

DOCUMENT CAPTURE TECHNOLOGIES, INC.

Form 10-K

April 15, 2009

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-K

☒ ANNUAL REPORT UNDER SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the Fiscal Year Ended December 31, 2008

☐ TRANSITION REPORT UNDER SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the transition period from to

Commission File Number: 000-25839

DOCUMENT CAPTURE TECHNOLOGIES, INC.
(Name of small business issuer in its charter)

Delaware
(State or other jurisdiction of
incorporation or organization)

59-3134518
(I.R.S.Employer
Identification Number)

1798 Technology Drive
Suite 178
San Jose, California 95110
(Address of principal executive offices, Zip code)

408-436-9888 ext. 207
(Issuer's telephone number, including area code)

Securities registered pursuant to Section 12(g) of the Act: Common Stock, par value \$0.001 per share

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

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

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

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (§229.405 of this chapter) is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. ☐

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of “large accelerated filer,” “accelerated filer” and “smaller reporting company” in Rule 12b-2 of the Exchange Act.

Large accelerated filer ☐ Accelerated filer ☐ Non-accelerated filer ☐ Smaller reporting company ☒

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

The aggregate market value of the issuer’s voting and non-voting common equity held by non-affiliates (8,870,256 shares) was approximately \$3,902,913, based on the average closing bid and ask price of \$0.44 for such common equity as of June 30, 2008.

As of March 31, 2009, there were outstanding 18,443,770 shares of the issuer’s Common Stock, par value \$0.001.

DOCUMENTS INCORPORATED BY REFERENCE

None

FORWARD LOOKING STATEMENTS

Some of the statements under “Management’s Discussion and Analysis of Financial Condition or Plan of Operations,” and “Description of Business” in this Annual Report on Form 10-K are forward-looking statements. These statements involve known and unknown risks, uncertainties and other factors that may cause our actual results, levels of activity, performance or achievements to be materially different from any future results, levels of activity, performance, or achievements expressed or implied by forward-looking statements.

In some cases, you can identify forward-looking statements by terminology such as “may,” “should,” “expects,” “plans,” “anticipates,” “believes,” “estimates,” “predicts,” “potential,” “proposed,” “intended,” or “continue” or the negative of these terms or other comparable terminology. You should read statements that contain these words carefully, because they discuss our expectations about our future operating results or our future financial condition or state other “forward-looking” information. There may be events in the future that we are not able to accurately predict or control. Before you invest in our securities, you should be aware that the occurrence of any of the events described in this Annual Report could substantially harm our business, results of operations and financial condition, and that upon the occurrence of any of these events, the trading price of our securities could decline and you could lose all or part of your investment. Although we believe that the expectations reflected in the forward-looking statements are reasonable, we cannot guarantee future results, growth rates, levels of activity, performance or achievements. We are under no duty to update any of the forward-looking statements after the date of this Annual Report to conform these statements to actual results.

DOCUMENT CAPTURE TECHNOLOGIES, INC

FORM 10-K

FOR THE FISCAL YEAR ENDED DECEMBER 31, 2008

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PART I

ITEM 1.

BUSINESS

Overview

Document Capture Technologies, Inc. (referred to herein as "we", "us", "our", "DCT" or "Company"), a Delaware corporation, develops, designs and delivers various imaging technology solutions to all types and sizes of enterprises including governmental agencies, large corporations, small corporations, small office-home office ("SOHO"), professional practices as well as consumers (referred to herein collectively as "Enterprises"). We are a market-leader in providing USB-powered scanning solutions to a wide variety of industries and market applications. Our patented and proprietary page-imaging devices facilitate the way information is stored, shared and managed in both business and personal use.

Syscan, Inc., our wholly-owned subsidiary, was incorporated in California in 1995 to develop and manufacture a new generation of contact image sensors ("CIS") that are complementary metal-oxide-silicon ("CMOS") imaging sensor devices. During the late 1990s, we established many technical milestones and were granted numerous patents for our linear imaging technology. Our patented CIS and mobile imaging scanner technology provides high quality images at extremely low power consumption levels allowing us to deliver compact scanners in a form ideally suited for laptop or desktop computer users who need a small lightweight device to scan or fax documents.

Our business model was developed and continues to evolve around intellectual property ("IP") driven products sold primarily to original equipment manufacturers ("OEM"), private label brands and value added resellers ("VAR"). Our image scanning products can be found in a variety of applications, including but not limited to, the following:

- Document and information management;
- Identification card scanners;
- Passport security scanners;
- Bank note and check verification;
- Business card readers;
- Barcode scanning; and
- Optical mark readers used in lottery terminals.

In the past ten years we have grown to be one of the largest manufacturers of page-fed scanning devices worldwide and we sell to several major brand companies including VISIONEER, PENTAX, BROTHER, DYMO-CARDSCAN, AMBIR TECHNOLOGY, DIGIMARC, BANKSERV and OMRON. Our vertically integrated design and manufacturing business model allows our customers to introduce new products to the market quickly and efficiently.

Current Market Opportunities, Strategies and Products

In the past decade, information management, including how information is retrieved, stored, shared and disseminated, has become increasingly important, and in many instances critical, for all Enterprises worldwide.

Confronted by exponentially increasing information through more and more channels, Enterprises employ a variety of resources for managing information. Our document/image-capture products can help transform business-critical information from paper, faxed and electronic forms, documents and transactions into a manageable digital format. Our solutions can manage the processing of millions of forms, documents and transactions annually, converting their content into information that is usable in database, document, content and other information management systems. We believe that our document/image-capture products enable organizations to reduce operating costs, obtain higher information accuracy rates and speed processing times.

Our document/image-capture solutions offer Enterprises a cost-effective and accurate alternative to manual data entry, a traditional approach that is typically a labor intensive, time consuming and costly method of managing the input of information into the Enterprise. Organizations can utilize our solutions to capture and store information electronically, and extract the meaningful content or data in a way that preserves the data's accuracy. As a result, we believe there is significant growth opportunity for our solutions to help simplify the way Enterprises manage information as well as other business applications.

Currently, all of our revenue is generated from sales of our document/image-capture products. Net revenue for the previous three years is (in thousands):

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Year Ended	Net Revenue
December 31, 2008	\$ 11,643
December 31, 2007	15,023
December 31, 2006	12,469

We offer several different image scanning product groups to meet the diverse needs of our customers. Although all our products are based on the same patented and proprietary technology, our product groups vary from one another by features and configurations. Our most popular product groups include our DocketPORT and TravelScan line of products.

DocketPORT

Our DocketPORT product group is our fourth generation of compact document/image-capture devices. Specific features of this product group include:

- High-speed Universal Serial Bus ("USB") powered;
- True duplex scanning capability (several models scan both sides of a two-sided document at once);
- 600 dots per inch ("DPI") optical resolution;
- Minimal power consumption;
- Extremely lightweight;
- Compliant with Restriction of Hazardous Substance ("RoHS");
- Internal 48-bit analog-to-digital conversion for three-color channels (red, green and blue);
- No power adapter required; and
- Scans any size document from business cards to legal size documents.

TravelScan

Our TravelScan products are entry-level document management products. These lightweight and convenient scanners are powered using a fixed USB cable. Our TravelScan products can be conveniently carried alongside laptops and require minimal additional work space. These products enable users to fax, email and organize all business documents with the "touch of a button." Specific features include:

- Full-Speed USB powered;
- 300 dots per inch ("DPI") optical resolution;
- Minimal power consumption;
- Extremely lightweight; and
- RoHS-Compliant with Restriction of Hazardous Substance.

Sales, Marketing and Distribution

Our sales and marketing efforts are designed to serve our direct customer base, rather than the end user of our products. We market and sell our products both domestically and internationally through a global network of more than 45 independent distributors and channel partners in North America, Europe and Asia. We select these independent entities based on their ability to provide effective field sales, marketing communications and technical support to our targeted markets. In addition, our products are sold through several retail and Internet-based channels.

Competition

We had several direct competitors to our document/image-capture products, in major worldwide markets (North America, Europe and Asia) during the year ended December 31, 2008. These competitors, in general, are under contract to pay us a royalty fee for the use of our intellectual property. To maintain our competitive advantage we maintain a high level of investment in research and development and focus on factory efficiency allowing us to provide superior time-to-market product cycles with the goal of manufacturing and delivering products to customers virtually defect free.

We believe that our competitive strengths include:

- Patented and proprietary-based products;
- Favorable and well established reputation, experience and presence in the USB-powered document/image-capture devices market;
- Superior customer relationships that allow us to identify and work closely with customers to meet market demands;
- Vertical integration design and manufacturing business model which reduces the time to introduce a new or improved product to the market;
- Broad distribution channels; and
- Product quality and performance.

Manufacturing and Raw Material Supply

Manufacturing. We purchase the majority of our finished scanner imaging products from Shenzhen Syscan Technology (“SST”), a wholly-owned subsidiary of Syscan Technology Holdings Limited (“STH”), the parent company of our former majority stockholder. See Part III, “Item 13: Certain Relationships and Related Transactions, and Director Independence.”

We purposely limit the manufacturing of our product to SST as this gives us better control over both the quality of our product and the price we pay for the product. We have established a pricing agreement with SST, which is negotiated periodically. From the early stages of product design and development, DCT engineers worked closely with SST’s production team to ensure optimal and cost effective manufacturing. The strategy of using only one subcontract manufacturer could be disadvantageous if SST becomes unable or unwilling to provide products to us in a timely manner. If this happens, we estimate it would take us approximately six to 12 months to establish a new subcontract manufacturer. To mitigate this exposure, we provide most of the critical components and tooling required to manufacture our proprietary products.

Raw Materials. SST purchases the raw materials, parts and components with the exception of the critical components as discussed above, which we provide. A limited number of components included in our products are obtained from a single supplier or a small group of suppliers. We have some controller chips that are sole-sourced, as they are specialized devices that can effectively control the cost of our product. We do not have any long-term or exclusive purchase commitments with any of our suppliers.

Where possible, we work with secondary suppliers to qualify additional sources of supply. To reduce the risk associated with using a sole supplier, we attempt to maintain strategic inventories of these sole-sourced components. To date, we have been able to obtain adequate supplies of the components used in the production of our document/image-capture products in a timely manner from existing sources. If in the future we are unable to obtain sufficient quantities of required materials, components or subassemblies, or if such items do not meet our quality standards, delays or reductions in product shipments could occur, which could harm our business, financial condition and results of operations.

Customers

A small number of customers have historically accounted for a substantial portion of our net sales. Total sales to significant customers (customers who represent more than 10% of our net sales) were 82% and 72% during the years ended December 31, 2008 and 2007, respectively. See Note 1 included in Part II, “Item 8: Financial Statements.” We expect that our largest customers will continue to account for a substantial portion of our net sales for the foreseeable future. Our largest customer rankings and their respective contributions to our net sales have varied and will likely continue to vary from period to period. We typically sell products pursuant to purchase orders that customers can generally defer without incurring a significant penalty. Currently, we do not have agreements with any of our key customers that contain long-term commitments to purchase specified volumes of our products. We believe that maintaining and continuing to strengthen customer relationships will play an important role in maintaining our leading position in the document/image-capture market.

Intellectual Property

While the success of our business depends more on such factors as our employees’ technical expertise and innovative skills, the success of our business also relies on our ability to protect our proprietary technology. Accordingly, we seek to protect our intellectual property rights in a variety of ways. Obtaining patents on our innovative technologies is one such way. We have multiple patents covering our document/image-capture technologies. These patents do not begin to expire until 2017.

Another way we seek to protect our proprietary technology and other proprietary rights is by requiring our employees and contractors to execute confidentiality and invention assignment agreements. We also rely on employee and third-party nondisclosure agreements and other intellectual property protection methods, including proprietary know-how, to protect our confidential information and our other intellectual property.

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Compliance with Environmental, Health and Safety Regulations

In July 2006, the European Union ("EU") began requiring all electronics products sold within the EU to be RoHS compliant pursuant to the European Directive 2002/95/EC as amended by European Directive 2003/108/EC(e). Beginning in January 2006, all DCT products offered were RoHS compliant. Additionally, we are currently completing REACH (Registration, Evaluation, Authorization and Restriction of Chemical substances) certification.

Research and Development

We have historically devoted a significant portion of our financial resources to research and development programs for both our current products and our future products, and we expect to continue to allocate significant resources to these efforts. Until November 2007, the majority of our research and development efforts were focused on our high definition ("HD") display technologies. During November 2007, we terminated our HD display research and development efforts. No HD-related research and development expenses were incurred during the year ended December 31, 2008. By terminating our HD display research and development efforts, we can focus our future research and development efforts and activities and financial resources on our core revenue generating document/image-capture products.

Our research and development expenses were \$712,000 and \$2,439,000 for the years ended December 31, 2008 and 2007, respectively. To date, all research and development costs have been expensed as incurred.

Our future success will depend, in part, on our ability to anticipate changes, enhance our current products, develop and introduce new products that keep pace with technological advancements and address the increasingly sophisticated needs of our customers. We intend to continue to develop our technology and innovative products to meet customer demands.

Backlog

We do not believe that backlog as of any particular date is meaningful as our sales are made primarily pursuant to standard purchase orders for delivery of products. Additionally, all of our customer orders are cancelable.

Seasonal Trends

Our sales generally have followed a seasonal trend. Historically, our sales have been higher in the second half of the year than in the first half of the year. This seasonal trend has occurred during the past several years, but there can be no assurance that it will continue in the future.

Employees

As of December 31, 2008, we employed 15 people on a full-time basis, 12 employees were located in the United States, two were located in China and one was located in Europe. Of the total, four were in product research and development and 11 were in sales and administration. None of our employees are represented by unions or collective bargaining agreements. We have experienced no work stoppages and believe that our employee relations are good.

Available Information

We file annual, quarterly and current reports, proxy statements and other information with the Securities and Exchange Commission. You may read and copy any document we file with the Commission at the Commission's public reference room at 100 F Street, N.E., Washington, D.C. 20549. Please call the Commission at 1-800-SEC-0330

for further information on the public reference rooms. Our Commission filings are also available to the public from the Commission's Website at www.sec.gov.

We make available free of charge our annual, quarterly and current reports, proxy statements and other information upon request. To request such materials, please contact our Corporate Secretary at 1798 Technology Drive Suite 178, San Jose, California 95110 or call 1-408-436-9888 ext. 207.

Additionally, many reports and amendments to reports filed pursuant to Sections 13(a) and 15(d) of the Securities Exchange Act of 1934, as amended, are available free of charge on our website at www.docucap.com as soon as reasonably practicable after we electronically file such material with, or furnish it to, the SEC. Information on our website and other information that can be accessed through our website are not part of this report.

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ITEM 1A.

RISK FACTORS

Risks Relating to Our Business

A significant percentage of our revenue is derived from sales to a few large customers, and if we are not able to retain these customers, or they reschedule, reduce or cancel orders, or delay or default on payments, our revenues would be reduced and our financial condition and cash flows would suffer.

Total sales to significant customers (customers who represent more than 10% of our net sales) were 82% and 72% during the years ended December 31, 2008 and 2007, respectively. See Note 1 included in Part II, "Item 8: Financial Statements." We expect that our largest customers will continue to account for a substantial portion of our net sales for the foreseeable future. None of our customers are obligated to purchase a minimum number of our products in the aggregate or during any particular period. We cannot provide assurance that any of our customers will continue to purchase our products at past or current levels.

The Company has experienced a history of recurring operating losses and may continue to incur losses for the foreseeable future.

Our net loss attributable to common stockholders totaled \$422,000 and \$1,913,000 for the years December 31, 2008 and 2007, respectively. Our accumulated deficit as of December 31, 2008 was \$32,831,000. We cannot provide assurance that we can achieve profitability in the future.

We subcontract the manufacturing of our image-capture products to one company and this reliance on one company exposes us to risk which could damage our reputation and adversely affect our business.

If our manufacturer (see Part III, "Item 13: Certain Relationships and Related Transactions, and Director Independence") becomes unable or unwilling to provide products to us in a timely manner, we may not be able to deliver our products to customers on time, which could increase our costs, damage our reputation or result in the loss of our customers. Although we have the right to utilize other manufacturers at any time, identifying and qualifying a new manufacturer to replace our current manufacturer could take 6 to 12 months.

We depend on a limited number of suppliers to provide the components and raw materials necessary to manufacture our products and any interruption in the availability of these components and raw materials used in our product could reduce our revenues.

Although many alternative suppliers exist, we rely on a single or limited number of suppliers for many of the significant components and raw materials required to manufacture our document/image-capture products. This reliance leads to a number of significant risks, including:

- Unavailability of materials and interruptions in delivery of components and raw materials from our suppliers;
 - Manufacturing delays caused by such unavailability or interruptions in delivery; and
 - Fluctuations in the quality and the price of components and raw materials.

We do not have any long-term or exclusive purchase commitments with any of our suppliers. Failure to maintain existing relationships with our current suppliers or failure to establish new supplier relationships in the future, could negatively affect our ability to obtain necessary components and raw materials in a timely manner. If we are unable to obtain ample supply of materials from our existing suppliers or alternative supply sources, we may be unable to satisfy our customers' orders, which could reduce our revenues and adversely affect relationships with our customers.

Our executive officers and key personnel are critical to our business and the loss of their services could adversely affect our business.

Our success depends to a significant degree upon the continuing contributions of our key executive officers and managers. Although we have employment agreements with most of these individuals, we cannot guarantee that we can retain these individuals. In addition, we have not obtained “key man” life insurance on the lives of any of the members of our management team.

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The authorization and issuance of “blank check” preferred stock could have an anti-takeover effect detrimental to the interests of our stockholders.

Our certificate of incorporation allows the Board of Directors to issue preferred stock with rights and preferences set by our board without further stockholder approval. Under particular circumstances, the issuance of these “blank check preferred” shares could have an anti-takeover effect. For example, in the event of a hostile takeover attempt, it may be possible for management and the board to impede the attempt by issuing blank check preferred shares, thereby diluting or impairing the voting power of the other outstanding shares of common stock and increasing the potential costs to acquire control of our Company. Our Board of Directors has the right to issue blank check preferred shares without first offering them to holders of our common stock, as the holders of our common stock have no preemptive rights.

We are subject to the requirements of Section 404 of the Sarbanes-Oxley Act. If we are unable to timely comply with Section 404 or if the costs related to compliance are significant, our profitability, stock price and results of operations and financial condition could be materially adversely affected.

We are required to comply with the provisions of Section 404 of the Sarbanes-Oxley Act of 2002, which require us to maintain an ongoing evaluation and integration of the internal controls of our business. We were required to document and test our internal controls and certify that we are responsible for maintaining an adequate system of internal control procedures for the year ended December 31, 2008. In subsequent years, our independent registered public accounting firm will be required to opine on those internal controls and management’s assessment of those controls. In the process, we may identify areas requiring improvement, and we may have to design enhanced processes and controls to address issues identified through this review.

We cannot be certain that we will be able to successfully complete the certification and attestation requirements of Section 404 or that our auditors will not have to report a material weakness in connection with the presentation of our financial statements. If we fail to comply with the requirements of Section 404 or if our auditors report such material weakness, the accuracy and timeliness of the filing of our annual report may be materially adversely affected and could cause investors to lose confidence in our reported financial information, which could have a negative affect on the trading price of our common stock. In addition, a material weakness in the effectiveness of our internal controls over financial reporting could result in an increased chance of fraud and the loss of customers, reduce our ability to obtain financing and require additional expenditures to comply with these requirements, each of which could have a material adverse effect on our business, results of operations and financial condition.

Further, we believe that the out-of-pocket costs, the diversion of management’s attention from running the day-to-day operations and operational changes caused by the need to comply with the requirements of Section 404 of the Sarbanes-Oxley Act could be significant. If the time and costs associated with such compliance exceed our current expectations, our results of operations could be adversely affected.

Risks Related To Our Intellectual Property and Technology

Unauthorized use of our intellectual property and proprietary technology could adversely affect our business and results of operations.

Our success and competitive position depend in large part on our ability to obtain and maintain intellectual property rights to protect our products. We currently, and may in the future, rely on a combination of patents, copyrights, trademarks, service marks, trade secrets, confidentiality provisions and licensing arrangements to establish and protect our intellectual property and proprietary rights. Unauthorized parties may attempt to copy aspects of our products or obtain, license, sell or otherwise use information that we regard as proprietary. Policing unauthorized use of our products is difficult, and we may not be able to protect our technology from unauthorized use.

Additionally, our competitors may independently develop technologies that are substantially the same or superior to ours without infringing our rights. In these cases, we would be unable to prevent our competitors from selling or licensing these similar or superior technologies. Further, the laws of some foreign countries do not protect our proprietary rights to the same extent as the laws of the United States.

Third parties have claimed and may claim in the future that we are infringing their intellectual property, and we could be exposed to significant litigation or licensing expenses or be prevented from selling our products if such claims are successful. From time to time, we are subject to claims that we or our customers may be infringing or contributing to the infringement of the intellectual property rights of others.

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We may be unaware of intellectual property rights of others that may cover some of our technologies and products. If it appears necessary or desirable, we may seek licenses for these intellectual property rights. However, we may not be able to obtain licenses from some or all claimants or the terms of any offered licenses may not be acceptable to us, and we may not be able to resolve disputes without litigation. Any litigation regarding intellectual property could be costly and time-consuming and could divert the attention of our management and key personnel from our business operations.

In the event of a claim of intellectual property infringement, we may be required to enter into costly royalty or license agreements. Third parties claiming intellectual property infringement may be able to obtain injunctive or other equitable relief that could effectively block our ability to develop and sell our products.

Risks Relating To Our Common Stock

The stock market in general has experienced volatility that often has been unrelated to the operating performance of listed companies. These broad fluctuations may be the result of unscrupulous practices that may adversely affect the price of our stock, regardless of our operating performance.

Shareholders should be aware that, according to SEC Release No. 34-29093 dated April 17, 1991, the market for penny stocks has suffered in recent years from patterns of fraud and abuse. Such patterns include (1) control of the market for the security by one or a few broker-dealers that are often related to the promoter or issuer; (2) manipulation of prices through prearranged matching of purchases and sales and false and misleading press releases; (3) boiler room practices involving high-pressure sales tactics and unrealistic price projections by inexperienced sales persons; (4) excessive and undisclosed bid-ask differential and markups by selling broker-dealers; and (5) the wholesale dumping of the same securities by promoters and broker-dealers after prices have been manipulated to a desired level, along with the resulting inevitable collapse of those prices and with consequent investor losses. The occurrence of these patterns or practices could increase the volatility of our share price.

The limited prior public market and trading market may cause possible volatility in our stock price.

To date, there has only been a limited public market for our securities and there can be no assurance that we can attain an active trading market for our securities. Our common stock trades on the OTC Bulletin Board ("OTCBB"), which is an unorganized, inter-dealer, over-the-counter market that provides significantly less liquidity than the national securities exchanges.

Quotes for securities quoted on the OTCBB are not listed in the financial sections of newspapers as are those for the national securities exchanges. Moreover, in recent years, the overall market for securities has experienced extreme price and volume fluctuations that have particularly affected the market prices of many smaller companies. The trading price of our common stock is expected to be subject to significant fluctuations including, but not limited to, the following:

- Quarterly variations in operating results and achievement of key business metrics;
- Changes in earnings estimates by securities analysts, if any;
- Any differences between reported results and securities analysts' published or unpublished expectations;
- Announcements of new products by us or our competitors;
- Market reaction to any acquisitions, joint ventures or strategic investments announced by us or our competitors;
- Demand for our products;
- Shares sold pursuant to Rule 144 or upon exercise of warrants and options or conversion of Series B Convertible Preferred Stock; and
- General economic or stock market conditions unrelated to our operating performance.

These fluctuations, as well as general economic and market conditions, may have a material or adverse affect on the market price of our common stock.

The OTCBB is a quotation system, not an issuer listing service, market or exchange. Therefore, buying and selling stock on the OTCBB is not as efficient as buying and selling stock through an exchange. As a result, it may be difficult for you to sell your common stock or you may not be able to sell your common stock for an optimum trading price.

The OTCBB executes trades and quotations using a manual process and cannot guarantee the market information for securities. In some instances, quote information, or even firm quotes, may not be available. The OTCBB's manual execution process may delay order processing and as a result, a limit order may fail to execute or a market order may execute at a significantly different price due to intervening price fluctuations. Trade execution, execution reporting and legal trade confirmation delivery may be delayed significantly. Consequently, one may not be able to sell shares of our common stock at the optimum trading prices.

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OTCBB securities are frequent targets of fraud or market manipulation not only because of their generally low price, but also because the OTCBB reporting requirements for these securities are less stringent than for listed or Nasdaq traded securities, and no exchange requirements are imposed. Dealers may dominate the market and set prices that are not based on competitive forces. Individuals or groups may create fraudulent markets and control the sudden, sharp increase of price and trading volume and the equally sudden collapse of the market price for shares of our common stock.

When fewer shares of a security are being traded on the OTCBB, the security's market price may become increasingly volatile and price movement may outpace the ability to deliver accurate quote information. Due to lower trading volumes of our common stock, there may be a lower likelihood that one's orders for our common stock will be executed, and current prices may differ significantly from the price one was quoted by the OTCBB at the time of one's order entry.

Orders for OTCBB securities may be canceled or edited like orders for other securities. All requests to change or cancel an order must be submitted to, received and processed by the OTCBB. As mentioned earlier in this document, the OTCBB executes trades using a manual process, which could cause delays in order processing and reporting, and could hamper one's ability to cancel or edit one's order. Consequently, selling shares of our common stock at the optimum trading prices may be impossible.

The dealer's spread (the difference between the bid and ask prices) may be large and may result in substantial losses to the seller of our common stock on the OTCBB if the stock must be sold immediately. Further, purchasers of our common stock may incur an immediate "paper" loss due to the price spread. Moreover, dealers may not have a bid price for our common stock on the OTCBB. Due to the foregoing factors, demand for our common stock on the OTCBB may be decreased or eliminated.

Our common stock is considered a "penny stock." The application of the "penny stock" rules to our common stock could limit the trading and liquidity of the common stock, adversely affect the market price of our common stock and increase your transaction costs to sell those shares.

The Commission has adopted regulations which generally define a "penny stock" to be any equity security that has a market price (as defined) of less than \$5.00 per share or an exercise price of less than \$5.00 per share, subject to certain exceptions. As a result, our shares of common stock are subject to rules that impose additional sales practice requirements on broker-dealers who sell such securities to persons other than established clients and "accredited investors."

For transactions governed by these rules, the broker-dealer must make a special suitability determination for the purchase of such securities, must obtain the purchaser's written consent to the transaction, and must deliver to the purchaser a SEC-mandated, penny stock risk disclosure document, all prior to the purchase. The broker-dealer must also disclose the commission payable to both the broker-dealer and the registered representative, current quotations for the securities and, if the broker-dealer is the sole market maker, the broker-dealer must disclose this fact and the broker-dealer's presumed control over the market. Finally, monthly statements must be sent disclosing recent price information for the penny stock held in the account and information on the limited market in penny stocks. Consequently, the "penny stock" rules may restrict the ability of broker-dealers to sell our shares of common stock and may affect the ability of investors to sell such shares of common stock in the secondary market and may affect the price at which investors can sell such shares.

Investors should be aware that the market for penny stocks has suffered in recent years from patterns of fraud and abuse, according to the Commission. Such patterns include:

- Control of the market for the security by one or a few broker-dealers that are often related to the promoter or issuer;

- Manipulation of prices through prearranged matching of purchases and sales and false and misleading press releases;
- “Boiler room” practices involving high pressure sales tactics and unrealistic price projections by inexperienced sales persons;
 - Excessive and undisclosed bid-ask differentials and markups by selling broker-dealers; and
- The wholesale dumping of the same securities by promoters and broker-dealers after prices have been manipulated to a desired level, along with the inevitable collapse of those prices with consequent investor losses.

Our management is aware of the abuses that have occurred historically in the penny stock market.

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Additional authorized shares of our common stock and preferred stock available for issuance may result in substantial dilution to our shareholders.

We are authorized to issue 50,000,000 shares of our common stock. As of March 1, 2009, there were 18,443,770 shares of common stock issued and outstanding. However, the total number of shares of our common stock issued and outstanding does not include shares reserved in anticipation of the exercise of options or warrants or the conversion of our Series B Convertible Preferred Stock ("Series B Stock"). As of March 1, 2009, we had the following common shares reserved for future issuance:

Conversion of Series B Stock	150,000
Stock options outstanding	9,295,498
Warrants outstanding	3,284,000
Total	12,729,498

The numbers above do not include 1,295,667 shares that are reserved pursuant to our 2006 Stock Option Plan for future grant. To the extent that options or warrants are exercised, or the preferred stockholders elect to convert their preferred shares to common shares, the holders of our common stock will experience further dilution. In addition, in the event that any future financing should be in the form of, be convertible into or exchangeable for, equity securities, and upon the exercise of options and warrants, investors may experience additional dilution.

While we have no present plans to issue any additional shares of preferred stock in the future, our board of directors has the authority (as previously discussed), without stockholder approval, to create and issue one or more series of such preferred stock and to determine the voting, dividend and other rights of holders of such preferred stock. The above table does not include any future issuance of preferred stock. The issuance of any of such series of preferred stock will cause further dilution to holders of our common stock.

Future sales of our common stock could put downward selling pressure on our common stock, and adversely affect the per share price. There is a risk that this downward pressure may make it impossible for an investor to sell shares of common stock at any reasonable price, if at all.

From time to time, certain of our stockholders may be eligible to sell all or some of their shares of common stock by means of ordinary brokerage transactions in the open market pursuant to Rule 144, promulgated under the Securities Act of 1933 (Securities Act), subject to certain limitations. In general, Rule 144 permits the unlimited sale of securities by our stockholders that are non-affiliates that have satisfied a six month holding period and affiliates of our Company may sell within any three month period a number of securities that does not exceed 1% of our then outstanding shares of common stock. Any substantial sale of our common stock pursuant to Rule 144 or pursuant to any resale prospectus may have material adverse effect on the market price of our securities.

Limitations on director and officer liability and our indemnification of officers and directors may discourage shareholders from bringing suit against a director.

Our certificate of incorporation and bylaws provide, with certain exceptions as permitted by governing Delaware law, that a director or officer shall not be personally liable to us or our shareholders for breach of fiduciary duty as a director, except for acts or omissions which involve intentional misconduct, fraud or knowing violation of law, or unlawful payments of dividends. These provisions may discourage shareholders from bringing suit against a director for breach of fiduciary duty and may reduce the likelihood of derivative litigation brought by shareholders on our behalf against a director. In addition, our certificate of incorporation and bylaws provide for mandatory indemnification of directors and officers to the fullest extent permitted by Delaware law.

ITEM 2.

PROPERTIES

The following table lists details of our properties at December 31, 2008:

Location	Lease expiration	Total Square Footage	Primary Usage
San Jose, CA	June 2010	5,500	Corporate headquarters and product development
Santa Clara, CA	June 2010	6,000	Inventory management and distribution
Arnhem, Netherlands	Month to month	250	Field service and sales office
Schiphol, Netherlands	Month to month	1,400	Inventory management and distribution

We believe our properties are adequate for our current needs and will be sufficient to serve the needs of our operations for the foreseeable future.

ITEM 3.

LEGAL PROCEEDINGS

We are subject to various legal proceedings from time to time in the ordinary course of business, none of which is currently required to be disclosed under this Item 3.

ITEM 4.

SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

On October 3, 2008, the Company held its annual meeting of stockholders. At the annual meeting the Company's stockholders were asked to vote on each of the following proposals:

1. To elect each of Edward Straw, David Clark, William Hawkins, Darwin Hu and Frank Musso to serve as directors of the Company until the next annual meeting of stockholders or until their successors have been duly elected or appointed and qualified.
2. To vote to approve an increase in the number of shares of common stock authorized for issuance under the Company's 2006 Stock Option Plan from 1,500,000 to 2,500,000.
3. To vote to ratify the appointment by the Company's Board of Directors of Clancy and Co., P.L.L.C., to serve as the Company's independent auditors for the year ended December 31, 2008.

Each of the proposals set forth above were approved by the stockholders at the annual meeting and received the requisite number of votes to approve the proposed actions.

PART II

ITEM 5. MARKET FOR COMMON EQUITY AND RELATED STOCKHOLDER MATTERS

Market Information

Our common stock is listed on the OTC Bulletin Board (“OTCBB”). Effective January 11, 2008, in connection with the name change to “Document Capture Technologies, Inc.” from “Sysview Technology, Inc.,” our stock symbol changed to “DCMT” from “SYVT.” The following table sets forth the range of high and low sales prices for the Company’s common stock for the periods indicated:

	High	Low
Fiscal 2008:		
1st Quarter	\$ 0.90	\$ 0.55
2nd Quarter	0.84	0.35
3rd Quarter	0.75	0.30
4th Quarter	0.67	0.25
Fiscal 2007:		
1st Quarter	\$ 0.98	\$ 0.55
2nd Quarter	0.89	0.60
3rd Quarter	0.99	0.50
4th Quarter	1.00	0.50

Such prices represent quotations between dealers, without dealer markup, markdown or commissions, and may not represent actual transactions.

Record Holders

As of March 1, 2009, there were 18,443,770 shares of common stock issued and outstanding, held by approximately 370 holders of record as indicated on the records of DCT’s transfer agent.

Dividends

Common Stock. The Company has not declared or paid dividends on its common stock to date and intends to retain any earnings for use in the business for the foreseeable future.

Preferred Stock. Through the maturity date of March 15, 2008, holders of our Series A 5% cumulative convertible preferred stock (“Series A Stock”) were entitled to receive dividends at a rate of 5% per year. Dividends were payable in cash, by accretion of the Series A Stock stated value or in shares of common stock. Subject to certain terms and conditions, the decision whether to accrete dividends to the stated value of the Series A Stock or to pay for dividends in cash or in shares of common stock, was at the Company’s discretion. The Company chose to pay all Series A Stock dividends by accreting the stated value of the Series A Stock, which converted to shares of our common stock at maturity.

Equity Compensation Plan Information

The following table sets forth certain information concerning shares of common stock authorized for issuance under the Company's existing equity compensation plans as of December 31, 2008:

	Number of securities to be issued upon exercise of outstanding options, warrants and rights (a)	Weighted average exercise price of outstanding options, warrants and rights (b)	Number of securities remaining available for future issuance under equity compensation plans (excluding securities reflected in column (a)) (c)
Equity compensation plans approved by security holders	4,404,333	\$ 0.47	1,295,667
Equity compensation plans not approved by security holders	4,891,165	0.18	—
Total	9,295,498	\$ 0.32	1,295,667

2002 Amended and Restated Stock Option Plan

At our stockholders' annual meeting on June 23, 2006, our stockholders approved the adoption of the 2002 Amended and Restated Stock Option Plan ("2002 Plan"). Currently, the plan is administered by our Board of Directors. The 2002 Plan generally provides for the grant of either qualified or nonqualified stock options to officers, employees, directors and consultants at not less than 85% of the fair market value of our common stock as of the grant date.

The 2002 Plan provides that vested options may generally be exercised for three months after termination of employment and for 12 months after termination of employment as a result of death or disability. If the Company liquidates, optionees will be notified at least 30 days prior to the proposed dissolution or liquidation to give optionees time to exercise any vested options. To the extent not previously exercised, all options will terminate immediately prior to the consummation of such proposed action. However, the plan administrator may, under its sole discretion, permit exercise of any options prior to their termination, even if such options were not otherwise exercisable.

In the event of our change in control (including our merger with or into another corporation, or sale of substantially all our assets), the 2002 Plan provides that each outstanding option will fully vest and become exercisable. The maximum number of options that can be granted under the 2002 Plan is 3,200,000. As of December 31, 2008, there were no options available for future grant under the 2002 Plan.

2006 Stock Option Plan

At our stockholders' annual meeting on June 23, 2006, our stockholders approved the adoption of the 2006 Stock Option Plan ("2006 Plan"). Currently the plan is administered by our Board of Directors. The 2006 Plan generally provides for the grant of either qualified or nonqualified stock options to officers, employees, directors and consultants at not less than 85% of the fair market value of our common stock as of the grant date.

The 2006 Plan provides that vested options may generally be exercised for three months after termination of employment and for 12 months after termination of employment as a result of death or disability. If the Company liquidates, optionees will be notified at least 30 days prior to the proposed dissolution or liquidation to give optionees time to exercise any vested options. To the extent not previously exercised, all options will terminate immediately prior to the consummation of such proposed action. However, the plan administrator may, under its sole discretion, permit exercise of any options prior to their termination, even if such options were not otherwise exercisable. In the event of our change in control (including our merger with or into another corporation, or sale of substantially all our assets), the 2006 Plan provides that each outstanding option will fully vest and become exercisable. At the Company's annual meeting on October 3, 2008, the Company's shareholders agreed to increase the maximum number of options that can be granted under the 2006 Plan from 1,500,000 to 2,500,000. As of December 31, 2008, options to purchase 1,295,667 common shares were available for future grant under the 2006 Plan.

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Recent Sales of Unregistered Securities

During the year ended December 31, 2008, we did not issue any securities that were not registered under the Securities Act of 1933, as amended (the "Securities Act") except as disclosed in previous SEC filings.

Purchases of Equity Securities by the Issuer and Affiliated Purchasers

There were no repurchases of equity securities by the issuer or affiliated purchasers during the fourth quarter of the year ended December 31, 2008.

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ITEM 7.MANAGEMENT’S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following discussion should be read in conjunction with other sections of this Form 10-K including Part 1, “Item 1: Business” and Part II, “Item 8: Financial Statements.” Various sections of management’s discussion and analysis (“MD&A”) contain statements that are forward-looking. These statements are based on current expectations and assumptions that are subject to risks and uncertainties. Actual results could differ materially due to factors discussed in this report, as well as factors not within our control. We undertake no duty to update any forward-looking statement to conform the statement to actual results or changes in our expectations.

Our MD&A is provided as a supplement to our audited financial statements to help provide an understanding of our financial condition, changes in financial condition and results of operations. The MD&A section is organized as follows:

- **Overview.** This section provides a general description of the Company's business, as well as recent developments that we believe are important in understanding our results of operations as well as anticipating future trends in our operations.
- **Critical Accounting Policies.** This section provides an analysis of the significant estimates and judgments that affect the reported amounts of assets, liabilities, revenues, expenses, and the related disclosure of contingent assets and liabilities.
- **Results of Operations.** This section provides an analysis of our results of operations for the year ended December 31, 2008 (“Fiscal 2008”) compared to the year ended December 31, 2007 (“Fiscal 2007”). A brief description of certain aspects, transactions and events is provided, including related-party transactions that impact the comparability of the results being analyzed.
- **Liquidity and Capital Resources.** This section provides an analysis of our financial condition as of December 31, 2008 and our cash flows for Fiscal 2008 compared to Fiscal 2007.

Overview

We are in the business of designing, developing and delivering imaging technology solutions. Our technology is protected under multiple patents. We focus our research and development toward new deliverable and marketable technologies. We sell our products to customers throughout the world, including the United States, Canada, Europe, South America, Australia and Asia.

Our strategy includes a plan to expand our document/image-capture product line and technology while leveraging our assets in other areas of the imaging industry. We are actively shipping six groups of image-capture products. We have expanded our document/image-capture product offerings, and will continue to expand our product offerings in the future in response to the increased market demand for faster, easier-to-use products and increased security to meet the growing need for information protection, including identity and financial transaction protection.

For several years, until December 31, 2007, DCT also engaged in the research and development of certain technologies related to the field of high definition (“HD”) display. During that time, DCT expanded its HD display initiative through acquisition, exclusive licensing and the addition of key personnel and expended significant resources to develop its HD display technology. However, in November 2007 management made the decision to focus on its core competencies in an effort to cut costs and maximize profits. To that end, the process commenced with the sale of our HD business. All HD-related expenses, employees and contractors were terminated by December 31, 2007. No HD-related expenses were incurred in Fiscal 2008. DCT sold its HD-related assets during the first

quarter of Fiscal 2008. The funds received were deployed into general operations and debt repayment. DCT's re-alignment was advanced significantly during Fiscal 2008 through several corporate initiatives resulting in DCT achieving a debt-free status and increased cash flow from operations. The corporate re-focus continued throughout 2008 as management further reduced costs and improved efficiencies.

Looking forward, DCT has significant market opportunities in 2009 and we believe that with the corporate initiatives taken in Fiscal 2008, we are well positioned to capitalize on such opportunities.

Critical Accounting Policies

The methods, estimates and judgments we use in applying our accounting policies have a significant impact on the results we report in our financial statements, which we discuss under the heading "Results of Operations" following this section of our MD&A. Some of our accounting policies require us to make difficult and subjective judgments, often resulting from the need to make estimates on matters that are inherently uncertain.

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We believe the following critical accounting policies reflect our more significant estimates and assumptions used in the preparation of our consolidated financial statements:

Revenue Recognition

Revenues consist of sales of merchandise, including optical document/image-capturing devices, modules of optical document/image-capturing devices, optical image chips and other optoelectronic products. Revenue is recognized when the product is shipped or delivered and the risks, rewards and title of ownership have transferred to the customer. We recognize some shipping and handling fees as revenue, and the related expenses as a component of cost of sales. All internal handling charges are included with selling and marketing expense. Historically, sales returns have not been significant. As such, we do not record a reduction to revenue for estimated product returns in the same period that the related revenue is recorded.

Inventory and Warranty Reserves

We establish inventory reserves for estimated obsolescence or unmarketable inventory in an amount equal to the difference between the cost of inventory and its estimated realizable value based upon assumptions about future demand and market conditions. If actual demand and market conditions are less favorable than those projected by management, additional inventory reserves could be required. As of December 31, 2008 and 2007, we had a \$20,000 inventory reserve for slow-moving inventory.

Currently, we purchase the majority of our finished scanner imaging products from Shenzhen Syscan Technology ("SST"), a wholly-owned subsidiary of Syscan Technology Holdings Limited ("STH"), the parent company of DCT's former majority stockholder. SST warrants the products it manufactures for us against defects in material and workmanship for a period of 18 months after the completion of manufacture. After such 18 month period, SST provides product repair services for us at its customary hourly repair rate plus the cost of any parts, components or items necessary to repair the products. As a result of the product warranty provided by SST, DCT does not record a product warranty reserve.

Related-Party Transactions

We have significant related-party transactions and agreements, which we believe have been accounted for at fair value. We utilized our best estimate of the value of these transactions and agreements. Had alternative assumptions been used, the values obtained may have been different.

Related-Party Purchases

As discussed above, we purchase the majority of our finished scanner imaging products from SST. Purchases from SST totaled \$6,816,000 and \$8,369,000 for the years ended December 31, 2008 and 2007, respectively. All purchases from SST were carried out in the normal course of business. As a result of these purchases, DCT was liable to SST for \$393,000 and \$578,000 at December 31, 2008 and 2007, respectively.

Related-Party Net Sales

During the year ended December 31, 2008, DCT recorded net sales totaling \$57,000 for finished scanners sold to SST. The related cost of goods sold was \$41,000. This transaction contained similar terms and conditions as for other transactions of this nature entered into by DCT.

Impairment of Long-Lived Assets

We evaluate our intangible and long-lived assets for impairment annually or more frequently if we believe indicators of impairment exist. Significant management judgment is required during the evaluation, which includes forecasts of future operating results. The estimates we have used are consistent with the plans and estimates that we use to manage our business. It is possible, however, that the plans and estimates used may be incorrect. If our actual results, or the plans and estimates used in future impairment analyses, are lower than the original estimates used to assess the recoverability of these assets, we could incur additional impairment charges. We had no such asset impairments during Fiscal 2008 or Fiscal 2007.

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Income Taxes

We utilize the liability method of accounting for income taxes. Deferred income tax assets and liabilities are calculated as the difference between the financial statements and tax basis of assets and liabilities that will result in taxable or deductible amounts in the future, based on enacted tax laws and rates applicable to the periods in which the differences are expected to affect taxable income.

We record a valuation allowance to reduce our deferred tax assets to the amount that we believe is more likely than not to be realized. In assessing the need for a valuation allowance, we consider all positive and negative evidence, including scheduled reversals of deferred tax liabilities, projected future taxable income, tax planning strategies, and recent financial performance.

The application of tax laws and regulations is subject to legal and factual interpretation, judgment and uncertainty. Tax laws themselves are subject to change as a result of changes in fiscal policy, changes in legislation, evolution of regulations and court rulings. Therefore, the actual income taxes may be materially different from our estimates. As a result of our analysis, we concluded that a full valuation allowance against our net deferred tax assets is appropriate at December 31, 2008.

Contingencies

From time to time, we are involved in disputes, litigation and other legal proceedings. We record a charge equal to at least the minimum estimated liability for a loss contingency when both of the following conditions are met: (i) information available prior to issuance of the financial statements indicates that it is probable that an asset had been impaired or a liability had been incurred at the date of the financial statements, and (ii) the range of loss can be reasonably estimated. However, the actual liability in any such litigation may be materially different from our estimates, which could result in the need to record additional costs. Currently, we have no outstanding legal proceedings or claims that require a loss contingency.

Accounting for Certain Financial Instruments with Characteristics of Both Liabilities and Equity

We account for our Series A 5% Cumulative Convertible Preferred Stock ("Series A Stock") and our Series B Convertible Preferred Stock ("Series B Stock") pursuant to SFAS 133, Accounting for Derivative Instruments and Hedging Activities ("SFAS 133") and the Emerging Issues Task Force ("EITF") Abstract 00-19, Accounting for Derivative Financial Instruments ("EITF 00-19"). Accordingly, the embedded conversion feature of our Series A Stock and Series B Stock have been determined to be derivative instruments.

The fair value of these derivative instruments, as determined by applying the Black-Scholes valuation model, is adjusted at each reporting period. The Black-Scholes valuation model requires the input of highly subjective assumptions, including the expected stock price volatility. Additionally, although the Black-Scholes model meets the requirements of SFAS 133, the fair values generated by the model may not be indicative of the actual fair values of our Series A Stock and Series B Stock as our derivative instruments have characteristics significantly different from traded options.

Stock-Based Compensation Expense

Effective January 1, 2006, we adopted SFAS 123R, Share-Based Payments ("SFAS 123R"). SFAS 123R requires all share-based payments, including grants of employee stock options and warrants, be recognized in our financial statements based on their respective grant date fair values. Under this standard, the fair value of each share-based payment award is estimated on the date of grant using an option pricing model that meets certain requirements. We currently use the Black-Scholes option pricing model to estimate the fair value of our share-based payment awards.

The Black-Scholes model meets the requirements of SFAS 123R; however, the fair values generated by the model may not be indicative of the actual fair values of our awards as the model does not consider certain factors important to our awards, such as continued employment, periodic vesting requirements and limited transferability.

The determination of the fair value of share-based payment awards utilizing the Black-Scholes model is affected by our stock price and a number of assumptions, including expected volatility, expected life, risk-free interest rate and expected dividends. We use the historical volatility for our common stock as the expected volatility assumption required in the Black-Scholes model, which could be significantly different than actual volatility. The expected life of the awards is based on historical and other economic data trended into the future. The risk-free interest rate assumption is based on observed interest rates appropriate for the terms of our awards. The dividend yield assumption is based on our history and expectation of dividend payouts. Forfeitures are estimated at the time of grant and revised, if necessary, in subsequent periods if actual forfeitures differ from those estimates.

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Stock-based compensation expense recognized in our financial statements beginning January 1, 2006 and thereafter is based on awards that are ultimately expected to vest. We evaluate the assumptions used to value our awards on a quarterly basis. If factors change and we employ different assumptions, stock-based compensation expense may differ significantly from what we have recorded in the past. If there are any modifications or cancellations of the underlying unvested securities, we may be required to accelerate, increase or cancel any remaining unearned stock-based compensation expense. Future stock-based compensation expense and unearned stock-based compensation will increase to the extent that we grant additional equity awards to employees.

Fair Value of Financial Instruments

DCT accounts for its warrant liability under the Financial Accounting Standards Board's ("FASB") Statement of Financial Accounting Standards ("SFAS") 157, Fair Value Measurements ("SFAS 157"). SFAS 157 defines fair value as the exchange price that would be received for an asset or paid to transfer a liability in the principal or most advantageous market in an orderly transaction between market participants at the measurement date.

SFAS 157 establishes three levels of inputs that may be used to measure fair value:

Level 1. Quoted prices in active markets for identical assets or liabilities. DCT had no Level 1 assets or liabilities at December 31, 2008.

Level 2. Observable inputs other than Level 1 prices, such as quoted prices for similar assets or liabilities, quoted prices in markets with insufficient volume or infrequent transactions (less active markets), or model-derived valuations in which all significant inputs are observable or can be derived principally from or corroborated with observable market data for substantially the full term of the assets or liabilities. DCT had no Level 2 assets or liabilities at December 31, 2008.

Level 3. Unobservable inputs to the valuation methodology that are significant to the measurement of the fair value of assets or liabilities. DCT had no Level 3 assets. DCT's warrant liabilities are defined as Level 3 liabilities. The determination of fair value for Level 3 instruments requires the most management judgment and subjectivity. The adjustment to the fair value of our warrant liability was not significant in Fiscal 2008.

Results of Operations

The following table summarizes certain aspects of our results of operations for Fiscal 2008 compared to Fiscal 2007 (in thousands):

	Fiscal 2008	Fiscal 2007	. \$ Change	% Change .
Net sales	\$ 11,643	\$ 15,023	\$ (3,380)	(22)%
Cost of sales	7,696	9,120	(1,424)	(16)
As a percentage of sales	66%	61%		
Selling, general and administrative expenses	3,465	4,024	(559)	(14)
Research and development expense	712	2,439	(1,727)	(71)
Total other income (expense)	255	(496)	NM	NM
Provision for income taxes	77	4	NM	NM
Dividend and deemed dividend on 5% convertible preferred stock and accretion of preferred stock redemption value	(370)	(853)	NM	NM
Net loss available to common Stockholders	(422)	(1,913)	(1,491)	(78)
NM = Not Meaningful				

Net Sales

The decrease in net sales during Fiscal 2008 as compared to Fiscal 2007 is attributable to the overall slowdown of the general economic and market conditions in the U.S. economy and the related slowdown of information technology ("IT") spending. To a lesser extent, the decrease in net sales was a result of the decreased demand within the banking and financial sectors of our market. These sectors have been more focused on regulatory actions and financial hardships than on investing in transaction system infrastructure, of which we are a key supplier. Sales to these particular sectors decreased \$828,000 during Fiscal 2008 as compared to Fiscal 2007.

Our international sales have continued to grow as a result of (i) the European markets for our products continue to show strong growth, and (ii) we nearly doubled our distribution network within this market during Fiscal 2008. Our European sales were \$758,000, or 7% of net sales, and \$611,000, or 4% of net sales, during Fiscal 2008 and Fiscal 2007, respectively. We expect our European sales to continue to increase as we continue to improve our ability to deliver all channel products from our Netherlands-based warehouse and improve our time-to-market.

From time to time, our key customers place large orders causing our quarterly net revenue to fluctuate significantly. We expect this trend and resulting fluctuations to continue. Although the number of scanners shipped during any quarter has fluctuated significantly, our average selling price has remained fairly stable and we expect this stability to continue for the foreseeable future.

Although we continually concentrate on expanding our significant customer base, our revenue remains dependent on a small number of significant customers. Total sales to significant customers (customers who represent more than 10% of our net sales) were 82% and 72% during the years ended December 31, 2008 and 2007, respectively. See Note 1 included in Part II, "Item 8: Financial Statements." The identities of our largest customers and their respective contributions to our net sales have varied in the past and will likely continue to vary from period to period.

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Cost of Sales, Including Gross Profit

Cost of sales includes all direct costs related to the purchase of scanners, imaging modules and services related to the delivery of those items manufactured in China, and to a lesser extent, engineering services and software license royalties. Cost of sales as a percentage of net sales increased during Fiscal 2008 as compared to Fiscal 2007 as a direct result of the devaluation of the U.S. dollar against the Chinese Yuan. This increase was somewhat offset by the following factors:

- The negotiated price reduction of our finished product;
- The phase out of certain third-party software as we move toward less costly third-party software; and
- Our continued efforts toward reducing the cost of our products.

We expect our cost of sales as a percentage of net sales to fluctuate somewhat in the future as (i) we experience changes in our product mix, (ii) the value of the U.S. dollar remains volatile and (iii) we implement further product cost reduction strategies.

Selling, General and Administrative Expenses

Selling, general and administrative expenses consist primarily of personnel-related expenses, including stock-based compensation costs, facilities-related expenses and outside professional services such as legal and accounting. To a lesser extent, market development and promotional funds for our retail distribution channels, tradeshow, website support, warehousing, logistics and certain sales representative fees are also included.

The decrease in selling, general and administrative expense during Fiscal 2008 as compared to 2007 was primarily attributable to the termination of our HD display-related activities, which added approximately \$298,000 of product promotion and marketing expense during Fiscal 2007. No HD-related expenses were incurred in Fiscal 2008.

Additionally, the decrease during Fiscal 2008 as compared to Fiscal 2007 was attributable to lower stock-based compensation costs (a non-cash charge) as a result of granting stock options to key employees and accounting for such options under SFAS 123R. See "Note 4: Employee Equity Incentive Plans" in Part II, Item 8 of this Form 10-K. Stock-based compensation cost was \$486,000 and \$915,000 during Fiscal 2008 and Fiscal 2007, respectively.

The decrease in our selling, general and administrative expenses discussed above was somewhat offset by our increased personnel costs to support our public company status, including the costs of implementing and complying with the Sarbanes-Oxley Act of 2002.

Research and Development Expense

Research and development expense consists primarily of salaries and related costs, including stock-based compensation costs of employees engaged in product research, design and development activities, compliance testing, documentation, prototypes and expenses associated with transitioning the product to production. The decrease in research and development expenses during Fiscal 2008 as compared to Fiscal 2007 was a result of terminating our HD display-related product development during November 2007. During Fiscal 2008, salaries, expensed equipment and contractors related to our HD display product was approximately \$1,488,000. No HD-related research and development expenses were incurred in Fiscal 2008.

To a lesser extent, research and development expenses decreased as a result of reduced stock-based compensation cost (a non-cash charge) attributable to granting stock options to key employees and accounting for such option grants

under SFAS 123R. See “Note 4: Employee Equity Incentive Plans” in Part II, Item 8 of this Form 10-K. Stock-based compensation cost was \$116,000 and \$511,000 during Fiscal 2008 and Fiscal 2007, respectively.

Total Other Income (Expense)

The most significant component of our non-operating income (expense) was a \$550,000 gain on sale of assets during Fiscal 2008. In December 2007, DCT entered into an asset purchase agreement with Sky Glory Enterprise Investment Co., Ltd (“Sky Glory”), whereby Sky Glory agreed to purchase certain HD display-related assets, subject to certain terms and conditions. There were no costs associated with the sale of HD related assets. As such, the entire cash proceeds of \$550,000 were recorded as a gain on sale of assets. See “Note 6: Sale of HD Display-Related Assets” in Part II, Item 8 of this Form 10-K.

Another significant component of our non-operating income (expense) was interest expense, which increased during Fiscal 2008 as a result of our increased debt. Interest expense increased to \$432,000 during Fiscal 2008 as compared to \$303,000 during Fiscal 2007. Of the interest expense recorded during Fiscal 2008 and Fiscal 2007 \$311,000 and \$88,000, respectively, was non-cash interest expense attributable to amortization of debt discount resulting from debt issuance costs.

Provision for Income Taxes

DCT generated taxable income during the year ended December 31, 2008. And although DCT has state and federal net operating loss carryforwards (“NOLs”), to offset any current year taxable income, the current federal tax expense of \$10,000 represent alternative minimum tax as NOLs can only offset 90% of current year taxable income. Additionally, the State of California legislated a two-year suspension of NOLs for tax years 2008 and 2009. As such, DCT’s taxable income generated during the year ended December 31, 2008 was fully taxable at the current California statutory tax rate and resulted in state taxes of \$67,000.

Provision for income taxes for the year ended December 31, 2007 represents the minimum franchise tax due, \$800 per annum, in the State of California for each of DCT’s separate taxable entities.

Dividend and Deemed Dividend on Series A Stock and Accretion of Preferred Stock Redemption Value

The total accretion on our Series A Stock and Series B Stock was \$126,000 and \$773,000 during Fiscal 2008 and Fiscal 2007, respectively. The decrease was attributable to the maturity of our Series A Stock on March 15, 2008.

Total dividends on our Series A Stock were \$13,000 and \$80,000 during Fiscal 2008 and Fiscal 2007, respectively. The decrease was attributable to the maturity of our Series A Stock on March 15, 2008. We do not pay dividends on our Series B Stock.

DCT recorded a deemed dividend on its Series A Stock during the first quarter of 2008 totaling \$231,000. This non-cash dividend was recorded to reflect the implied economic value to the preferred stockholder of converting Series A shares into common stock at a 15% discount of the common stock price at the time of conversion. The fair value was calculated using the difference between the agreed-upon conversion price of the Series A Preferred Stock into shares of common stock and the fair market value of DCT's common stock on the conversion date. See “Note 8: Equity” in Part II, Item 8 of this Form 10-K.

Liquidity and Capital Resources

At December 31, 2008, our principal sources of liquidity included cash and cash equivalents of \$405,000 and an available borrowing capacity of \$1,200,000 on our bank line of credit.

The following table summarizes DCT’s cash and cash equivalents, working capital and cash flows as of and for the years ended December 31, 2008 and 2007 (in thousands):

	As of or for the year ended December 31,	
	2008	2007
Cash and cash equivalents	\$ 405	\$ 1,770
Working capital	1,820	2,864
Cash provided by operating activities	1,429	36
Cash provided by investing activities	519	93
Cash provided (used) by financing activities	(3,313)	308

Operating Activities

Cash provided by operations during Fiscal 2008 was primarily a result of our \$52,000 net loss, \$586,000 of net non-cash expenses, and \$895,000 net cash provided by changes in operating assets and liabilities. Cash used by operations during Fiscal 2007 was primarily a result of our \$1,060,000 net loss, \$1,838,000 of net non-cash expenses

and \$742,000 net cash used by changes in operating assets and liabilities.

Non-cash items included in net loss are depreciation expense, stock-based compensation cost of options, fair value of warrants issued for services rendered, change in fair value of derivative instruments, change in fair value of warrant liability and amortization of debt discount. Changes in our operating assets and liabilities are indicative of the decrease in the sales of our product during Fiscal 2008 compared to Fiscal 2007.

During the second quarter of Fiscal 2008, we sold, and our customer immediately paid for, “end of life” parts, which totaled \$230,000. Although we don’t recognize revenue associated with the sale until the finished scanner is shipped to the customer, the entire transaction had a positive impact on our cash flow from operations.

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We had no significant unusual cash outlays related to operating activities during Fiscal 2008 or Fiscal 2007. We expect future cash provided (used) by operating activities to fluctuate, primarily as a result of fluctuations in our operating results, timing of product shipments, trade receivables collections, inventory management and timing of vendor payments.

Investing Activities

During Fiscal 2008, cash provided by investing activities included a \$550,000 gain on the sale of our HD display-related assets, which positively impacted our cash position. This was slightly offset by the purchase of capital equipment.

During Fiscal 2007, cash provided by investing activities was attributable to the sale of our 16.1% equity interest in CMOS. As previously discussed, during December 2007, we sold our investment in CMOS back to CMOS for \$160,000. Cash generated from the sale of our investment in CMOS was somewhat offset by our capital expenditures, which were primarily related to tooling equipment required to support the production of our products.

Both the sale of our HD display-related assets in Fiscal 2008 and the sale of our CMOS investment in Fiscal 2007 were a result of refocusing our efforts and economic resources toward our core revenue generating activities.

Financing Activities

During Fiscal 2008, our financing activities consisted of (i) paying off our bank line of credit, (ii) normal recurring monthly principal payments according to the terms of our notes payable agreement, which totaled \$900,000, and (3) additional principal payments and early pay off of our notes payable, which totaled \$400,000.

During Fiscal 2007, our financing activities consisted of (i) a \$500,000 draw against our bank line of credit to meet short-term obligations, including payment on the purchase of our product, (ii) the replacement of our existing line of credit at a commercial bank with a similar line of credit at a different commercial bank, and (iii) the scheduled repayment of principal on our notes payable.

Cash and Working Capital Requirements

As previously discussed, we terminated our HD display research and development efforts during November 2007. With the termination of the HD display portion of our business, our operating expenses during Fiscal 2008 were more aligned with our net sales. Additionally, our anticipated future operating expenses will be more aligned with our projected net sales. If we successfully manage our projected net sales and realigned operating expenses, of which there can be no assurance, management believes that current cash and other sources of liquidity are sufficient to fund normal operations through the next 12 months.

Our current line of credit matures on September 13, 2009. DCT is currently in the process of renegotiating its line of credit and has already received an extension term sheet from its current lender. Although management believes DCT will be able to obtain an additional line of credit upon maturity of the existing line of credit, there is no guarantee that DCT will be able to secure a line of credit on terms that are acceptable to DCT.

Contractual Obligations

The following table summarizes our contractual obligations at December 31, 2008, and the effect such obligations are expected to have on our liquidity and cash flows in future periods (in thousands):

Total	Less Than One Year	One – Three Years	Three – Five Years
-------	-----------------------	----------------------	-----------------------

Term loan warrant liabilities(1)	\$	350	\$	350	\$	-	\$	-
Series B Stock principal(2)		150		150		-		-
Operating lease obligations		336		228		108		-
Consulting agreement		170		170		-		-
Total contractual cash obligations	\$	1,006	\$	898	\$	108	\$	-

(1) On September 27, 2007, we entered into a \$1,500,000 term loan agreement ("Loan Agreement") with Montage Capital, LLC ("Lender") and used the funds to repurchase 8,000,000 shares of our restricted common stock, as previously discussed. The loan was fully paid in September 2008. In connection with the Loan Agreement, the Company issued warrants ("Loan Warrants") to purchase up to 650,000 shares of our common stock at an initial exercise price of \$0.60 per share. The Loan Warrants vested immediately and expire September 2012. From the initial funding of the Loan Agreement through March 31, 2008, the warrant holders had the right to require DCT to purchase the warrant for a maximum of \$250,000. On March 31, 2008, the Loan Warrant repurchase price increased to a maximum of \$350,000. The Loan Warrant repurchase feature expires September 2012.

(2) On August 7, 2009 (the "Series B Stock Redemption Date"), all of our outstanding Series B Stock shall be redeemed for a per share redemption price equal to the stated value on the Series B Stock Redemption Date (the "Series B Stock Redemption Price"). The Series B Stock Redemption Price is payable by us in cash or in shares of common stock at our discretion and shall be paid within five trading days after the Series B Stock Redemption Date. In the event we elect to pay all or some of the Series B Stock Redemption Price in shares of common stock, the shares of common stock to be delivered to the purchasers shall be valued at 85% of the fifteen-day volume weighted average price of the common stock on the Series B Redemption Date.

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Off-Balance Sheet Arrangements

At December 31, 2008, we did not have any relationship with unconsolidated entities or financial partnerships, which other companies have established for the purpose of facilitating off-balance sheet arrangements or other contractually narrow or limited purposes. Therefore, we are not materially exposed to any financing, liquidity, market or credit risk that could arise if we had engaged in such relationships.

Trends

As of December 31, 2008, to the best of our knowledge, no known trends or demands, commitments, events or uncertainties existed, which are likely to have a material effect on our liquidity, except as described in “Note 10: Commitments and Contingencies” in Part II, Item 8 of this Form 10-K.

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Item 8.

FINANCIAL STATEMENTS

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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Stockholders of
Document Capture Technologies, Inc.

We have audited the accompanying consolidated balance sheet of Document Capture Technologies, Inc. and subsidiary as of December 31, 2008, and the related consolidated statements of operations, stockholders' equity (deficit), and cash flows for the year then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Document Capture Technologies, Inc. as of December 31, 2008, and the results of their operations and their cash flows for the year then ended, in conformity with U.S. generally accepted accounting principles.

As discussed in Note 15 to the financial statements, Document Capture Technologies, Inc. has changed its method of accounting for warrants subject to registration rights agreements for the years ending December 31, 2008 and 2007 due to the adoption of FSP EITF 00-19-2, Accounting for Registration Payment Arrangements.

We were not engaged to examine management's assessment of the effectiveness of Document Capture Technologies, Inc.'s internal control over financial reporting as of December 31, 2008, included in the accompanying Management's Report on Internal Control Over Financial Reporting and, accordingly, we do not express an opinion thereon.

HEIN & ASSOCIATES LLP
Irvine, California
April 14, 2009

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Stockholders of
Document Capture Technologies, Inc.

We have audited the accompanying consolidated balance sheet of Document Capture Technologies, Inc. and subsidiaries (the "Company") as of December 31, 2007, and the related consolidated statements of operations, stockholders' (deficit) equity, and cash flows for the year then ended. These financial statements are the responsibility of the company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. The Company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. Our audit included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the company's internal control over financial reporting. Accordingly, we express no such opinion. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Document Capture Technologies, Inc. and subsidiaries as of December 31, 2007, and the consolidated results of their operations and their cash flows for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

The accompanying financial statements have been prepared assuming that the Company will continue as a going concern. As discussed in Note 1 to the financial statements, the Company has incurred recurring net losses in recent years resulting in a substantial accumulated deficit. These factors raise substantial doubt about the Company's ability to continue as a going concern. Management's plans in regard to these matters are described in Note 1. The financial statements do not include any adjustments that might result from the outcome of this uncertainty.

Clancy and Co., P.L.L.C.
Phoenix, Arizona

February 29, 2008

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DOCUMENT CAPTURE TECHNOLOGIES, INC. AND SUBSIDIARY
CONSOLIDATED BALANCE SHEETS
(in thousands)

	December 31, 2008	December 31, 2007
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 405	\$ 1,770
Trade receivables	1,366	2,464
Inventories, net	1,353	1,400
Prepaid expenses and other current assets	99	32
Total current assets	3,223	5,666
Fixed assets, net	98	127
Total assets	\$ 3,321	\$ 5,793
LIABILITIES AND STOCKHOLDERS' EQUITY (DEFICIT)		
Current liabilities:		
Notes payable	\$ -	\$ 989
Trade payables to related parties	393	578
Trade payables and other accrued expenses	276	569
Accrued compensation and benefits	122	89
Income taxes payable	75	-
Deferred revenue and customer deposits	187	-
Fair value of warrant liability	350	399
Accrued dividends on Series A 5% cumulative convertible preferred stock	-	178
Total current liabilities	1,403	2,802
Long-term bank line of credit	-	2,021
Liability under derivative contracts	9	91
Total liabilities	1,412	4,914
Commitments and contingencies (Note 12)		
Convertible preferred stock, \$.001 par value, 2,000 authorized:		
Series A 5% cumulative convertible preferred stock, 0 and 11.5 shares issued and outstanding at December 31, 2008 and December 31, 2007, respectively; liquidation value of \$0 and \$1,150 at December 31, 2008 and December 31, 2007, respectively		
	-	1,074
Series B convertible preferred stock, 1.5 shares issued and outstanding at December 31, 2008 and December 31, 2007; liquidation value of \$150 at December 31, 2008 and December 31, 2007		
	120	70

Stockholders' equity (deficit):

Common stock \$.001par value, 50,000 authorized, 18,444 shares issued		
and outstanding at December 31, 2008 and 15,904 shares issued		
and 15,404 outstanding at December 31, 2007 (500 shares held in escrow)	18	15
Additional paid-in capital	34,602	32,129
Accumulated deficit	(32,831)	(32,409)
Total stockholders' equity (deficit)	1,789	(265)
Total liabilities and stockholders' equity (deficit)	\$ 3,321	\$ 5,793

The accompanying notes are an integral part of these consolidated financial statements.

DOCUMENT CAPTURE TECHNOLOGIES, INC. AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF OPERATIONS

(in thousands, except per share amounts)

Years Ended December 31,
2008 2007

Net sales	\$	11,643	\$	15,023
Cost of sales		7,696		9,120
Gross profit		3,947		5,903
Operating expenses:				
Selling, general and administrative		3,465		4,024
Research and development		712		2,439
Total operating expenses		4,177		6,463
Operating loss		(230)		(560)
Other income (expense):				
Change in fair value of derivative instruments and warrant liability		131		38
Gain on sale of assets		550		-
Interest income		3		24
Interest expense		(432)		(303)
Other		3		(255)
Total other income (expense)		255		(496)
Net income (loss) before income taxes		25		(1,056)
Provision for income taxes		77		4
Net loss		(52)		(1,060)
Accretion of preferred stock redemption value		(126)		(773)
Preferred stock dividends		(13)		(80)
Deemed dividend on preferred stock		(231)		-
Net loss available to common stockholders	\$	(422)	\$	(1,913)
Net loss available to common stockholders per common share –				
basic and diluted	\$	(0.02)	\$	(0.09)
Weighted average common shares outstanding – basic and diluted		17,950		20,420

The accompanying notes are an integral part of these consolidated financial statements.

DOCUMENT CAPTURE TECHNOLOGIES, INC. AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY (DEFICIT)
(in thousands)

	Common Stock		Additional Paid-in	Accumulated	Total Stockholders' Equity (Deficit)
	Shares	Amount	Capital	Deficit	
Balances at December 31, 2006	24,142	\$ 24	\$ 29,651	\$ (28,705)	\$ 970
Cumulative effect adjustment of applying EITF 00-19-2, net of tax (Note 15)			1,955	(1,791)	164
Common stock acquired from related party	(2,600)	(3)	3	-	-
Issuance of common stock upon conversion of preferred stock	1,562	2	1,068	-	1,070
Stock based compensation cost – options	-	-	1,426	-	1,426
Issuance of common stock upon cashless exercise of stock options	300	-	-	-	-
Repurchase of common stock for retirement	(8,000)	(8)	(1,992)	-	(2,000)
Fair value of common stock warrants issued for services rendered	-	-	18	-	18
Accretion of preferred stock redemption value				(773)	(773)
Preferred stock dividends				(80)	(80)
Comprehensive loss	-	-	-	(1,060)	(1,060)
Balances at December 31, 2007	15,404	15	32,129	(32,409)	(265)
Issuance of common stock upon conversion of preferred stock	1,844	2	1,339	-	1,341
Deemed dividend on Series A preferred stock maturity and conversion to common stock			231	(231)	-
Stock based compensation cost – options	-	-	602	-	602
Issuance of common stock upon cashless exercise of stock options	646	-	-	-	-
Issuance of common stock upon exercise of stock options	800	1	7	-	8
Cancellation of common stock for non-performance of contract	(250)	-	-	-	-
Fair value of common stock warrants issued for services rendered	-	-	294	-	294
Accretion of preferred stock redemption value				(126)	(126)
Preferred stock dividends				(13)	(13)
Comprehensive loss	-	-	-	(52)	(52)
Balances at December 31, 2008	18,444	\$ 18	\$ 34,602	\$ (32,831)	\$ 1,789

The accompanying notes are an integral part of these consolidated financial statements.

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DOCUMENT CAPTURE TECHNOLOGIES, INC. AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF CASH FLOWS
(in thousands)

	Years Ended December 31, 2008	2007
Operating activities		
Net loss	\$ (52)	\$ (1,060)
Adjustments to reconcile net loss to cash used in operating activities:		
Depreciation and amortization	47	48
Fair value of common stock warrants issued for services rendered	294	18
Stock base compensation cost – options	602	1,426
Change in fair value of derivative instruments and warrant liability	(131)	(38)
Interest expense attributable to amortization of debt issuance costs	311	88
Gain on sale of assets	(550)	-
Allowance for slow-moving inventory	-	20
Loss on disposal of assets and other non-cash non-operating expenses	13	276
Changes in operating assets and liabilities:		
Trade receivables	1,098	(651)
Inventories	47	222
Prepaid expenses and other current assets	(67)	41
Trade payables to related parties	(185)	(374)
Trade payables and other accrued expenses	(293)	51
Accrued compensation and benefits	33	(31)
Income taxes payable	75	-
Deferred revenue and customer deposits	187	-
Cash provided by operating activities	1,429	36
Investing activities		
Cash proceeds from sale of assets	550	-
Cash proceeds from sale of long-term investment	-	160
Capital expenditures	(31)	(67)
Cash provided by investing activities	519	93
Financing activities		
Principal payments on notes payable	(1,300)	(200)
(Decrease) increase in bank line of credit, net	(2,021)	508
Proceeds from exercise of common stock options	8	-
Cash (used) provided by financing activities	(3,313)	308
(Decrease) increase in cash and cash equivalents	(1,365)	437
Cash and cash equivalents at beginning of year	1,770	1,333

Cash and cash equivalents at end of year	\$	405	\$	1,770
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Supplemental disclosures of cash flow information:

Cash paid during the year for:

Interest	\$	137	\$	198
Income taxes	\$	2	\$	4

Non-cash investing and financing activities:

Restricted common stock acquired from related party	\$	-	\$	2
Conversion of convertible preferred stock to common stock	\$	1,341	\$	1,070
Issuance of common stock warrants in connection with debt financing	\$	-	\$	399
Purchase of restricted common stock for retirement	\$	-	\$	2,000

The accompanying notes are an integral part of these consolidated financial statements.

DOCUMENT CAPTURE TECHNOLOGIES, INC. AND SUBSIDIARY
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Note 1 – Organization and Significant Accounting Policies

Organization

Document Capture Technologies, Inc. ("DCT" or "Company") develops, designs and delivers various imaging technology solutions to all types and sizes of enterprises including governmental agencies, large corporations, small corporations, small office-home offices ("SOHO"), professional practices as well as consumers (referred to herein collectively as "Enterprises"). DCT is a market-leader in providing USB-powered scanning solutions to a wide variety of industries and market applications. DCT's patented and proprietary page-imaging devices facilitate the way information is stored, shared and managed in both business and personal use.

Syscan, Inc. ("Syscan"), DCT's wholly-owned subsidiary, was incorporated in California in 1995 to develop and manufacture a new generation of contact image sensors ("CIS") that are complementary metal-oxide-silicon ("CMOS") imaging sensor devices. During the late 1990s, DCT established many technical milestones and was granted numerous patents for its linear imaging technology. DCT's patented CIS and mobile imaging scanner technology provides high quality images at extremely low power consumption levels allowing delivery of compact scanners in a form ideally suited for laptop or desktop computer users who need a small lightweight device to scan or fax documents.

DCT's business model was developed around intellectual property ("IP") driven products sold primarily to original equipment manufacturers ("OEM"), private label brands and value added resellers ("VAR") and can be found in a variety of applications, including but not limited, to the following:

- Document and information management;
 - Identification card scanners;
 - Passport security scanners;
- Bank note and check verification;
 - Business card readers;
 - Barcode scanning; and
- Optical mark readers used in lottery terminals.

Until December 31, 2007, DCT engaged in the research and development of certain technologies related to the field of high definition ("HD") display. During that time, DCT expanded its HD display initiative through acquisition, exclusive licensing and the addition of key personnel and expended significant resources to develop its HD display technology. However, in November 2007, DCT terminated its HD display research and development efforts. All HD-related expenses, employees and contractors were terminated by December 31, 2007. DCT sold its HD-related assets during the first quarter of 2008. See Note 6. No HD-related expenses were incurred during the year ended December 31, 2008.

Basis of Financial Statements

The consolidated financial statements include the accounts of DCT and its one subsidiary Syscan. All significant intercompany transactions and balances have been eliminated. DCT's functional currency is the United States (U.S.) dollar. As such, DCT does not have any translation adjustments. Monetary accounts denominated in non-U.S. currencies, such as cash or payables to vendors, have been re-measured to the U.S. dollar. Gains and losses resulting from foreign currency transactions are included in the results of operations. To date, DCT has not entered into hedging activities to offset the impact of foreign currency fluctuations.

Certain accounts have been reclassified to conform to the current period presentation. Such reclassifications did not affect DCT's total net sales, operating loss, net loss available to common stockholders, financial position or liquidity at December 31, 2007. Specifically, \$149,000, which related to the fair value classification of warrants, was reclassified from additional paid-in capital to current liabilities at December 31, 2007. See Note 10 for further discussion of the accounting for warrants.

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DOCUMENT CAPTURE TECHNOLOGIES, INC. AND SUBSIDIARY
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Use of Estimates

The preparation of financial statements in conformity with U.S. generally accepted accounting principles (“GAAP”) requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Management makes its best estimate of the ultimate outcome for these items based on historical trends and other information available when the financial statements are prepared. Changes in estimates are recognized in accordance with the accounting rules for the estimate, which is typically in the period when new information becomes available to management. Actual results could differ from those estimates.

Cash and Cash Equivalents

Cash and cash equivalents consist of cash and highly liquid investments. DCT considers all highly liquid investments with a maturity of three months or less when purchased to be cash equivalents. DCT had no cash equivalents at December 31, 2008 or 2007.

Fair Value of Financial Instruments

On January 1, 2008, DCT adopted Financial Accounting Standards Board (“FASB”) Statement of Financial Accounting Standards (“SFAS”) 157, Fair Value Measurements (“SFAS 157”). SFAS 157 defines fair value as the exchange price that would be received for an asset or paid to transfer a liability in the principal or most advantageous market in an orderly transaction between market participants at the measurement date.

SFAS 157 establishes three levels of inputs that may be used to measure fair value:

Level 1. Quoted prices in active markets for identical assets or liabilities. DCT had no Level 1 assets or liabilities at December 31, 2008.

Level 2. Observable inputs other than Level 1 prices, such as quoted prices for similar assets or liabilities, quoted prices in markets with insufficient volume or infrequent transactions (less active markets), or model-derived valuations in which all significant inputs are observable or can be derived principally from or corroborated with observable market data for substantially the full term of the assets or liabilities. DCT had no Level 2 assets or liabilities at December 31, 2008.

Level 3. Unobservable inputs to the valuation methodology that are significant to the measurement of the fair value of assets or liabilities. DCT had no Level 3 assets. Level 3 liabilities include (i) warrant and (ii) derivative contracts liabilities. DCT estimates the fair value of Level 3 liabilities using the Black-Scholes valuation model. See Note 7 for further discussion of the fair value of DCT’s Level 3 liabilities.

The carrying value of cash and cash equivalents, trade receivables and payables, prepaid expenses and other current assets, amounts due to related parties, and other payables and accruals approximates fair value due to the short period of time to maturity.

Concentration of Credit Risk and Major Customers

Financial instruments that subject DCT to credit risk are cash balances maintained in excess of federal depository insurance limits and trade receivables.

Cash and Cash Equivalents. DCT maintains cash balances at several banks. Accounts at each institution are insured by the Federal Deposit Insurance Corporation ("FDIC") up to \$250,000. As of December 31, 2008, DCT had consolidated balances of approximately \$324,000, which were not guaranteed by FDIC. DCT has not experienced any losses in such accounts and believes the exposure is minimal.

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DOCUMENT CAPTURE TECHNOLOGIES, INC. AND SUBSIDIARY
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Major Customers and Trade Receivables. A relatively small number of customers account for a significant percentage of DCT's sales. The percentage of sales derived from significant customers is as follows:

	Year Ended December 31,	
	2008	2007
Customer A	27%	27%
Customer B	19	16
Customer C	13	12
Customer D	12	**
Customer E	11	17

**Represents less than 10% of sales.

Trade receivables from these customers totaled \$1,261,000 at December 31, 2008. As of December 31, 2008 all DCT's trade receivables were unsecured. The risk with respect to trade receivables is mitigated by credit evaluations performed on customers and the short duration of payment terms extended to customers.

Concentration of Supplier Risk

Manufacturing. DCT purchases substantially all its finished scanner imaging products from one vendor that is also a wholly-owned subsidiary of the parent company of DCT's former majority stockholder. See Note 3. If this vendor became unable to provide materials in a timely manner and DCT was unable to find alternative vendors, DCT's business, operating results and financial condition would be materially adversely affected.

Components. DCT purchases some controller chips that are sole-sourced, as they are specialized devices. To date, DCT has been able to obtain adequate component supplies from existing sources. If in the future DCT became unable to obtain sufficient quantities of required materials, components or subassemblies, or if such items do not meet quality standards, delays or reductions in product shipments could occur, which could harm DCT's business, operating results and financial condition.

Inventories

Inventories consist of finished goods and components, which are stated at the lower of cost or net realizable value, with cost computed on a first-in, first-out basis. Provision is made for obsolete, slow-moving or defective items where appropriate. The amount of any provision is recognized as a component of cost of sales in the period the provision occurs. DCT had no material inventory write offs during the years ended December 31, 2008 or 2007.

Fixed Assets

Fixed assets, stated at cost, are depreciated over the estimated useful lives of the assets using the straight-line method over periods ranging from three to seven years. Significant improvements and betterments are capitalized. Routine repairs and maintenance are expensed when incurred. Gains and losses on disposal of fixed assets are recognized in the Statement of Operations based on the net disposal proceeds less the carrying amount of the assets.

Long-Term Investments

Until December 2007, DCT owned one long-term investment, which consisted of an equity interest in CMOS Sensor, Inc. ("CMOS"), a California corporation, principally engaged in the research and development of infrared sensors and CMOS sensors. DCT owned 16.1% of CMOS and accounted for the investment using the cost method of accounting. DCT carried the CMOS investment at cost less provision for any impairment in value. During December 2007, DCT sold its 16.1% investment in CMOS back to CMOS for \$160,000. As the long-term investment was sold for the carrying value of the asset, there was no gain or loss associated with the transaction. DCT had no long-term investments at December 31, 2008 or at December 31, 2007.

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DOCUMENT CAPTURE TECHNOLOGIES, INC. AND SUBSIDIARY
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Impairment of Long-Lived Assets

In accordance with SFAS 144, Accounting for the Impairment or Disposal of Long-Lived Assets (“SFAS 144”), if indicators of impairment exist, DCT assesses the recoverability of the affected long-lived assets by determining whether the carrying value of such assets can be recovered through the undiscounted future operating cash flows. If impairment is indicated, DCT measures the amount of such impairment by comparing the assets’ carrying value to the assets’ present value of the expected future cash flows. DCT had no impairment losses during the years ended December 31, 2008 and 2007.

Preferred Stock Accounting Treatment

Preferred Stock Classification. Pursuant to the FASB’s Emerging Issues Task Force (“EITF”) EITF 00-19, Accounting for Derivative Financial Instruments (“EITF 00-19”), and EITF Topic D-98, Classification and Measurement of Redeemable Securities (“Topic D-98”), DCT’s series A 5% cumulative convertible redeemable preferred stock (“Series A Stock”) and series B convertible redeemable preferred stock (“Series B Stock”) was reported as temporary equity.

The difference between the initial recorded value of the Series A Stock and Series B Stock and the minimum redemption value is accreted, on a straight-line basis, from the respective issuance date through the maturity date with the offset booked to DCT’s accumulated deficit. The accretion of DCT’s Series A Stock and Series B Stock redemption value is disclosed as a reconciling item and adjusts DCT’s reported net loss, together with the Series A Stock dividends and deemed dividends, to net loss available to common stockholders.

Likely Embedded Derivative. Under the provisions of SFAS No. 133, Accounting for Derivative Instruments and Hedging Activities (“SFAS 133”) and EITF 00-19, the conversion feature of DCT’s Series A Stock (until the March 15, 2008 maturity date) and Series B Stock are derivative instruments (referred to collectively as “Derivative Instruments”) that require bifurcation from the host contract. Accordingly, the fair value of DCT’s outstanding Derivative Instruments has been recorded in DCT’s Balance Sheet as a liability at December 31, 2008 and 2007. The fair value of the Derivative Instruments are adjusted at each reporting date. Increases in the estimated fair value of DCT’s Derivative Instruments are recorded as non-operating expense on DCT’s Statements of Operations. Decreases in the estimated fair value of DCT’s Derivative Instruments are recorded as non-operating income on DCT’s Statements of Operations.

DCT estimates the fair value of these derivatives using the Black-Scholes valuation model. The Black-Scholes valuation model was developed for use in estimating the fair value of traded options that have no vesting restrictions and are fully transferable. The Black-Scholes valuation model requires the input of highly subjective assumptions, including the expected stock price volatility. DCT’s Derivative Instruments have characteristics significantly different from traded options, and the input assumptions used in the model can materially affect the fair value estimate.

The fair values of DCT’s Derivative Instruments were determined under the following assumptions:

	December 31, 2008	2007
Series A Stock remaining contractual term (years)	-	0.2
Series B Stock remaining contractual term (years)	0.6	1.6
Expected volatility	111%	40%-164%

Expected dividend yield	-	-
Risk free interest rate	0.3%	3%

See further discussion and disclosure of fair value at Note 7.

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Revenue Recognition and Allowance for Doubtful Accounts and Returns Allowances

Revenues. Revenues consist of product sales including the sale of optical image capturing devices, modules of optical image capturing devices, and chips and other optoelectronic products. Revenue is recognized when the product is shipped and the risks and rewards of ownership have transferred to the customer. Shipping charges billed to customers are included in net sales and the related shipping costs are included in cost of sales, separately, in the period of shipment.

Allowance for doubtful accounts and return allowances. DCT presents trade receivables, net of allowances for doubtful accounts and returns, to ensure trade receivables are not overstated due to uncollectible accounts. Allowances, when required, are calculated based on a detailed review of certain individual customer accounts and an estimation of the overall economic conditions affecting DCT's customer base. DCT reviews a customer's credit history before extending credit. If the financial condition of its customers were to deteriorate, resulting in an impairment of their ability to make payments, additional allowances may be required. DCT had no allowance for doubtful accounts as of December 31, 2008 or 2007 and no material trade receivable write offs during any period presented.

Research and Development Expenses

Research and development costs are expensed as incurred.

Advertising Costs

Advertising costs are expensed as incurred and were immaterial for all periods presented.

Employee Equity Incentive Programs

In December 2004, the FASB issued SFAS 123-R, Share-Based Payment ("SFAS 123(R)"). SFAS 123(R) replaces SFAS 123, Accounting for Stock-Based Compensation, and supersedes the Accounting Principles Board ("APB") APB Opinion 25, Accounting for Stock Issued to Employees ("APB 25"). SFAS 123(R) requires, among other things, that all share-based payments to employees, including grants of stock options, be measured based on their grant-date fair value and recognized as expense.

Effective January 1, 2006, DCT adopted the fair value recognition provisions of SFAS 123(R) using the modified prospective application method. Under this transition method, compensation expense recognized for the years ended December 31, 2008 and 2007, includes the applicable amounts of: (a) compensation expense of all stock-based payments granted prior to, but not yet vested as of January 1, 2006 (based on the grant-date fair value estimated in accordance with the original provisions of SFAS 123 and APB 25), and (b) compensation expense for all stock-based payments granted subsequent to January 1, 2006 (based on the grant-date fair value estimated in accordance with the new provisions of SFAS 123(R)). Compensation expense recognized for the year ended December 31, 2008 includes only compensation expense calculated under the provisions of SFAS 123(R) as the expense attributable to options issued prior to January 1, 2006 was fully recognized by December 31, 2007. DCT used the straight-line method to recognize share-based compensation over the service period of the award.

DCT estimates the fair value of the options on the grant date using the Black-Scholes valuation model under the following assumptions:

Year Ended December 31,

	2008	2007
Weighted average expected option life in years	3.5	3.0
Weighted average expected volatility	259%	111%
Expected dividend yield	0%	0%
Weighted average risk free interest rate	2.8%	5.2%

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Income Taxes

DCT accounts for income taxes under the liability method of accounting for income taxes in accordance with the provisions of SFAS 109, Accounting for Income Taxes ("SFAS 109") and related interpretations and guidance including FIN 48, Accounting for Uncertainty in Income Taxes—an interpretation of FASB Statement No. 109 ("FIN 48"). Current income tax expense or benefit is the amount of income taxes expected to be payable or refundable for the current year. A deferred income tax asset or liability is computed for the expected future impact of differences between the financial reporting and tax basis of assets and liabilities and for the expected future tax benefit to be derived from tax credits and loss carryforwards. Deferred tax assets are reduced by a valuation allowance when, in the opinion of management, it is more likely than not that some portion or all of the deferred tax assets will not be realized. All tax positions are first analyzed to determine if the weight of available evidence indicates that it is more likely than not that the position will be sustained on audit, including resolution of any related appeals or litigation processes. After the initial analysis, the tax benefit is measured as the largest amount that is more than 50% likely of being realized upon ultimate settlement.

Comprehensive Income (Loss)

DCT includes items of other comprehensive income (loss) by their nature in a financial statement and displays the accumulated balance of other comprehensive income (loss) separately in the equity section of the Balance Sheet. DCT had no other comprehensive income (loss) items for any of the periods presented.

Net Loss Per Share

Basic net loss per share is computed by dividing net loss by the weighted average number of shares of common stock outstanding during the period. Diluted net loss per share is computed by dividing net loss by the weighted average number of shares of common stock and common stock equivalents outstanding during the period. As DCT incurred net losses for all periods presented, common stock equivalents of 2,569,000 and 6,102,000 for the years ended December 31, 2008 and 2007, respectively, were excluded from diluted net loss per share as their effect would be anti-dilutive. As a result, for all periods presented, DCT's basic and diluted net loss per share is the same.

Note 2 – Recent Accounting Pronouncements

In March 2008, the FASB issued SFAS No. 161, Disclosures about Derivative Instruments and Hedging Activities—an amendment of FASB Statement No. 133 ("SFAS 161"). SFAS 161 requires enhanced disclosure related to derivatives and hedging activities and thereby seeks to improve the transparency of financial reporting. Under SFAS 161, entities are required to provide enhanced disclosures relating to: (a) how and why an entity uses derivative instruments; (b) how derivative instruments and related hedge items are accounted for under SFAS 133 and related interpretations; and (c) how derivative instruments and related hedged items affect an entity's financial position, financial performance, and cash flows.

SFAS 161 must be applied prospectively to all derivative instruments and non-derivative instruments that are designated and qualify as hedging instruments and related hedged items accounted for under SFAS 133 for all financial statements issued for fiscal years and interim periods beginning after November 15, 2008, and, as such, DCT will adopt this standard on January 1, 2009. DCT is currently evaluating the potential impact this standard may have on its consolidated financial position, cash flows and results of operations.

In May 2008, the FASB issued SFAS No. 162, The Hierarchy of Generally Accepted Accounting Principles ("SFAS 162"). SFAS 162 identifies the sources of accounting principles and the framework for selecting the principles used in the preparation of financial statements of nongovernmental entities that are presented in conformity with generally accepted accounting principles (the GAAP hierarchy). SFAS 162 will become effective 60 days following the SEC's approval of the Public Company Accounting Oversight Board amendments to AU Section 411, "The Meaning of Present Fairly in Conformity With Generally Accepted Accounting Principles." We do not expect the adoption of SFAS 162 to have a material effect on our consolidated financial position, cash flows and results of operations.

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In May 2008, the FASB issued a FASB Staff Position ("FSP") APB 14-1 Accounting for Convertible Debt Instruments That May Be Settled in Cash upon Conversion (Including Partial Cash Settlement) ("FSP APB 14-1"). FSP APB 14-1 requires the issuer of certain convertible debt instruments that may be settled in cash (or other assets) on conversion to separately account for the liability (debt) and equity (conversion option) components of the instrument in a manner that reflects the issuer's non-convertible debt borrowing rate. FSP APB 14-1 is effective for fiscal years beginning after December 15, 2008 on a retroactive basis and will be adopted by DCT on January 1, 2009. DCT is currently evaluating the potential impact this standard may have on its consolidated financial position, cash flows and results of operations.

In June 2008, the FASB ratified Emerging Issues Task Force ("EITF") Issue 07-5, Determining Whether an Instrument (or Embedded Feature) is Indexed to an Entity's Own Stock ("EITF-07-05"). EITF 07-5 mandates a two-step process for evaluating whether an equity-linked financial instrument or embedded feature is indexed to the entity's own stock. EITF 07-5 is effective for DCT beginning with its first quarter ended March 31, 2009. The Company does not expect the adoption of EITF 07-5 will have a material impact on its financial condition or results of operations.

Other recent accounting pronouncements issued by the FASB (including the EITF), the American Institute of Certified Public Accountants ("AICPA"), and the SEC did not or are not believed by management to have a material impact on DCT's present or future financial statements.

Note 3 – Related-Party Transactions

Related-Party Purchases

The Company purchases the majority of its finished scanner imaging products from Shenzhen Syscan Technology ("SST"), a wholly-owned subsidiary of Syscan Technology Holdings Limited ("STH"), the parent company of DCT's former majority stockholder.

Purchases from SST totaled \$6,816,000 and \$8,369,000 for the years ended December 31, 2008 and 2007, respectively. All purchases from SST were carried out in the normal course of business. As a result of these purchases, DCT was liable to SST for \$393,000 and \$578,000 at December 31, 2008 and 2007, respectively.

Related-Party Net Sales

During the year ended December 31, 2008, DCT recorded net sales totaling \$57,000 for finished scanners sold to SST, a wholly-owned subsidiary of STH. The related cost of goods sold was \$41,000. This transaction contained similar terms and conditions as for other transactions of this nature entered into by DCT.

Note 4 – Employee Equity Incentive Plans

General

DCT's share-based awards are long-term retention plans that are intended to attract, retain and provide incentives for talented employees. DCT believes its share-based awards are critical to its operation and productivity. The employee share-based award plans allow DCT to grant, on a discretionary basis, incentive stock options and non-qualified stock options.

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Stock Options

DCT issues options under two different stock option plans (both approved by shareholders) as well as through employment agreements with key employees, executives and consultants (approved by the board of directors on a case-by-case basis). The following table sets forth, by the respective option plan, certain aspects of DCT's stock options as of December 31, 2008:

Description	Option Approval Method			Options Outstanding and Options Available		
	Board of Directors	Board of Directors and Shareholders	Total	Outstanding	Available For Future Grant	Total
2002 Amended and Restated Stock Option Plan	-	3,200,000	3,200,000	3,200,000	-	3,200,000
Key Personnel Option Grants	6,650,000	-	6,650,000	4,891,165	-	4,891,165
2006 Stock Option Plan		2,500,000	2,500,000	1,204,333	1,295,667	2,500,000
Total	6,650,000	5,700,000	12,350,000	9,295,498	1,295,667	10,591,165

Stock-Based Compensation

The following table sets forth the total stock-based compensation expense included in DCT's Statements of Operations (in thousands):

	Year Ended December 31,	
	2008	2007
Selling, general and administrative	\$ 486	\$ 915
Research and development	116	511
	\$ 602	\$ 1,426

At December 31, 2008, DCT had approximately \$1,349,000 of total unrecognized compensation cost related to unvested stock options. This cost is expected to be recognized over a weighted-average period of approximately three years.

Stock Option Activity and Outstanding

Additional information with respect to stock option activity is as follows:

	Options	Weighted-Average Exercise Price
Outstanding at December 31, 2006	4,890,000	\$ 0.18
Granted	3,186,000	0.70
Exercised	300,000	0.01
Cancelled	928,450	0.82
Outstanding at December 31, 2007	6,847,550	0.34

Granted	5,105,000	0.30
Exercised	1,446,000	0.01
Cancelled	1,211,052	0.74
Outstanding at December 31, 2008	9,295,498 \$	0.32

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The following table summarizes all options outstanding and exercisable by price range as of December 31, 2008:

Range of Exercise Prices	Number Outstanding	Options Outstanding		Options Exercisable	
		Weighted-Average Remaining Contractual Life (Years)	Weighted-Average Exercise Price	Number Exercisable	Weighted-Average Exercise Price
\$ 0.01	2,241,165	3.32	\$ 0.01	2,241,165	\$ 0.01
\$ 0.30	5,035,000	9.54	\$ 0.30	-	-
\$					