

DOCUMENT CAPTURE TECHNOLOGIES, INC.
Form 10-Q
August 15, 2011
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, 2011

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)

4255 Burton Drive
San Jose, California 95054
(Address of principal executive offices, Zip code)

408-436-9888
(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 12, 2011 was 20,578,126.

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, 2011

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PART I. FINANCIAL INFORMATION

Item 1 - Financial Statements

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

	June 30, 2011	December 31, 2010
	(unaudited)	*
ASSETS		
Current assets:		
Cash and cash equivalents	\$1,273	\$2,322
Trade receivables	1,945	2,539
Inventories, net	2,108	1,730
Due from related parties, net	33	-
Prepaid expenses and other current assets	103	259
Total current assets	5,462	6,850
Other non-current assets	36	44
Fixed assets, net	149	145
Total assets	\$5,647	\$7,039
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Line of credit	\$-	\$-
Trade payables to related parties, net	-	654
Trade payables and other accrued expenses	549	546
Accrued compensation and benefits	272	712
Deferred revenue and customer deposits	26	29
Income tax payable	-	100
Total current liabilities	847	2,041
Stock option liability	541	811
Long-term deferred rent	94	70
Commitments and contingencies (Note 11)		
Stockholders' equity:		
Preferred stock \$.001 par value, 2,000 authorized, 0 issued and outstanding at June 30, 2011 and December 31, 2010	-	-
Common stock \$.001 par value, 50,000 authorized, 20,578 and 20,479 shares issued and outstanding at June 30, 2011 and December 31, 2010 respectively	21	20
Additional paid-in capital	37,627	36,940
Accumulated deficit	(33,483)	(32,843)
Total stockholders' equity	4,165	4,117
Total liabilities and stockholders' equity	\$5,647	\$7,039

*Amounts derived from the audited financial statements for the year ended December 31, 2010.

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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,	
	2011	2010	2011	2010
Net sales	\$3,849	\$3,302	\$7,431	\$6,730
Cost of sales	2,497	2,022	4,874	4,125
Gross profit	1,352	1,280	2,557	2,605
Operating expenses:				
Selling, general and administrative	1,431	986	2,848	1,952
Research and development	314	279	631	544
Total operating expenses	1,745	1,265	3,479	2,496
Operating (loss) income	(393)	15	(922)	109
Non-operating income (expense), net	81	52	282	16
Net (loss) income before income taxes	(312)	67	(640)	125
Income taxes	-	-	-	2
Net (loss) income	\$(312)	\$67	\$(640)	\$123
Basic (loss) income per common share	\$(0.02)	\$0.00	\$(0.03)	\$0.01
Diluted (loss) income per common share	\$(0.02)	\$0.00	\$(0.03)	\$0.01
Weighted average common shares outstanding	20,578	19,406	20,545	19,406
Weighted average common shares outstanding, assuming dilution	20,578	24,285	20,545	24,285

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

	Six Months Ended June 30,	
	2011	2010
Operating activities:		
Net (loss) income	\$(640) \$123
Adjustments to reconcile net (loss) income to net cash (used) provided by operating activities:		
Depreciation expense included in operating expenses	25	30
Depreciation expense included in cost of sales	20	31
Stock-based compensation cost – options	646	419
Fair value of warrants issued for services rendered	41	72
Interest expense attributable to amortization of debt issuance costs	3	32
Change in fair value of stock option liability	(270) –
Changes in operating assets and liabilities:		
Trade receivables	594	(519
Inventories	(378) 343
Prepaid expenses and other	136	20
Due from related parties, net	(33) –
Trade payables to related parties, net	(654) (194
Trade payables and other current liabilities	(437) (42
Income taxes payable	(100) –
Deferred revenue and customer deposits	(3) (61
Long-term deferred rent	24	–
Cash (used) provided by operating activities	(1,026) 254
Investing activities:		
Capital expenditures	(24) (45
Cash used by investing activities	(24) (45
Financing activities:		
Net payments on bank line of credit	–	(225
Proceeds from exercise of common stock options	1	–
Deferred financing costs	–	(6
Cash provided (used) provided by financing activities	1	(231
Net decrease in cash and cash equivalents	(1,049) (22
Cash and cash equivalents at beginning of period	2,322	328
Cash and cash equivalents at end of period	\$1,273	\$306
Supplemental disclosures of cash flow information:		
Cash paid during the period for:		

Interest	\$-	\$16
Income taxes	\$110	\$2
Non-cash investing and financing activities:		
Transfer of deposits for leasehold improvements to fixed assets	\$25	\$-

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 lightweight and compact scanners in a form ideally suited for laptop or desktop computer users who need a small, lightweight device to scan 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"). 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 and driver license scanners;
- Passport security scanners;
- Bank note and check verification;
- Business card readers;
- Barcode scanning; and
- Optical mark readers used in lottery terminals.

Basis of Presentation

The accompanying unaudited condensed consolidated financial statements of DCT have been prepared in accordance with accounting principles generally accepted in the United States for interim financial information and the instructions to Form 10-Q and Article 8-03 of Regulation S-X. Accordingly, they do not include all information and disclosures necessary for a presentation of the Company's financial position, results of operations, and cash flows in conformity with accounting principles generally accepted in the United States ("GAAP").

In the opinion of management, all adjustments (which include only normal recurring adjustments) necessary to present fairly the financial position, results of operations and cash flows for all periods presented have been made. Preparing financial statements requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenue and expenses. Actual results may differ from these estimates. The results of operations for the period ended June 30, 2011 are not necessarily indicative of the operating results that may be expected for the entire year ending December 31, 2011. The interim financial statements should be read in conjunction with the financial statements in the Company's Annual Report on Form 10-K for the year ended December 31, 2010, filed with the Securities and Exchange Commission ("SEC") on March 16, 2011.

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 income (loss), net income (loss), financial position or liquidity.

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Note 2 – Recent Accounting Pronouncements

Multiple Element Arrangements Excluding Software

DCT occasionally enters into revenue arrangements that contain multiple deliverables. Judgment is required to properly identify the accounting units of the multiple deliverable transactions and to determine the manner in which revenue should be allocated among the accounting units. Moreover, judgment is used in interpreting the commercial terms and determining when all criteria of revenue recognition have been met for each deliverable in order for revenue recognition to occur in the appropriate accounting period. While changes in the allocation of the arrangement consideration between the units of accounting will not affect the amount of total revenue recognized for a particular sales arrangement, any material changes in these allocations could impact the timing of revenue recognition, which could affect DCT's results of operations.

The Financial Accounting Standards Board ("FASB") issued amended revenue recognition guidance for arrangements with multiple deliverables by allowing management's best estimate of selling price for individual elements of an arrangement when vendor-specific evidence or third party evidence is unavailable.

Comprehensive Income