, 2014.

The Board of Directors and the shareholders of *DATATRAK* International, Inc. approved the *DATATRAK* International, Inc. 2010 Employee Stock Purchase Plan (the "ESPP") at the 2010 Annual Meeting. The ESPP allows employees the opportunity to purchase

shares of *DATATRAK* stock at a 15% discounted price. The total number of shares issued out of treasury shares in connection with the ESPP in 2014 was 8,321.

As of December 31, 2014 the Company had 1,440,849 Common Shares outstanding.

On January 30, 2015, the Company made a discretionary contribution to each eligible employee's 401(k) account in restricted Common Shares of *DATATRAK*'s stock with a value equal to 3% of eligible employee's salaries, not to exceed the amount contributed by the employee. The total number of restricted shares granted in connection with such match was 20,271. The shares were issued out of the authorized but unissued share account.

On March 17, 2015, the Company made restricted share grants to certain officers and key employees in lieu of the payment of bonus amounts under the 2014 Cash Incentive Plan. Based on the closing stock price on March 17, 2015, 46,127 restricted shares were awarded to certain officers and key employees outside of the 2013 Omnibus Plan. These shares are subject to certain restrictions, including a provision that the participant's shares shall be forfeited if such participant ceases to be employed by the Company prior to the one-year anniversary of the grant.

On November 17, 2015, the Company purportedly made restricted share grants to non-employee Directors in lieu of the payment of 75% of the quarterly cash amounts purportedly due under the Director Compensation Plan. Based on the closing stock price on November 17, 2015, 2,938 restricted shares were purportedly awarded to non-employee Directors outside of the 2013 Omnibus Plan.

The total number of shares issued out of treasury shares in connection with the ESPP in 2015 was 4,533.

As of December 31, 2015 the Company had 1,514,718 Common Shares outstanding.

On January 31, 2016, the Company made a discretionary contribution to each eligible employee's 401(k) account in restricted Common Shares of *DATATRAK*'s stock with a value equal to 3% of eligible employee's salaries, not to exceed the amount contributed by the employee. The total number of restricted shares granted in connection with such match was 36,105. The shares were issued out of the authorized but unissued share account.

The total number of shares issued out of treasury shares in connection with the ESPP in 2016 was 2,696.

On April 5, 2016, the Company made restricted Common Shares in connection with the Stock Purchase Agreement ("SPA") entered into with Tabatabai Investment Partners LP to issue Company Common Stock in exchange for receiving $250,000 on April 8, 2016. It was also agreed that Tabatabai would cancel $300,000 of indebtedness in exchange for a number of shares of Common Stock of *DATATRAK* equal to the amount of $300,000 divided by the price per share equal to $3.50. Restricted Common Shares totaling 157,142 were issued to Tabatabai Investment Partners LP based on a market price of $3.50 under this agreement. For additional information regarding these financings, see Note 5. Recent Developments to the condensed consolidated financial statements included in this report. These financings were private placements exempt from registration under the Securities Act of 1933, as amended.

On April 12, 2016, the Company made restricted share grants to non-employee Directors in lieu of cash payments under the Director Compensation Plan for the first quarter of 2016. Based on the closing stock price on April 12, 2016, 4,341 restricted shares were awarded to non-employee Directors outside of the 2013 Omnibus Plan.

As of June 30, 2016, the Company had 1,715,002 Common Shares outstanding.

All Common Shares issued by *DATATRAK* International, Inc. contain a restrictive legend since the shares are not registered with the SEC. Common Shares must be held by non-affiliates for one year for the restrictive legend to be removed. Affiliates remain subject to the restrictions under the Rule 144 promulgated under the Securities Act of 1933, as amended, as long as they are affiliates of the Company and for 90 days thereafter.

5) Financial Statements

See the following pages for current financial information and footnotes.

DATATRAK International, Inc.
CONDENSED CONSOLIDATED BALANCE SHEETS

	June 30, 2016 (Unaudited)	December 31, 2015 (Note A)
ASSETS		
Current assets		
Cash and cash equivalents	$ 1,195,502	$ 1,354,857
Accounts receivable, net of allowance for doubtful accounts of $15,000 and $15,000, respectively	722,186	895,723
Deferred tax asset – current	19,900	19,900
Deferred tax asset valuation allowance – current	(19,900)	(19,900)
Prepaid expenses and other current assets	271,943	303,171
Total current assets	2,189,631	2,553,751
Property and equipment		
Equipment	394,115	448,376
Software, net of impairment	3,149,324	2,650,173
Leasehold improvements	55,433	55,433
	3,598,872	3,153,982
Less accumulated depreciation and amortization	2,270,310	2,233,864
Property and equipment, net	1,328,562	920,118
Other assets		
Certificate of deposit	301,014	300,724
Deferred tax asset – noncurrent	14,259,200	14,414,900
Deferred tax asset valuation allowance – noncurrent	(14,259,200)	(14,414,900)
Deposits	12,116	56,975
Total other assets	313,130	357,699
Total assets	$ 3,831,323	$ 3,831,568
LIABILITIES AND SHAREHOLDERS' DEFICIT		
Current liabilities		
Accounts payable	$ 402,352	$ 484,666
Notes payable – current	178,471	96,875
Accrued expenses	941,999	1,212,629
Deferred revenue	1,846,827	3,121,597
Total current liabilities	3,369,649	4,915,767
Long-term liabilities		
Long-term debt	29,239	37,647
Deferred revenue - long-term	3,230,092	3,055,826
Total long-term liabilities	3,259,331	3,093,473
Shareholders' deficit		
Serial Preferred Shares, without par value, 1,000,000 shares authorized, none issued	—	—
Common Shares/Additional paid in capital, without par value, authorized 25,000,000 shares; issued 1,729,925 shares as of June 30, 2016 and 1,532,337 as of December 31, 2015; outstanding 1,715,002 as of June 30, 2016 and 1,514,718 shares as of December 31, 2015	84,489,628	83,577,223
Treasury Shares, 14,923 shares as of June 30, 2016 at cost; 17,619 shares as of December 31, 2015 at cost	(18,505,804)	(18,515,503)
Accumulated deficit	(68,781,481)	(69,239,392)
Total shareholders' deficit	(2,797,657)	(4,177,672)
Total liabilities and shareholders' deficit	$ 3,831,323	$ 3,831,568

Note A: The condensed consolidated balance sheet at December 31, 2015 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.

DATATRAK International, Inc.
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

	Three Months Ended June 30,		Six Months Ended June 30,	
	2016	2015	2016	2015
Revenue	$ 2,401,795	$ 2,344,904	$ 4,799,441	$ 4,834,396
Direct costs	380,548	539,960	811,446	1,105,059
Gross profit	2,021,247	1,804,944	3,987,995	3,729,337
Selling, general and administrative expenses	1,636,952	3,151,676	3,406,881	6,049,634
Depreciation and amortization	54,600	44,545	113,841	86,150
Income (loss) from operations	329,695	(1,391,277)	467,273	(2,406,447)
Interest income	149	733	443	1,236
Interest expense	(3,944)	(3,974)	(7,218)	(7,423)
Net income (loss) before tax provision	$ 325,900	$ (1,394,518)	$ 460,498	$(2,412,634)
Tax provision	2,587	—	2,587	—
Net income (loss)	$ 323,313	$ (1,394,518)	$ 457,911	$(2,412,634)
Net income (loss) per share:				
Net income (loss) per share, basic	$ 0.19	$ (0.92)	$ 0.28	$ (1.62)
Weighted-average shares outstanding, basic	1,707,524	1,509,107	1,624,007	1,485,831
Net income (loss) per share, diluted	$ 0.17	$ (0.92)	$ 0.25	$ (1.62)
Weighted-average shares outstanding, diluted	1,891,435	1,509,107	1,856,513	1,485,831

See notes to condensed consolidated financial statements.

DATATRAK International, Inc.
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

	Six Months Ended June 30,	
	2016	**2015**
Operating activities		
Net income (loss)	$ 457,911	$ (2,412,634)
Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities:		
Depreciation and amortization	113,841	86,150
Stock-based compensation	233,882	99,084
Changes in operating assets and liabilities:		
Accrued interest income	(290)	(411)
Accounts receivable	173,537	(12,311)
Prepaid expenses and other current assets	230,025	362,263
Accounts payable and accrued expenses	77,034	591,430
Deferred revenue	(1,100,504)	(441,443)
Net cash provided by (used in) operating activities	185,436	(1,727,872)
Investing activities		
Purchases of property and equipment	(6,785)	(91,111)
Capitalization of software development costs	(495,493)	(170,319)
Net cash used in investing activities	(502,278)	(261,430)
Financing activities		
Proceeds from issuance of common stock	250,000	—
Payments of notes payable	(100,757)	(76,560)
Proceeds from ESPP	8,244	18,725
Net cash provided by (used in) financing activities	157,487	(57,835)
Decrease in cash and cash equivalents	(159,355)	(2,047,137)
Cash and cash equivalents at beginning of period	1,354,857	3,510,499
Cash and cash equivalents at end of period	$ 1,195,502	$ 1,463,362
Supplemental Schedule of Noncash Activities		
Noncash financing		
Insurance note payable	153,938	192,410
Bonuses paid in stock	—	260,621
401(k) match paid in stock	129,978	140,884
Noncash payment of debt in shares	300,000	—

See notes to condensed consolidated financial statements.

DATATRAK International, Inc.
CONDENSED CONSOLIDATED STATEMENTS OF SHAREHOLDERS' DEFICIT

	Common Shares/Additional Paid in Capital		Treasury Shares			
	Number of Shares	Stated Amount	Number of Shares	Cost	Accumulated Deficit	Total
Balance at January 1, 2015	1,463,001	$82,932,715	22,152	$(18,545,713)	$(66,340,522)	$(1,953,520)
Stock-based compensation	2,938	243,003		4,531		247,534
Employer Stock Purchase Plan			(4,533)	25,679		25,679
401K match...	20,271	140,884				140,884
Management bonus	46,127	260,621				260,621
Net loss					(2,898,870)	(2,898,870)
Balance at December 31, 2015.....	**1,532,337**	**$83,577,223**	**17,619**	**$(18,515,503)**	**$(69,239,392)**	**$(4,177,672)**
Stock-based compensation	4,341	232,427		1,455		233,882
Employee Stock Purchase Plan			(2,696)	8,244		8,244
Stock Purchase Agreement ..	157,142	550,000				550,000
401K match...	36,105	129,978				129,978
Net income....					457,911	457,911
Balance at June 30, 2016.....	**1,729,925**	**$84,489,628**	**14,923**	**$(18,505,804)**	**$(68,781,481)**	**$(2,797,657)**

See notes to condensed consolidated financial statements.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

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 ("U.S. GAAP") for interim financial information and with the guidelines from OTC Pink Markets for providing adequate current information. Accordingly, they do not include all of the information and footnotes required by U.S. GAAP for complete financial statements. The accompanying unaudited interim financial statements have been prepared by the Company's management and independent auditors have not performed a review of these 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 period ended June 30, 2016 are not necessarily indicative of the results that may be expected for the year ending December 31, 2016. For further information, refer to the consolidated financial statements and footnotes thereto included in the Company's Annual Report for the year ended December 31, 2015.

The preparation of financial statements in conformity with U.S. GAAP 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.

The Company has evaluated subsequent events through August 8, 2016. On July 7, 2016 the Company entered into a sublease agreement with OERM Software, Inc. for the Chicago, IL office space ("Chicago sublease"). The Chicago sublease covers the remaining term of the original lease. Further information is included in Note 7.

On August 5, 2016, the Board of Directors appointed Mr. Eric J. Wilhelm as a Class II director with a term expiring at the 2016 annual meeting of shareholders or until his successor is duly elected and qualified, subject to his earlier death, retirement, resignation or removal.

On August 5, 2016, *DATATRAK* and Tabatabai Investment Partners LP entered into the first amendment to the convertible promissory note ("Note") originally entered into on April 8, 2016. The note was amended to change the maximum principal amount from $750,000 to $1,500,000, in aggregate. The note was further amended to allow the Company to request a draw up to $750,000.

2. Going Concern

The Company has experienced continuous net losses, negative cash flows from operations and working capital deficiencies. In order to address any working capital needs the Company may face during 2016, on April 8, 2016, *DATATRAK* entered into a convertible promissory note ("Note") with Tabatabai Investment Partners LP, a related party, which is controlled by Mr. Tabatabai, Chairman of the Board of Directors of the Company. An amendment to the Note was approved on August 5, 2016. The Note provides for monthly draws on the first day of each month through March 31, 2017 when the cash balance of the Company is less than a minimum threshold amount or upon request by the Company. The maximum monthly draw is limited to the difference between the minimum threshold amount and the Company's cash balance, or a draw by the Company of up to $750,000, up to an aggregate of $1,500,000 during the term of the Note. The Note carries an interest rate of twelve percent on outstanding draws and matures on June 30, 2017. At any time prior to or on the maturity date, Tabatabai Investment Partners LP has the option to convert all or any portion of the principal balance and accrued but unpaid interest then outstanding under the Note into shares of the Company's Common Stock, calculated by dividing the amount being converted by $3.50. As of the maturity date, the Note permits the repayment of draws and interest to be in the Company's Common Stock at market prices, calculating the number of shares of the Company's Common Stock to be issued by dividing the amount being converted by $3.50. The Note includes customary default, change control and acceleration provisions. There have been no draws by the Company under this agreement through June 30, 2016.

The Company entered into a Stock Purchase Agreement ("SPA") with Tabatabai Investment Partners LP, to issue Company Common Stock in exchange for receiving $250,000 on April 8, 2016. It was also agreed that Tabatabai would cancel $300,000 of indebtedness in exchange for a number of shares of Common Stock of *DATATRAK* equal to the amount of $300,000 divided by the price per share equal to $3.50. Common Shares totaling 157,142 were issued to Tabatabai Investment Partners LP based on a market price of $3.50 under this agreement as of April 5, 2016.

DATATRAK continuously evaluates its cost structure to timely match its cost structure with anticipated revenue and backlog. Although the Company has recently made strategic investments in its infrastructure in order to support longer-term growth, *DATATRAK* will continue to carefully evaluate its cost structure and implement cost cutting measures if its revenue and sales trend performance falls below its minimum expectations. In such an event, *DATATRAK* may also need to raise additional capital in order to fund its operations, or to cover liquidity needs beyond 2016. The Company 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 the existing shareholders.

3. 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 SEC Staff Accounting Bulletin Topic 13, "*Revenue Recognition*," and Financial Accounting Standards Board ("FASB") Accounting Standards Codification ("ASC") 605, "*Revenue Recognition Multiple-Element Arrangements*." 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 collectability is probable.

DATATRAK's non-enterprise contracts provide a fixed price for each element to be delivered, and revenue is recognized as each multiple-element is delivered. In the case of multiple-element arrangements, the Company does enter into agreements that combine both professional services and application services. These revenues qualify as separate units of accounting in accordance with Accounting Standards Update ("ASU") No. 2009-13 because they have value to the customer on a standalone basis. *DATATRAK*'s application services are frequently sold without professional services which indicate that they have standalone value. Professional services are also frequently sold separately by the Company or other vendors, which also indicate standalone value. The Company determines the price of individual elements included in multiple-element arrangements using objective, reliable evidence of fair value. This evidence is based on the vendor-specific price per element for which the Company would sell an item on a standalone basis.

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 agreement revenue is recognized as services are performed, which is typically consistent with ratable recognition over the life of the contract.
- Licensing revenue (patient, points, randomization, inventory, safety case manager and user licensing) is recognized ratably over the life of the license agreement.
- Hosting revenue is recognized ratably over the term of the trial.
- Project management and data management (design, testing, quality assurance, consulting, 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 item revenue is earned based on a price per data unit as data items are entered into *DATATRAK*'s unified software suite.
- 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 and successfully passed.
- Help Desk revenue is recognized based on a monthly price per registered user or site under the contract.
- Clinical Trial Management System revenue is recognized based on a monthly price per authorized user, clinical trial and base fee under the contract.

- Clinical Data Management revenue is recognized proportionally over the life of a contract as services are performed based on the contractual billing rate for those services.

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 typically result in a material adjustment to the revenue or costs previously recognized.

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, generally the Company is not required to refund the unused portion.

Deferred revenue not subject to potential refund as of June 30, 2016 totaled $4,711,000. The Company's deferred revenue balance including the long-term portion was $5,077,000 at June 30, 2016 of which $366,000 was subject to refund, compared to $6,177,000 at December 31, 2015 of which $504,000 was subject to refund.

Concentration of Credit Risk

The Company is subject to credit risk through accounts receivable and cash equivalents. The Company does not require collateral and its accounts receivable are unsecured. The cash equivalents are placed with high credit-quality financial institutions. The Company limits the amount of credit exposure in any one institution or type of investment instrument.

Cash and cash equivalents are maintained at financial institutions and, at times, balances may exceed federally insured limits. The Company has never experienced any losses related to these balances. Interest-bearing amounts on deposit in excess of federally insured limits at June 30, 2016 and December 31, 2015 approximated $946,000 and $1.1 million, respectively.

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 reserve for uncollectible accounts of $15,000 at June 30, 2016 and December 31, 2015, respectively. The Company's average collection period was 38 days as of June 30, 2016 compared to 41 days as of December 31, 2015. The net accounts receivable balance was $722,000 and $896,000 at June 30, 2016 and December 31, 2015, respectively.

Property and Equipment

Property and equipment are stated at cost. Depreciable assets consist of office and computer equipment, software and leasehold improvements. Depreciation and amortization on office and computer equipment and software are computed using the straight-line method over estimated useful lives of three to seven 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 $55,000 and $45,000 for quarter ended June 30, 2016 and 2015, respectively. During the six months ended June 30, 2016, $114,000 of depreciation and amortization expense was recorded compared to $86,000 for the six months ended June 30, 2015.

Stock-Based Compensation

The Company accounts for stock-based compensation in accordance with FASB ASC 718, *"Stock Compensation,"* using the "modified prospective" method. On May 14, 2013, the Company's Board of Directors approved the 2013 Omnibus Equity Plan ("2013 Omnibus Plan"), thereby replacing the 2011 Omnibus Equity Plan ("2011 Omnibus Plan") as the primary share-based incentive award program for covered employees and directors. The 2011 Omnibus Plan was the primary share-based incentive award program from its approval on August 10, 2011 until the approval of the 2013 Omnibus Plan. Prior to the 2011 Omnibus Plan, the 2009 Omnibus Equity Plan (the "2009 Omnibus Plan") was the Company's primary share-based incentive award program for covered employees and directors from its approval on August 26, 2009 until the approval of the 2011 Omnibus Plan. Common Share options have been awarded under the 2013 Omnibus Plan, the 2011 Omnibus Plan and the 2009 Omnibus Plan. 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 incentive awards granted to employees vest over the assigned vesting period and related compensation costs are amortized ratably over the vesting period. Stock compensation expense was $49,000 and $50,000 for the quarter ended June 30, 2016 and 2015, respectively. For the six months ended June 30, 2016, stock compensation expense was $234,000 compared to $99,000 for the six months ended June 30, 2015. The year-over-year increase in expense was due to the accelerated vesting of certain stock options issued under the 2013 Omnibus Plan. The 2013 Omnibus Plan was amended on December 29, 2015 to include a change in control clause that was actuated with the board resignations in February 2016. The current Board of Directors expects that it will challenge the validity and/or enforceability of the amendment. The Company's unamortized compensation cost, related to non-vested stock options and restricted Common Shares, at June 30, 2016 and 2015 was $27,000 and $273,000, respectively. The unamortized cost of $27,000 at June 30, 2016 is expected to be amortized in the amounts of $7,000, $13,000 and $7,000 in 2016, 2017 and 2018, respectively.

Income Taxes

The Company follows FASB ASC 740. 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 more likely than not. Quarterly income taxes are recorded at the effective rate, based on annual forecasted income. The Company currently is in an overall cumulative loss position totaling approximately $41 million. As a result, the Company recorded a full valuation reserve against its net deferred tax assets in 2009 and the full valuation reserve remained on the books through June 30, 2016. However, due to effect of Alternative Minimum Tax ("AMT"), the Company recorded a tax provision of $2,600 as of June 30, 2016. There was no provision necessary for the previous year.

In accordance with FASB ASC 740-10, the Company recognizes the effect of income tax positions only if those positions are more likely than not of being sustained. Recognized income tax positions are measured at the largest amount that is greater than 50% likelihood of being recognized. Changes in recognition or measurement are reflected in the period in which the change in judgment occurs. As of June 30, 2016 and 2015, the Company had no uncertain income tax positions.

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, restricted cash, accounts receivable, accounts payable and accrued expenses are reasonable estimates of fair value due to the short-term nature of these financial instruments.

Advertising Costs

Advertising costs are expensed as incurred and are included in selling, general and administrative expenses. Advertising costs were $71,000 and $163,000 for the quarter ended June 30, 2016 and 2015, respectively. For the six months ended June 30, 2016 advertising costs totaled $122,000 compared to $232,000 for the six months ended June 30, 2015.

Software Development Costs

Development costs incurred in the research and development of new software products, enhancements to existing software products and maintenance activities are accounted for in accordance with FASB ASC 350-40, *"Accounting for Cost of Internal-Use Software, Including Enterprise Software."* Post-implementation stage activities such as maintenance or modifications that do not result in additional functionality are expensed as incurred. Enhancements that enable the software to perform tasks that it was previously incapable of performing are to be capitalized based on the assigned fair value. If the project contains both elements of upgrades that provide additional functionality and maintenance, cost is allocated based on relative fair values. If the cost cannot be allocated between maintenance and upgrades on a reasonable basis, all cost is expensed as incurred.

The Company capitalized software development costs that provided additional functionality of $249,000 during the quarter ended June 30, 2016 compared to $114,000 for the quarter ended June 30, 2015. During the six months ended June 30, 2016 and 2015, software development costs of $495,000 and $170,000, respectively, were capitalized in accordance with FASB ASC 350-40.

Research and development expenses included in selling, general and administrative expenses were $189,000 and $350,000 for the quarters ended June 30, 2016 and 2015, respectively. Research and development expenses included in selling, general and administrative expenses were $425,000 and $725,000 for the six months ended June 30, 2016 and 2015, respectively.

Subsequent Events

The Company has evaluated subsequent events through August 8, 2016. On July 7, 2016 the Company entered into a sublease agreement with OERM Software, Inc. for the Chicago, IL office space. The sublease covers the remaining term of the original lease. Further information is included in Note 7.

On August 5, 2016, the Board of Directors appointed Mr. Eric J. Wilhelm as a Class II director with a term expiring at the 2016 annual meeting of shareholders or until his successor is duly elected and qualified, subject to his earlier death, retirement, resignation or removal.

On August 5, 2016, *DATATRAK* and Tabatabai Investment Partners LP entered into the first amendment to the convertible promissory note ("Note") originally entered into on April 8, 2016. The Note was amended to change the maximum principal amount from $750,000 to $1,500,000, in aggregate. The note was further amended to allow the Company to request a draw up to $750,000.

Reclassification

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

4. Recently Issued Accounting Standards

In April 2016, FASB issued ASU 2016-10, "*Revenue from Contracts with Customers (Topic 606): Identifying Performance Obligations and Licensing*." ASU 2016-10 provides more detailed guidance, including additional implementation guidance and examples, of identifying performance obligations and licenses of intellectual property. The effective date and transition requirements for ASU 2016-10 are the same as the effective date and transition requirements of Topic 606. The Company is in the process of evaluating the potential impact of ASU 2014-10 on the consolidated financial statements and has not yet determined the method by which the standard will be adopted in 2018.

In May 2016, FASB issued ASU 2016-12, "*Revenue from Contracts with Customers (Topic 606): Narrow-Scope Improvements and Practical Expedients*." ASU 2016-12 does not alter the core principle of the new revenue standard, but amends the standard to clarify the following items: assessing collectability, presenting sales taxes and other taxes collected from customers, noncash consideration, contract modifications at transition, completed contracts at transition and disclosing the accounting change in the period of adoption. The effective date and transition requirements for ASU 2016-12 are the same as the effective date and transition requirements of Topic 606. The Company is in the process of evaluating the potential impact of ASU 2014-12 on the consolidated financial statements and has not yet determined the method by which the standard will be adopted in 2018.

5. Recent Developments

On April 8, 2016, *DATATRAK* entered into a convertible promissory note ("Note") with Tabatabai Investment Partners LP, a related party, which is controlled by Mr. Tabatabai, Chairman of the Board of Directors of the Company. An amendment to the Note was approved on August 5, 2016. The Note provides for monthly draws on the first day of each month through March 31, 2017 when the cash balance of the Company is less than a minimum threshold amount or upon request by the Company. The maximum monthly draw is limited to the difference between the minimum threshold amount and the Company's cash balance, or a draw by the Company of up to $750,000, up to an aggregate of $1,500,000 during the term of the Note. The Note carries an interest rate of twelve percent on outstanding draws and matures on June 30, 2017. At any time prior to or on the maturity date, Tabatabai Investment Partners LP has the option to convert all or any portion of the principal balance and accrued but unpaid interest then outstanding under the Note into shares of the Company's Common Stock, calculated by dividing the amount being converted by $3.50. As of the maturity date, the Note permits the repayment of draws and interest to be in the Company's Common Stock at market prices, calculating the number of

shares of the Company's Common Stock to be issued by dividing the amount being converted by $3.50. The Note includes customary default, change control and acceleration provisions. There have been no draws by the Company under this agreement through June 30, 2016.

The Company entered into a Stock Purchase Agreement ("SPA") with Tabatabai Investment Partners LP, to issue Company Common Stock in exchange for receiving $250,000 on April 8, 2016. It was also agreed that Tabatabai would cancel $300,000 of indebtedness in exchange for a number of shares of Common Stock of *DATATRAK* equal to the amount of $300,000 divided by the price per share equal to $3.50. Common Shares totaling 157,142 were issued to Tabatabai Investment Partners LP based on a market price of $3.50 under this agreement as of April 5, 2016.

On April 5, 2016, the Board of Directors approved an amendment to the Rights Agreement increasing the threshold of beneficial share ownership from 15% to 25% and removing the special exception for former CEO, Laurence P. Birch.

The Company entered into an assignment agreement for the office space in Cary, North Carolina, which was effective as of April 5, 2016. *DATATRAK* has no further liability associated with the office space in Cary, North Carolina.

On May 6, 2016, the Board of Directors appointed Mr. Ward as Chief Executive Officer and President of the Company. Mr. Ward was formerly the Interim Chief Executive Officer and President of *DATATRAK*.

6. Net Income (Loss) per Share

The following table sets forth the computation of basic and diluted net income (loss) per share:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2016	2015	2016	2015
Net income (loss) used in the calculation of basic and diluted income (loss) per share	$ 323,000	$ (1,395,000)	$ 458,000	$ (2,413,000)
Denominator for basic net income (loss) per share — weighted-average common shares outstanding	1,707,000	1,509,000	1,624,000	1,486,000
Effect of dilutive common share options	184,000	—	233,000	—
Denominator for diluted net income (loss) per share	1,891,000	1,509,000	1,857,000	1,486,000
Basic net income (loss) per share	$ 0.19	$ (0.92)	$ 0.28	$ (1.62)
Diluted net income (loss) per share	$ 0.17	$ (0.92)	$ 0.25	$ (1.62)
Weighted-average common share options excluded from the computation of diluted net income (loss) per share because they would have an anti-dilutive effect on net income (loss) per share	156,000	82,000	209,000	82,000

7. Operating Leases

The Company leases certain office equipment and space, some of which are under month-to-month agreements. Rent expense relating to these operating leases was approximately $183,000 and $159,000 for the quarters ended June 30, 2016 and 2015, respectively. For the six months ended June 30, 2016 and 2015, rent expense was $315,000 and $258,000, respectively. Future minimum lease payments for the Company under non-cancelable operating leases as of June 30, 2016 are as follows:

Year Ending June 30,	Amount*
2017	$ 491,000
2018	421,000
2019	542,000
2020	549,000
2021 and remainder	3,296,000
Total	$ 5,299,000

* *DATATRAK* remains responsible for the master lease for the Chicago office space. The master lease contains material monthly escalation costs of $19,300, which are included in the future minimum lease payments above.

Future minimum lease payments expected to be received under the Chicago sublease agreement are as follows:

Year Ending June 30,	Amount
2017	$ 185,000
2018	452,000
2019	459,000
2020	466,000
2021 and remainder	2,818,000
Total	$ 4,380,000

8. Income Taxes

Due to its net operating loss carryforwards, the Company had no state or local income tax expense for the three and six months ended June 30, 2016 and 2015. However, due to AMT limitations on the use of net operating loss carryforwards, *DATATRAK* did record $2,600 of federal income tax expense for the six months ended June 30, 2016. No federal income tax was recorded for the six months ended June 30, 2015.

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,	
	2016	2015
Income tax expense (benefit) at the United States statutory rate	$ 156,600	$ (820,000)
Change in valuation allowance	(155,700)	807,000
Non-deductible permanent differences	1,700	13,000
	$ 2,600	$ —

9. Long-Term Debt

Long-term debt at June 30, 2016 and December 31, 2015 is summarized below:

	2016	2015
Capital lease agreement with Dell Financial Services, LLC	$ 64,000	$ 90,000
Oracle note payable	2,000	6,000
De Lage Landen note payable	16,000	—
Insurance note payable	126,000	39,000
Total debt	208,000	135,000
Less current maturities	(179,000)	(97,000)
Long-term debt	$ 29,000	$ 38,000

The Dell Financial Services, LLC Agreements were for the purchase of certain computer equipment. The terms of the lease agreements require *DATATRAK* to make 36 monthly payments, including accrued interest, in the following amounts: $650 beginning in December 2013 and ending in November 2016; $537 beginning in January 2014 and ending in December 2016; $2,760 beginning in November 2014 and ending in September 2017; $291 beginning in June 2015 and ending in May 2018; and $586 beginning in July 2015 and ending in June 2018. All leases include bargain purchase options at the end of the lease term.

The Company entered into a financing agreement with Oracle Credit Corporation for payment of the Company's Oracle licensing and support premiums. The note bears interest at 21.9% and is due in four quarterly installments of $2,000, including accrued interest, beginning in January 2016 and ending in August 2016.

The Company entered into a financing agreement with De Lage Landen Financial Services for the purchase of certain office equipment. The note bears interest at 6.7% and is due in monthly installments of $396, including accrued interest, beginning in May 2015 and ending in May 2020.

The Company entered into a financing agreement with AFCO for payment of a portion of the Company's annual insurance premiums. The note bears interest at 3.45% and is due in monthly installments of $15,992, including accrued interest, beginning in May 2016 and ending in February 2017.

10. Software Development Costs

Development costs incurred in the research and development of new software products, enhancements to existing software products and maintenance activities are accounted for in accordance with FASB ASC 350-40, *"Accounting for Cost of Internal-Use Software, Including Enterprise Software."* Post-implementation stage activities such as maintenance or modifications that do not result in additional functionality are expensed as incurred. Enhancements, which enable the software to perform tasks that it was previously incapable of performing, are to be capitalized based on the assigned fair value. If the project contains both elements of upgrades that provide additional functionality and maintenance, cost is allocated based on relative fair values. If the cost cannot be allocated between maintenance and upgrades on a reasonable basis, all cost is expensed as incurred.

The Company's software development costs generally contain both upgrades that provided additional functionality and maintenance items. During the quarter ended June 30, 2016 and 2015, software development costs of $249,000 and $114,000, respectively, were capitalized in accordance with FASB ASC 350-40. During the six months ended June 30, 2016 and 2015, software development costs of $495,000 and $170,000, respectively, were capitalized in accordance with FASB ASC 350-40. Capitalized software development costs are amortized over 36 months starting when the enhancements are placed in service.

Research and development expenses included in selling, general and administrative expenses were $189,000 and $350,000 for the quarters ended June 30, 2016 and 2015, respectively. Research and development expenses included in selling, general and administrative expenses were $425,000 and $725,000 for the six months ended June 30, 2016 and 2015, respectively.

11. Contingencies

On November 10, 2015, *DATATRAK* postponed the annual shareholder meeting schedule for November 11, 2015 and under the direction of the previous Board initiated a lawsuit against Alex Tabatabai and Arosa Investment Management, LLC (collectively, "Arosa"). (See Case No. CV-15-854059, Cuyahoga County, Ohio Common Pleas Court). *DATATRAK* asserted various claims in connection with Arosa's proxy contest involving three seats on the *DATATRAK* Board of Directors. On November 25, 2015, Arosa asserted counterclaims and individual and shareholder derivative third-party claims against *DATATRAK* and five then- *DATATRAK* directors, Laurence P. Birch, Timothy G. Biro, James M. Karis, Jerome H. Kaiser and Nicholas A. Loiacono, as well as Andrew T. Pitler, who Arosa claimed was unlawfully appointed to *DATATRAK*'s board, and direct claims against *DATATRAK* and Mr. Birch. Arosa asserted various claims of unlawfully delaying the Board of Directors election that Arosa's slate of director candidates had won going into the scheduled November 11, 2015 annual shareholder meeting.

On January 8, 2016, the 2015 *DATATRAK* annual shareholders' meeting was held following two postponements, and Arosa's slate prevailed by receiving approximately 62% of shareholder votes cast. Following the election, Arosa, Tabatabai, *DATATRAK*, Biro, Karis, Kaiser, Loiacono, and Pitler (collectively, the "Settling Parties") commenced settlement discussions in an effort to avoid additional litigation expenses. As a result of these discussions, Kaiser, Karis, and Pitler agreed to resign from *DATATRAK*'s Board of Directors and Arosa agreed to a mutual release and dismissal with prejudice of all claims among the Settling Parties. None of the Settling Parties made any payment as part of the settlement.

On March 4, 2016, the Court granted a preliminary order to approve the proposed settlement agreement. The preliminary order required the parties to provide notice of the proposed settlement agreement to all *DATATRAK* shareholders, and provide shareholders with time to object. The Court received two objections. One was from a shareholder and the other objection was made by Mr. Birch, who was terminated as CEO on February 23, 2016. On June 30, 2016, the Court filed an order for new notice of the proposed settlement to be provided to shareholders and granting additional time for shareholders to object to the proposed settlement. *DATATRAK* will provide new notice within the required timeframe to all shareholders. The claims asserted by Arosa and *DATATRAK* against Mr. Birch are not being released or dismissed as part of the settlement due to the inability of the Settling Parties to reach reasonable terms with Mr. Birch. On March 16, 2016, Mr. Birch asserted counterclaims that challenge his termination for cause. *DATATRAK* believes that these claims are without merit and will vigorously defend *DATATRAK*'s rights. The Company has asserted claims against Mr. Birch for various breaches of duties and misconduct by him during his tenure at *DATATRAK*.

On May 27, 2016, former CFO Jennifer Mabe and former VP Legal Varnesh Sritharan filed a lawsuit against *DATATRAK* in the United States District Court for the Northern District of Ohio (See Case No. 1:16 CV 01286). Ms. Mabe and Mr. Sritharan asserted breach of contract, retaliation in violation of the Sarbanes Oxley Act, defamation and wrongful termination claims, Ms. Mabe and Mr. Sritharan were terminated for cause on March 28, 2016. The Company believes these claims are without merit and will vigorously defend *DATATRAK* against such claims.

In addition to the foregoing, in the ordinary course of business, the Company is involved in ordinary, routine legal proceedings. Additionally, certain of the Company's revenues may be subject to sales and use tax in certain jurisdictions. The Company has

assessed its positions and is of the opinion that the ultimate resolution of such matters will not have a material adverse effect on the results of operations, cash flows or the financial position of the Company.

12. Off-Balance Sheet Arrangements

The Company has no off-balance sheet arrangements.

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6) Describe the Issuer's Business, Products and Services

A. Description of the issuer's business operations:

DATATRAK International, Inc. ("*DATATRAK*" or the "Company") is one of the first and leading technology and services company delivering global *unified dClinical*™ solutions for the clinical trials industry, including electronic data capture ("EDC") and clinical trial management software ("CTMS") solutions. *DATATRAK* provides clinical enterprise solutions to safely accelerate every drug, every biologic and every device *from Concept to Cure*®. Customers use *DATATRAK* software to collect, review, transfer and store clinical trial data electronically in a secure environment. *DATATRAK* customers are companies in the pharmaceutical, biotechnology, contract research organization ("CRO"), academic research organization ("ARO") and medical device industries. The Company's services support clients in accelerating the completion of clinical research more efficiently and safely by providing improved data quality and real time access to information on a global scale.

Enhancements are routinely made to the *DATATRAK* unified platform which continue to simplify the management of data for clinical research. In addition, extensive work has been completed for the 2016 release of UX CTMS 360™, directed by members of the Company's Product Advisory Council ("PAC"). The system is deployed worldwide as Software as a Service ("SaaS") through the cloud and supports pre-clinical and Phase I – Phase IV drug and device studies in multiple languages throughout the world. *DATATRAK* delivers a *unified dClinical*® platform that leverages the power of single database architecture, removing complexities in clinical research to deliver time and cost savings.

Financial Performance

The Company's revenue decreased slightly to $4,799,000 for the six months ended June 30, 2016 compared $4,834,000 for the six months ended June 30, 2015. Revenue from contracts in backlog decreased year-over-year due to lower change orders and contract expansions. The decrease was partially offset by higher year-over-year revenue from new contract sales. *DATATRAK* has planned changes to its product offering, pricing and contracting process which it believes will lead to stronger customer relationships through greater transparency and help to build revenue. Direct costs decreased by 27% during this same time period due to lower employee costs. The Company's gross margin was 83% for the six months ended June 30, 2016 compared to 77% for the six months ended June 30, 2015. SG&A expenses decreased by $2,643,000, or 44%, for the six months ended June 30, 2016 compared to the six months ended June 30, 2015. The decrease was primarily due to lower employee costs, including bonus, recruitment and travel. The Company also cut spending for advertising, consulting, equipment and legal. The first half of 2015 included substantial expenses related to the patent defense litigation, which was settled in early 2016. As a result, *DATATRAK* had income from operations for the six months ended June 30, 2016 of $467,000 compared to a loss from operations of $(2,406,000) for the six months ended June 30, 2015.

Backlog

Backlog consists of future value from authorization letters to commence services, statements of work, technology and services agreements, change orders and other customer contracts, billed and unbilled. At June 30, 2016, the Company's backlog decreased by 9%, to $24,293,000 from $26,682,000 at December 31, 2015. The decrease in backlog was due to lower new contract sales during the first half of 2016.

All contracts are subject to possible delays or cancellation or can change in scope in a positive or negative direction. Approximately 80% of the Company's June 30, 2016 backlog is subject to being cancelled or delayed at any time. Therefore, current backlog is not necessarily indicative of the Company's future quarterly or annual revenue. Historically, backlog has not always been an accurate predictor of the Company's short-term revenue.

Results of Operations

Three months ended June 30, 2016 compared with the three months ended June 30, 2015

Revenue for the three months ended June 30, 2016 increased by 2% to $2,402,000 as compared to $2,345,000 for the three months ended June 30, 2015. During the second quarter of 2016, *DATATRAK* recorded revenue related to 128 contracts compared to 141 contracts during the second quarter of 2015. For the three months ended June 30, 2016, $2,165,000 of revenue was the result of contracts that were in backlog at December 31, 2015 and $237,000 was the result of new business signed since January 1, 2016. For the three months ended June 30, 2015, $2,131,000 of revenue was generated from contracts that were in backlog at December 31, 2014 and $214,000 was the result of new business signed since January 1, 2015.

The Company recorded $1,223,000 in revenue during the three months ended June 30, 2016 compared to $804,000 during the three months ended June 30, 2015 from significant multi-year enterprise license agreements. The Company will continue to recognize the remaining, non-refundable, aggregate deferred revenue on the enterprise license agreements ratably, or in line with the acceleration of points contained in the license agreement, over the remaining lives of each respective license period. The enterprise license agreements totaled $28.1 million of original contract value.

Direct costs of revenue decreased 30%, from $540,000 for the three months ended June 30, 2015, to $381,000 for the three months ended June 30, 2016. The $159,000 decrease is mainly due to lower employee costs. The Company's gross margin was 84% for the three months ended June 30, 2016 compared to 77% for the three months ended June 30, 2015.

SG&A expenses include all administrative personnel costs, sales and software development costs, stock compensation and all other expenses not directly chargeable to a specific contract. SG&A expenses decreased by $1,515,000, or 48%, to $1,637,000 from $3,152,000 for the three months ended June 30, 2016 and 2015, respectively. The decrease was primarily due to lower employee costs, including bonus, recruitment and travel. The Company also cut spending for advertising, consulting, equipment and legal. Included in SG&A costs for the three months ended June 30, 2016 was $300,000 of indebtedness for legal fees owed to Tabatabai Investment Partners LP that was cancelled in exchange for shares of the Company's Common Stock. Further discussion of the terms of the issuance can be found in Note 5. Recent Developments.

Depreciation and amortization expense increased by $10,000 from $45,000 for the three months ended June 30, 2015 to $55,000 for the three months ended June 30, 2016. The increase was due to the capitalization of software development costs and assets purchased or acquired through capital leases.

Non-cash charges were $104,000 for the three months ended June 30, 2016 compared to $95,000 for the three months ended June 30, 2015. The increase in non-cash charges was due to depreciation, which was caused by more asset purchases and capitalization of software development.

Six months ended June 30, 2016 compared with the six months ended June 30, 2015

Revenue for the six months ended June 30, 2016 decreased by 1% to $4,799,000 as compared to $4,834,000 for the six months ended June 30, 2015. During the first half of 2016, *DATATRAK* recorded revenue related to 138 contracts compared to 145 contracts during the first half of 2015. For the six months ended June 30, 2016, $4,477,000 of revenue was the result of contracts that were in backlog at December 31, 2015 and $322,000 was the result of new business signed since January 1, 2016. For the six months ended June 30, 2015, $4,583,000 of revenue was generated from contracts that were in backlog at December 31, 2014 and $251,000 was the result of new business signed since January 1, 2015.

The Company recorded $2,320,000 in revenue during the six months ended June 30, 2016 compared to $1,571,000 during the six months ended June 30, 2015 from significant multi-year enterprise license agreements. The Company will continue to recognize the remaining, non-refundable, aggregate deferred revenue on the enterprise license agreements ratably, or in line with the acceleration of points contained in the license agreement, over the remaining lives of each respective license period. The enterprise license agreements totaled $28.1 million of original contract value.

Direct costs of revenue decreased 27%, from $1,105,000 for the six months ended June 30, 2015, to $811,000 for the six months ended June 30, 2016. The $294,000 decrease is mainly due to lower employee costs, but was partially offset by higher internet service provided ("ISP") costs. Certain expenses were reclassified during 2016 to more accurately reflect ISP costs. The Company's gross margin was 83% for the six months ended June 30, 2016 compared to 77% for the six months ended June 30, 2015.

SG&A expenses include all administrative personnel costs, sales and software development costs, stock compensation and all other expenses not directly chargeable to a specific contract. SG&A expenses decreased by $2,643,000, or 44%, to $3,407,000 from $6,050,000 for the six months ended June 30, 2016 and 2015, respectively. The decrease was primarily due to lower employee costs, including bonus, recruitment and travel. The Company also cut spending for advertising, consulting, equipment and legal Included in SG&A costs for the three months ended June 30, 2016 was $300,000 of indebtedness for legal fees owed to Tabatabai Investment Partners LP that was cancelled in exchange for shares of the Company's Common Stock. Further discussion of the terms of the issuance can be found in Note 5. Recent Developments.

Depreciation and amortization expense increased by $28,000 from $86,000 for the six months ended June 30, 2015 to $114,000 for the six months ended June 30, 2016. The increase was due to the capitalization of software development costs and assets purchased or acquired through capital leases.

Non-cash charges were $348,000 for the six months ended June 30, 2016 compared to $185,000 for the six months ended June 30, 2015. The year-over-year increase in non-cash charges was due to depreciation, which was caused by more asset purchases and capitalization of software development, and higher stock compensation due to the purported amendment of the 2013 Omnibus Plan which accelerated the vesting of certain stock options.

Liquidity and Capital Resources

The Company's principal sources of cash are existing cash and cash flow from operations. Contracts with 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. The Company records 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. *DATATRAK*'s primary cash needs are to fund normal working capital requirements.

On April 8, 2016, *DATATRAK* entered into a convertible promissory note ("Note") with Tabatabai Investment Partners LP, a related party, which is controlled by Mr. Tabatabai, Chairman of the Board of Directors of the Company. An amendment to the Note was approved on August 5, 2016. The Note provides for monthly draws on the first day of each month through March 31, 2017 when the cash balance of the Company is less than a minimum threshold amount or upon request by the Company. The maximum monthly draw is limited to the difference between the minimum threshold amount and the Company's cash balance, or a draw by the Company of up to $750,000, up to an aggregate of $1,500,000 during the term of the Note. The Note carries an interest rate of twelve percent on outstanding draws and matures on June 30, 2017. At any time prior to or on the maturity date, Tabatabai Investment Partners LP has the option to convert all or any portion of the principal balance and accrued but unpaid interest then outstanding under the Note into shares of the Company's Common Stock, calculated by dividing the amount being converted by $3.50. As of the maturity date, the Note permits the repayment of draws and interest to be in the Company's Common Stock at market prices, calculating the number of shares of the Company's Common Stock to be issued by dividing the amount being converted by $3.50. The Note includes customary default, change control and acceleration provisions. There have been no draws by the Company under this agreement through June 30, 2016.

The Company entered into a Stock Purchase Agreement ("SPA") with Tabatabai Investment Partners LP, to issue Company Common Stock in exchange for receiving $250,000 on April 8, 2016. It was also agreed that Tabatabai would cancel $300,000 of indebtedness in exchange for a number of shares of Common Stock of *DATATRAK* equal to the amount of $300,000 divided by the price per share equal to $3.50. Common Shares totaling 157,142 were issued to Tabatabai Investment Partners LP based on a market price of $3.50 under this agreement as of April 5, 2016.

Cash Flow

A summary of operating, investing and financing cash flow activities are shown in the following table for the six months ended June 30, 2016 and 2015 (rounded to the nearest thousand):

	Six Months Ended June 30,	
	2016	2015
Cash Flow Summary:		
Provided by (used in) operating activities	$ 185,000	$ (1,728,000)
Used in investing activities	(502,000)	(261,000)
Provided by (used in) financing activities	158,000	(58,000)
Decrease in cash and cash equivalents	$ (159,000)	$ (2,047,000)
Cash balance at beginning of period	1,355,000	3,510,000
Cash balance at end of period	$ 1,196,000	$ 1,463,000

The Company's net cash flow from operations was $185,000 for the six months ended June 30, 2016 compared to $(1,728,000) for the six months ended June 30, 2015. The $1,913,000 increase in cash flow from operations was primarily due to the $2,871,000 change in the net income during the six months ended June 30, 2016 compared to the six months ended June 30, 2015, which was caused by a significant reorganization that took place during the first quarter of 2016. Operating assets and liabilities decreased by $(1,120,000) during the six months ended June 30, 2016 compared to the six months ended June 30, 2015 mainly due to the decrease

in deferred revenue and accrued expense changes year-over-year. The net cash flow from operations was positively impacted by a $162,000 increase in non-cash items, which includes depreciation and stock compensation expense, from the six months ended June 30, 2015 to the six months ended June 30, 2016.

The Company's net change in cash flow from investing activities was $(241,000) due a rise in the capitalization of software development costs year-over-year.

Net cash of $158,000 was provided by financing activities for the six months ended June 30, 2016 compared to $(58,000) used during the six months ended June 30, 2015. Financing activities for the six months ended June 30, 2016 included cash outlays of $(100,000) for the repayment of capital lease related debt and notes payable, which was offset by cash inflows of $250,000 received in connection with the SPA and $8,000 from the Employee Stock Purchase Plan. In the six months ended June 30, 2015, $(77,000) was used for the repayment of capital lease related debt and notes payable, which was partially offset by the Employee Stock Purchase Plan created cash inflows of $19,000.

As a result of the changes above, the cash balance at June 30, 2016 was $1,196,000 compared to $1,463,000 at June 30, 2015.

DATATRAK's "days sales outstanding" was 38 days at June 30, 2016 compared to 41 days at December 31, 2015. Trade accounts receivable (net of allowance for doubtful accounts of $15,000) was $722,000 at June 30, 2016 and $896,000 at December 31, 2015.

Management believes *DATATRAK* will have available funds in order to meet its short-term working capital requirements for at least the next 12 months. However, it must be noted that the prior board and former CEO did spend a significant amount of the Company's assets on delaying and attempting to win the recent shareholder director election and on other non-recurring events such as the patent litigation and the investigation of the former CEO and his alleged misconduct. At June 30, 2016, the Company had working capital of $(1,180,000) compared to working capital of $(2,362,000) as of December 31, 2015. In order to address any working capital needs the Company may face during 2016, on April 8, 2016, *DATATRAK* entered into a convertible promissory note ("Note") with Tabatabai Investment Partners LP, a related party, which is controlled by Mr. Tabatabai, Chairman of the Board of Directors of the Company. An amendment to the Note was approved on August 5, 2016. The Note provides for monthly draws on the first day of each month through March 31, 2017 when the cash balance of the Company is less than a minimum threshold amount or upon request by the Company. The maximum monthly draw is limited to the difference between the minimum threshold amount and the Company's cash balance, or a draw by the Company of up to $750,000, up to an aggregate of $1,500,000 during the term of the Note. The Note carries an interest rate of twelve percent on outstanding draws and matures on June 30, 2017. At any time prior to or on the maturity date, Tabatabai Investment Partners LP has the option to convert all or any portion of the principal balance and accrued but unpaid interest then outstanding under the Note into shares of the Company's Common Stock, calculated by dividing the amount being converted by $3.50. As of the maturity date, the Note permits the repayment of draws and interest to be in the Company's Common Stock at market prices, calculating the number of shares of the Company's Common Stock to be issued by dividing the amount being converted by $3.50. The Note includes customary default, change control and acceleration provisions. There have been no draws by the Company under this agreement through June 30, 2016.

The Company entered into a Stock Purchase Agreement ("SPA") with Tabatabai Investment Partners LP, to issue Company Common Stock in exchange for receiving $250,000 on April 8, 2016. It was also agreed that Tabatabai would cancel $300,000 of indebtedness in exchange for a number of shares of Common Stock of *DATATRAK* equal to the amount of $300,000 divided by the price per share equal to $3.50. Common Shares totaling 157,142 were issued to Tabatabai Investment Partners LP based on a market price of $3.50 under this agreement as of April 5, 2016.

Furthermore, *DATATRAK* continuously evaluates its cost structure to timely match its cost structure with anticipated revenue and backlog. Although the Company has recently made strategic investments in its infrastructure in order to support longer-term growth, *DATATRAK* will continue to carefully evaluate its cost structure and implement cost cutting measures if its revenue and sales trend performance falls below its minimum expectations. In such an event, *DATATRAK* may also require additional short-term funding. The Company may need to raise additional funds to offset delays or cancellations of existing contracts, insufficient generation of new contracts, or to cover liquidity needs beyond 2016. *DATATRAK* 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 the existing shareholders.

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 quarterly report, 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, cost reductions, cash management alternatives and working capital requirements, exploration of strategic alternatives, raising additional funds, income and earnings per share or statements expressing general optimism about future results, are forward-looking statements. In addition, words such as "expects," "anticipates," "intends," "plans," "believes," "estimates," variations of such words, and similar expressions are intended to identify forward-looking statements. 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 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 evolving 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 outcome of the Company's litigation; the costs associated with maintaining and/or developing the *DATATRAK ONE® Unified Experience*™ software suite; uncertain impact on customers and contracts as a result of the recent or future economic downturns; 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.

B. Date and State (or Jurisdiction) of Incorporation:

Ohio, July 17, 1991

C. The issuer's primary and secondary SIC Codes;

The primary and secondary SIC codes are 7374 and 7372, respectively.

D. The issuer's fiscal year end date;

December 31st

E. Principal products or services, and their markets;

The Company's products were originally developed to provide data to sponsors of clinical research trials faster and more efficiently than other competing systems, including paper-based solutions. Automating data entry and review procedures under a single architecture can save time in the drug development and medical device approval process, and possibly result in enhanced patient safety. The *DATATRAK* system consists of numerous modules designed for custom configurability to each clinical research process. The Company initially provides a set of electronic case report forms specific to the protocol of each clinical trial. Each patient's casebook is available for data entry by the respective research site participating in the clinical trial via a secure connection over the Internet. Once clinical trial data has been collected and entered, the clinical trial sponsor, or other contracted vendor, can review the data remotely from any internet connected device. As the data is reviewed and cleansed of all entry errors, the system generates standard and ad-hoc reports to facilitate the data cleaning process and to monitor patient safety. Finally, the software's export feature allows completed data and reports to be transmitted directly to a clinical trial sponsor's in-house database or for FDA submission – all in real-time.

The *DATATRAK ONE® Unified Experience*™ software suite provides the following capabilities: CTMS; EDC, including medical coding; digitized electrocardiograms; image collection, viewing and storing capabilities; interactive response technologies, including randomization and clinical supply management; safety case management; clinical trial design, including mid-study changes; clinical file repository for data and study assets; content-based training supported by a learning management system ("LMS"), and workgroup

collaboration capabilities. Additional enhancements in late 2014 provided analysis and reporting functionality across solutions, specifically *UX EDC*™ and *UX RTSM*™ through the Cross-Study toolset. Extensive work was completed in 2016 on the next generation CTMS solution, *UX CTMS 360*™, which again leverages cross solution functionality in reporting and analysis. The Company believes the new solution will transform how the industry measures return on investment ("ROI") on software purchases, opening the door for continued increase in multi-solution purchases by current and potential clients.

DATATRAK built its multi-component, comprehensive solution through a single, unified clinical research platform leveraging a single database architecture and expanded this concept to include services delivery from the *DATATRAK* Clinical and Consulting Services ("DCCS") group. The Company delivers a complete portfolio of software products designed to accelerate the reporting of clinical research data from sites to sponsors and ultimately regulatory authorities more efficiently than loosely integrated technologies. The *DATATRAK ONE*® unified software solution, deployed worldwide through its cloud offering, supports pre-clinical and Phase I – Phase IV drug and device studies in multiple languages throughout the world.

DATATRAK Clinical and Consulting Services, or DCCS, offers support to our clients in the Preclinical and Phase I – Phase IV trials. Starting with the final protocol, DCCS can conduct most clinical data management services from study start-up through study close-out. In 2015, *DATATRAK* discontinued Clinical Data Manager ("CDM") services that were seen as competitive with our client base. The *DATATRAK* Project Management team tracks study deliverables, including interim data transfers if required by the client, or data cuts, data locks and ad-hoc requests. As the study comes to a close, DCCS assists in the finalization or 'locking' of the database and performs the study data archival. In addition to clinical trial specific services, DCCS also offers clinical and technology consulting as well as rescue study and migration expertise.

DATATRAK has partner and enterprise transfer programs to empower customers to design, deploy and manage their clinical trials independently through the Company's cloud-based delivery. *DATATRAK* has found that customers desire to be as independent as possible in the performance of their clinical trials. This trend is another growth aspect of the industry that is believed to be gaining momentum.

7) Describe the Issuer's Facilities

As of June 30, 2016, the Company was leasing approximately 4,300 square feet of office space in Mayfield Heights, Ohio. This space is used for its headquarters and U.S. operations. In addition, *DATATRAK* has U.S. based operations in Bryan, Texas, where the Company leases approximately 2,300 square feet of office space. The Company had leased approximately 6,400 square feet of office space in Cary, North Carolina. *DATATRAK* entered into an assignment agreement for the office space in Cary, North Carolina, which was effective as of April 5, 2016 and no longer bears any financial liability for the lease. The Company entered into a sublease agreement as of July 7, 2016 for the 14,000 square feet of office space in Chicago, Illinois in order to mitigate the expense associated with the original lease. For additional information regarding the master lease for the Chicago office space, see Note 7. Operating Leases to the condensed consolidated financial statements included in this report.

8) Officers, Directors, and Control Persons

A. The names of Officers and Directors as of June 30, 2016 are as follows:

Name	Position
Alex Tabatabai	Chairman of the Board of Directors
	Chairman of the Audit Committee
Jack H. Jacobs	Director
	Chairman of the Compensation Committee
	Chairman of the Nominating & Governance Committee
James R. Ward	Chief Executive Officer and President
	Director
Julia Henderson	Chief Financial Officer and Treasurer

The following persons are control persons as they beneficially owned 5% or more of *DATATRAK* stock as of June 30, 2016:

Tabatabai Investment Management LLC (f/k/a	540 N. Dearborn St. #101257 Chicago, IL 60610	348,932 Common Shares

Arosa Investment Management LLC)*		

*Tabatabai Investment Management LLC is controlled by Alex Tabatabai, Chairman of the Board of Directors of the Company.

The disclosure is limited to those whose holdings the Company knows or can verify.

B. Legal/Disciplinary History.

1. A conviction in a criminal proceeding or named as a defendant in a pending criminal proceeding (excluding traffic violations and other minor offenses);
None

2. The entry of an order, judgment, or decree, not subsequently reversed, suspended or vacated, by a court of competent jurisdiction that permanently or temporarily enjoined, barred, suspended or otherwise limited such person's involvement in any type of business, securities, commodities, or banking activities;
None

3. A finding or judgment by a court of competent jurisdiction (in a civil action), the Securities and Exchange Commission, the Commodity Futures Trading Commission, or a state securities regulator of a violation of federal or state securities or commodities law, which finding or judgment has not been reversed, suspended, or vacated; or
None

4. The entry of an order by a self-regulatory organization that permanently or temporarily barred suspended or otherwise limited such person's involvement in any type of business or securities activities.

None

C. Beneficial Shareholders. The following persons beneficially own more than 10% of *DATATRAK* Common Stock as of June 30, 2016:

Tabatabai Investment Management LLC (f/k/a Arosa Investment Management LLC)*	540 N. Dearborn St. #101257 Chicago, IL 60610	348,932 Common Shares

*Tabatabai Investment Management LLC is controlled by Alex Tabatabai, Chairman of the Board of Directors of the Company.

The disclosure is limited to those whose holdings the Company knows or can verify.

9) Third Party Providers

Please provide the name, address, telephone number, and email address of each of the following outside providers that advise your company on matters relating to operations, business development and disclosure:

Legal Counsel
Calfee Halter & Griswold LLP
The Calfee Building
1405 East Sixth St.
Cleveland, OH 44114
Phone: (216) 622-8200
info@calfee.com

Thompson Hine LLP
3900 Key Center, 127 Public Square
Cleveland, OH 44114
Phone: (216) 566-5500
Derek.Bork@ThompsonHine.com

Ogletree Deakins
127 Public Square #4100
Cleveland, OH 44114
Phone: (216) 241-6100
Bruce.Hearey@Ogletreedeakins.com

Auditor
BDO USA, LLP
330 N. Wabash Ave.
Suite 3200
Chicago, IL 60611
Phone: (312) 856-9100
EEvers@BDO.com

Other Advisor:
DiCillo & Associates
7500 Town Centre Dr.
Suite 500
Broadview Heights, OH 44147
Phone: (216) 377-1950
ddicillo@greatlakescpa.net

10) Issuer Certification

I, James R. Ward, Chief Executive Officer and President of *DATATRAK* International, Inc., certify that:

1. I have reviewed this quarterly disclosure statement of *DATATRAK* International, Inc.;

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

3. Based on my knowledge, the financial statements, and other financial information included or incorporated by reference in this disclosure statement, fairly present in all material respects the financial condition, results of operations and cash flows of the issuer as of, and for, the periods presented in this disclosure statement.

Date: August 8, 2016

/s/ James R. Ward

James R. Ward

Chief Executive Officer and President

10) Issuer Certification (continued)

I, Julia Henderson, Chief Financial Officer of *DATATRAK* International, Inc., certify that:

1. I have reviewed this quarterly disclosure statement of *DATATRAK* International, Inc.;

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

3. Based on my knowledge, the financial statements, and other financial information included or incorporated by reference in this disclosure statement, fairly present in all material respects the financial condition, results of operations and cash flows of the issuer as of, and for, the periods presented in this disclosure statement.

Date: August 8, 2016

/s/ Julia Henderson

Julia Henderson

Chief Financial Officer, Treasurer (Principal Financial Officer)