Zacks Small-Cap Research

March 23, 2011
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DATATRAK International (DATA.PK-OTC)

DATA: If You Build It They Will Come

Current Recommendation	**Outperform**
Prior Recommendation	N/A
Date of Last Change	09/12/2010
Current Price (03/22/11)	$0.84
Six- Month Target Price	**$3.00**

OUTLOOK

DATATRAK International, Inc. is a global technology and services company delivering electronic clinical (eClinical) solutions to support clinical research. Its software suite and service offerings are used to collect, review, report, store and submit to regulatory agencies clinical trial data electronically. While the competition uses an integrated heterogeneous solution (information silos), DATATRAK uses a unified system. The result is seamless communication, optimized data flow and lower costs. The products within the information silos were never designed to work together and "Real time" communications per customers is more like 24 hrs…not bad, but if a patient in site #102 is having an adverse reaction and a similar patient at site #3 has the potential to suffer a similar event…the "not bad" could cost a life.

SUMMARY DATA

52-Week High	**$1.01**
52-Week Low	**$0.30**
One-Year Return (%)	**154.54**
Beta	**1.42**
Average Daily Volume (sh)	**1,871**
Shares Outstanding (mil)	**14**
Market Capitalization ($mil)	**$12**
Short Interest Ratio (days)	**0.12**
Institutional Ownership (%)	**9**
Insider Ownership (%)	**8**
Annual Cash Dividend	**$0.00**
Dividend Yield (%)	**0.00**
5-Yr. Historical Growth Rates	
Sales (%)	**-21.5**
Earnings Per Share (%)	**N/A**
Dividend (%)	**N/A**
P/E using TTM EPS	**84.0**
P/E using 2011 Estimate	**21.3**
Zacks Rank	**3**

Risk Level	**High**
Type of Stock	**Growth**
Industry	**Comp-Periph Eqp**
Zacks Rank in Industry	**6 of 15**

ZACKS ESTIMATES

Revenue
(in millions of $)

	Q1 (Mar)	Q2 (Jun)	Q3 (Sep)	Q4 (Dec)	Year (Dec)
2009	2.1 A	1.83 A	1.55 A	1.46 A	6.94 A
2010	1.67 A	1.88 A	1.81 A	2.01 A	7.37 A
2011	2.00 E	2.02 E	2.07 E	2.12 E	8.22 E

Earnings per Share
(EPS is operating earnings before non recurring items)

	Q1 (Mar)	Q2 (Jun)	Q3 (Sep)	Q4 (Dec)	Year (Dec)
2009	-$0.06 A	-$0.01 A	-$0.03 A	-$0.04 A	-$0.14 A
2010	$0.00 A	$0.00 A	$0.00 A	$0.00 A	$0.01 A
2011	$0.01 E	$0.01 E	$0.01 E	$0.01 E	$0.04 E

Zacks Projected EPS Growth Rate - Next 5 Years % **20**

(*EPS may not sum do to changes in share count or rounding)

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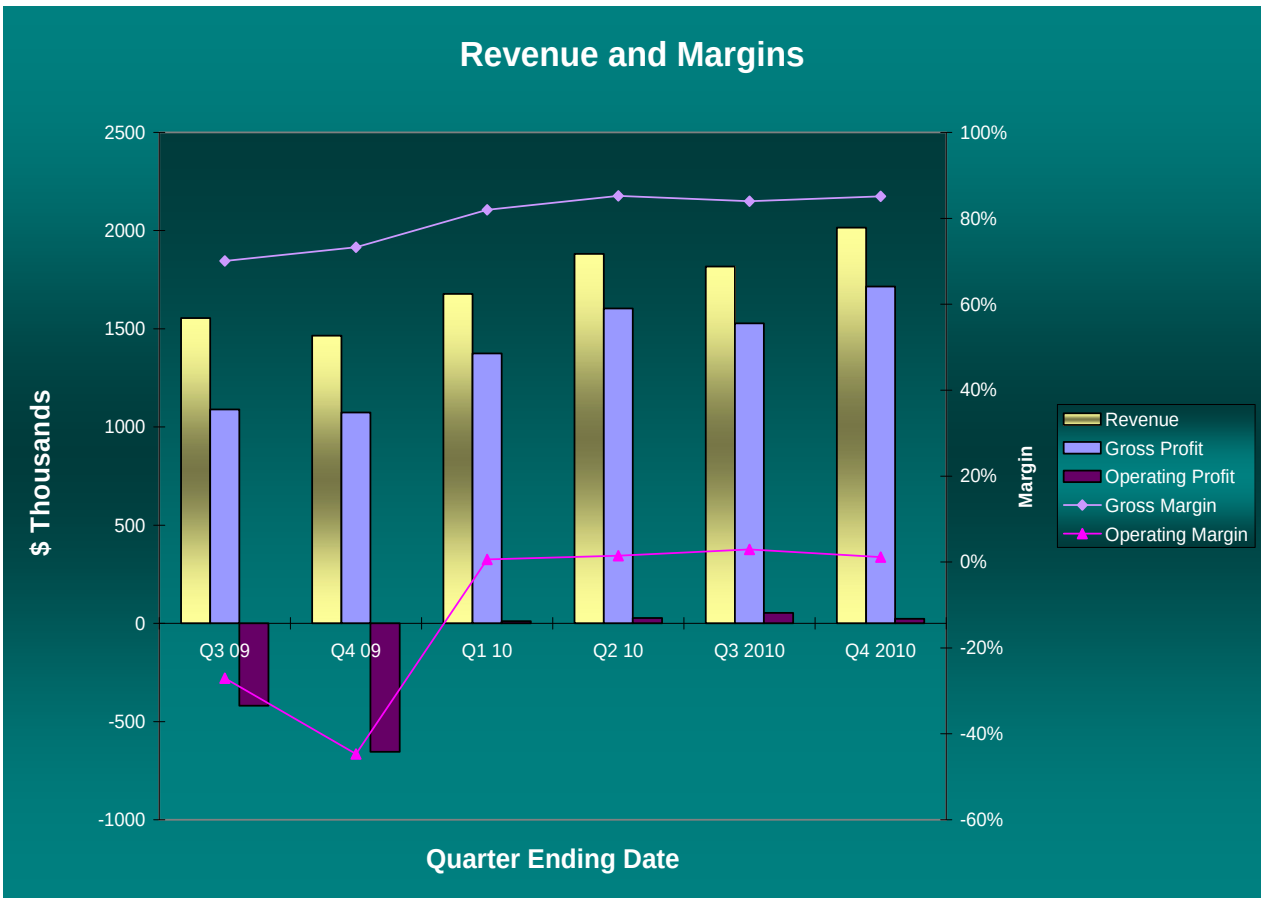
Revenue and New Contracts at Two and Three Year Highs.

On March 22, 2011 DATA announced results for the fourth quarter of fiscal year 2010 ending December 2010. Revenue increased to $2,014,851 compared to $1,464, 441 in the same period of 2009. Sequentially the firm's top-line improved by 10.9%. Gross profit margin improved to 85% compared to 73% for the three months ended December 30, 2009. The improvement in the Company's gross margin reflects the increase in revenue and a 23% reduction in direct costs.

Looking at future growth, the fourth quarter of 2010 marked the highest quarter in three years for new contracts with over $3 million in dollar value signed.



Backlog and Cash Take a Breather

As of December 30th 2010 cash stood at $1,026,369 an increase over the December 31, 2009 cash balance of $947,984. Sequentially cash fell from last quarter's mark of $1,172,772.

Looking at Backlog, DATA saw an increase from $9.5 million at December 31, 2009 to $11.2 million at December, 2010. Sequentially backlog fell from $11.4 million in the third quarter of 2010, which represented first decline after five consecutive quarter-over-quarter increases in backlog.

The firm announced the formation of a new services group – DATATRAK Clinical and Consulting Services, focused on promoting its Connect Partners' services and supporting clients' clinical data management and design needs.

For the year ended December 31, 2010, DATATRAK's income from operations was $113,000 (0.01 EPS) compared to $(1,898,000) for the year ended December 31, 2009. This includes the following;

- Reversal of severance expense of $172,000,
- Research and development expense of $918,000
- Stock compensation expense of $268,000,
- Non-cash items of $448,000.

The 2009 loss from operations of $(1,898,000) included;

- Severance expense of $551,000,
- Research and development expense of $1,067,000,
- Stock compensation expense of $77,000,
- Non-cash items of $686,000.

Without the following items Net Income was $101,109 for 2010 and ($1,907,854) in 2009.

Our Take

DATATRAK's unified system is clearly superior to integrated solutions. That said maybe the firm is not yet seeing explosive top–line growth right now because firm's look at the financial power of a firm trading on the pink sheets. It is important to realize just how far DATA has come since 2008. Just three short years ago backlog was trending down, the firm was incurring losses, had a $3 million dollar balloon debt payment due, and cash flow was negative $1.8 million. Flash forward to the recently completed 2010 and the company shows backlog trending up, no balance sheet debt, a profit, and positive cash flow. As these metrics continue to improve the growth will follow. If you build it they will come. We would add shares at these levels.

Item	2008	2009	2010
Backlog:	Trending Down	Trending Up	Trending Up
Income/Loss:	$(17) M	$(1.9) M	Profit
Balance Sheet Debt:	$3M Note	No Debt	No Debt
Cash Flow:	$(1.8) M	$(1.4) M	Turned Cash Flow Positive in Q2
Auditor Opinion:	Noted $3M Balloon Debt Payment Due	Going Concern	Clean

INVESTMENT THESIS

Mayfield Heights, Ohio DATATRAK International, Inc., is a global technology and services company providing the only unified suite of eClinical software delivered in one database and utilizing one user interface providing electronic data capture (EDC), interactive voice response systems, medical coding, web-based randomization, clinical trial management, clinical data management, drug inventory management, digitized electrocardiograms, image collection, viewing and storing capabilities, and workgroup collaboration capabilities. DATATRAK ONE™ is the company's unified clinical approach that includes the cloud based eClinical platform as well as comprehensive consulting, professional services and support following a unified clinical process. DATATRAK and its partners apply this approach to assist customers in the collection and reporting of clinical research data from sites to sponsors and ultimately to regulatory authorities. DATATRAK's vision is to be the clinical enterprise solution to safely accelerate every drug, every biologic and every device *from concept to cure.*

Clinical Research Industry

DATATRAK's customers are sponsor companies and CROs that perform clinical trials in the pharmaceutical, biotechnology, and medical device industries. These industries are driven by regulatory requirements which mandate that new drugs and medical devices be adequately tested in clinical trials prior to marketing these drugs and devices.

Competitive pressures are forcing the pharmaceutical and biotechnology industries to become more efficient when developing new products. To improve returns on research and development investments, pharmaceutical and biotechnology companies are continuing to develop new products, while at the same time attempting to shorten product development timelines. These efforts have placed more drugs into the clinical development process and have increased the pressure for companies to develop products faster in order to maintain growth and continue to achieve acceptable returns on research and development expenditures. Sponsors of clinical trials have attempted to create process efficiencies, control fixed costs and expand capacity by outsourcing clinical research activities.

"Growing clinical trial complexity continues to challenge the ability of pharmaceutical and biotechnology companies to contain the ever-rising cost of developing new drugs."

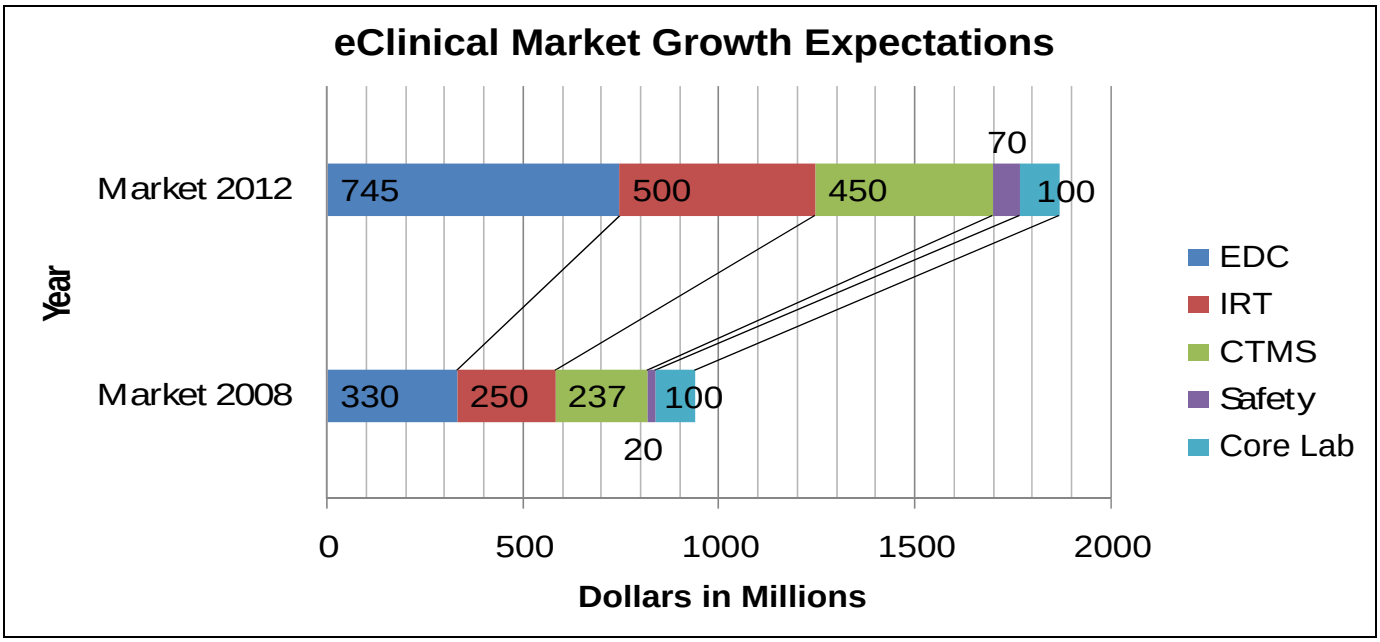
*Tufts Center for the Study of Drug Development

The old way

Under the traditional method of clinical research, clinical trial data from each patient is recorded and maintained on paper in a binder, known as a case report form. A separate case report form is maintained for each patient. Clinical research associates then visit research sites to review the clinical trial data for accuracy and integrity. During these visits, known as monitoring visits, the research associate must review each page of each case report form. These visits may last several days, and corrections to the case report forms are frequently required before the data can be delivered to the clinical trial sponsor. Several weeks, or even months, of data may be reviewed during each monitoring visit. At the completion of a monitoring visit, the completed case report form pages are physically transferred to a central location where the data is then entered into a database for statistical compilation. Using this method of data collection and quality control, the duration of the clinical trial process, from patient visit to delivery of clean data to the clinical trial sponsor, can range from six to nine months. Such delays are significant because errors or trends may not be detected until long after the interaction between the patient and clinical investigator.

Backdrop of Growth
Expectations of eClinical market are that it is set to nearly double from 2008 to 2012 and DATATRAK, with its superior product, is poised to capture that growth.

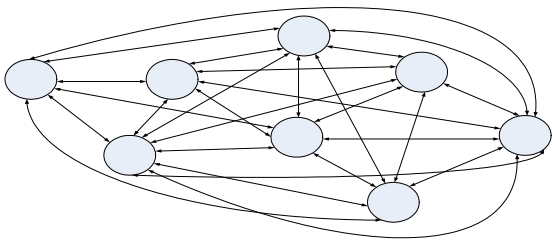
- The 2007 EDC market opportunity was roughly $330 million and is expected to increase to roughly $745 million in 2012. The growth rate is 15% per year through 2012.
- The IRT Market [Randomization and Inventory Management] was valued at $250 million in 2008 with a growth rate of around 15% a year.
- The Safety Market [Coding and PMS] opportunity was approximately $20 million as of 2008 and is expected to grow roughly to $70 million by 2012.
- The CTMS Market Size [CTMS] generated revenues of $237.6 million in 2007 and is expected to grow at a rate of 14.5 percent per year until 2014.
- The Core Lab Market [ECGs and Images] is valued at $100 million in 2008



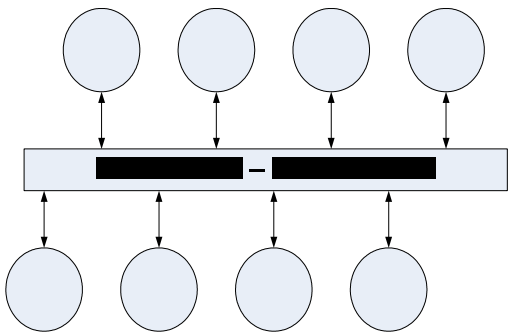
Unified Solutions versus Integrated.

While acquiring products which creates the information silos and integrated IT approach may provide a short term fix, the result is that integration tends to lead to errors and rising costs from the manual management of data, systems and user accounts. It also leads to multiple vendor contracts which in turn brings up the price. System upgrades tend to be difficult and rare.

Integrated Solutions



Unified Solutions



Unified solutions on the other hand provide improved usability through one database and one interface. The number of vendors to manage is also reduced and the cost is therefore less. Further the unified system is simply designed with less moving parts and is less susceptible to crashes.

Integrated	*Unified*
Silos of Automation	One System
Silos Never Intended / Designed to Talk	Seamless Module Communication
Silos Built Independently	Common Vendor, Common Technology
Silos need Bridges to Communicate	One Underlying Framework
Bridges Limit Data Traffic	Optimized Data Flow
Susceptible to Crashes and Bugs	Fewer Moving Parts = Fewer Problems
Promise of Real -Time Data Visibility Often Not Delivered	Data Always Visible
Increased Maintenance Costs	Lower Maintenance Costs
Process Reengineering Hard	Process Reengineering Easy
Higher trial budget costs	Lower trial budget costs

Attracting Attention

On June 23, 2010 Phase Forward Incorporated (PFWD), a leading provider of data management solutions for clinical trials and drug safety, announced that it had agreed to merge with Oracle Corporation ("Oracle") and Pine Acquisition Corporation, a Delaware corporation and a wholly-owned subsidiary of Oracle. Phase Forward is a leading provider of integrated data management solutions for clinical trials and drug safety. Phase Forward's products and services have been utilized in over 10,000 clinical trials involving more than 1,000,000 clinical trial study participants at over 300 organizations and regulatory agencies worldwide including. This $685 million deal creates a significant competitor but it also legitimizes the growth potential of the space and shows the strategic importance of the industry.

The firm has four characteristics that should enable it to outperform the industry and the competition.

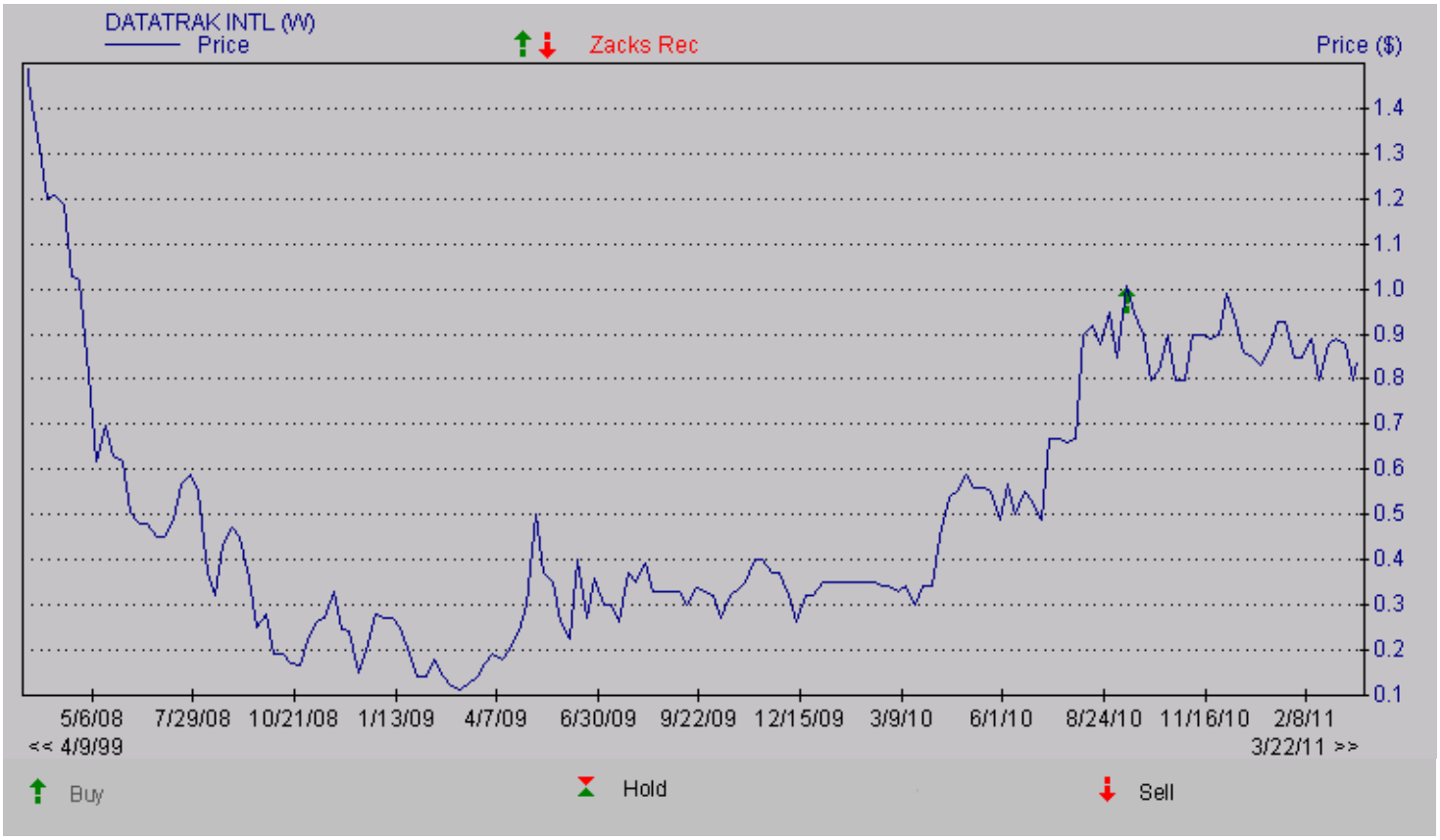
- Superior Technology
- A Debt Free Balance Sheet
- Growing Backlog
- Increasing Market Share in a Growing Complex Industry.

As complexity and regulatory challenges ratchets up in clinical trials, paper based methods as well as integrated systems will prove more expensive and less reliable. Investors that buy the stock today they are essentially buying a firm that emerged from the recession of 2008/2009 with no debt, has grown its backlog in five of the last six quarters, and continues to gain traction in clinical research.

RISKS

- Changes in the regulatory environment could lead to a decrease in the industry's research and development expenditures.
- In the EDC market, the firm must compete with the traditional paper method of collecting clinical trial data,. The major competitors in the EDC market also include in house development teams, EDC software vendors and single component solutions.

HISTORICAL ZACKS RECOMMENDATIONS



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