

DOCUMENT CAPTURE TECHNOLOGIES, INC.
Form 10-Q
August 11, 2010

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

FORM 10-Q

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the Quarterly Period Ended June 30, 2010

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from to

Commission File Number: 000-25839

DOCUMENT CAPTURE TECHNOLOGIES, INC.

(Exact name of registrant as specified in its charter)

Delaware
(State or other jurisdiction of
incorporation or organization)

80-0133251
(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
(Registrant's telephone number, including area code)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Exchange Act during the preceding 12 months (or for such 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 whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or smaller reporting company. See 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 number of shares of Common Stock outstanding as of August 11, 2010 was 23,267,274.

SPECIAL NOTE ON FORWARD LOOKING STATEMENTS

This Quarterly Report on Form 10-Q, including "Management's Discussion and Analysis of Financial Condition and Results of Operations" in Item 2 of Part I of this report include 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 Quarterly 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 Quarterly Report to conform these statements to actual results.

DOCUMENT CAPTURE TECHNOLOGIES, INC

FORM 10-Q

FOR THE QUARTERLY PERIOD ENDED JUNE 30, 2010

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PART I. FINANCIAL INFORMATION

Item 1 - Financial Statements

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

	June 30, 2010 (unaudited)	December 31, 2009 *
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 306	\$ 328
Trade receivables	2,016	1,497
Inventories, net	1,331	1,674
Prepaid expenses and other current assets	88	132
Total current assets	3,741	3,631
Restricted cash	5	5
Other assets	21	-
Fixed assets, net	160	176
Total assets	\$ 3,927	\$ 3,812
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Line of credit	\$ -	\$ 202
Trade payables to related parties	147	341
Trade payables and other accrued expenses	405	440
Accrued compensation and benefits	117	124
Deferred revenue and customer deposits	50	111
Total current liabilities	719	1,218
Commitments and contingencies (Note 10)		
Stockholders' equity:		
Preferred stock \$.001 par value, 2,000 authorized, 0 issued and Outstanding June 30, 2010 and December 31, 2009		
Common stock \$.001par value, 50,000 authorized, 19,406 shares issued and outstanding at June 30, 2010 and December 31, 2009	19	19
Additional paid-in capital	36,188	35,697
Accumulated deficit	(32,999)	(33,122)
Total stockholders' equity	3,208	2,594
Total liabilities and stockholders' equity	\$ 3,927	\$ 3,812

*Amounts derived from the audited financial statements for the year ended December 31, 2009.

DOCUMENT CAPTURE TECHNOLOGIES, INC.
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS (UNAUDITED)
(in thousands, except per share amounts)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2010	2009	2010	2009
Net sales	\$ 3,302	\$ 3,002	\$ 6,730	\$ 5,017
Cost of sales	2,022	1,824	4,125	3,061
Gross profit	1,280	1,178	2,605	1,956
Operating expenses:				
Selling, general and administrative	986	911	1,952	2,100
Research and development	279	202	544	433
Total operating expenses	1,265	1,113	2,496	2,533
Operating income (loss)	15	65	109	(577)
Total other income (expense)	52	1	16	1
Net income (loss) before income taxes	67	66	125	(576)
Provision for income taxes	-	-	2	-
Net income (loss)	67	66	123	(576)
Accretion of preferred stock redemption value	-	(13)	-	(25)
Net income (loss) available to common stockholders	\$ 67	\$ 53	\$ 123	\$ (601)
Basic income (loss) per common share	\$ 0.00	\$ 0.00	\$ 0.01	\$ (0.03)
Diluted income (loss) per common share	\$ 0.00	\$ 0.00	\$ 0.01	\$ (0.03)
Weighted average common shares outstanding	19,406	18,469	19,406	18,466
Weighted average common shares outstanding, assuming dilution	24,285	22,354	24,285	18,466

DOCUMENT CAPTURE TECHNOLOGIES, INC.
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS (UNAUDITED)
(in thousands)

	Six Months Ended June 30,	
	2010	2009
Operating activities:		
Net income (loss)	\$ 123	\$ (576)
Adjustments to reconcile net income (loss) to net cash provided (used) by operating activities:		
Depreciation expense included in operating expenses	30	27
Depreciation expense included in cost of sales	31	-
Stock-based compensation cost – options	419	298
Fair value of common stock and warrants issued for services rendered	72	111
Other non-cash income/expenses, net	32	(9)
Changes in operating assets and liabilities:		
Trade receivables	(519)	(17)
Inventories	343	360
Prepaid expenses and other	20	(31)
Trade payables to related parties	(194)	(277)
Trade payables and other current liabilities	(42)	134
Income taxes payable	-	(75)
Deferred revenue and customer deposits	(61)	(49)
Cash provided (used) by operating activities	254	(104)
Investing activities:		
Capital expenditures	(45)	(55)
Cash used by investing activities	(45)	(55)
Financing activities:		
Net (payments) advances on bank line of credit	(225)	1,216
Deferred financing costs	(6)	-
Cash (used) provided by financing activities	(231)	1,216
Net (decrease) increase in cash and cash equivalents	(22)	1,057
Cash and cash equivalents at beginning of period	328	405
Cash and cash equivalents at end of period	\$ 306	\$ 1,462

Note 1 – Background and Basis of Presentation

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 for both business and personal use.

Syscan, Inc., 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 and driver license scanners;
- Passport security scanners;