



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 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 (§ 232.405 of this chapter) 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 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 (7,739,200 shares) was approximately \$2,471,760, based on the average closing bid and ask price of \$0.30 for such common equity on June 30, 2012.

As of April 8, 2013, there were outstanding 22,076,976 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, 2012**

**INDEX**

|  | <b>Page</b> |
|--|-------------|
| <b><u>PART I</u></b>   |             |
| Item 1 Business  | 4           |
| Item 1A. Risk Factors  | 9           |
| Item 2 Properties  | 14          |
| Item 3 Legal Proceedings   | 14          |
| Item 4 Mine Safety Disclosures   | 14          |
| <b><u>PART II</u></b>  |             |
| Item 5 Market for Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities | 15          |
| Item 7 Management's Discussion and Analysis of Financial Condition and Results of Operations           | 18          |
| Item 8 Financial Statements  | 25          |
| Item 9 Changes in and Disagreements with Accountants on Accounting and Financial Disclosure            | 26          |
| Item 9A Controls and Procedures  | 26          |
| <b><u>PART III</u></b>   |             |
| Item 10 Directors, Executive Officers and Corporate Governance   | 27          |
| Item 11 Executive Compensation   | 32          |
| Item 12 Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters | 36          |
| Item 13 Certain Relationships and Related Transactions, and Director Independence                      | 38          |
| Item 14 Principal Accounting Fees and Services   | 40          |
| <b><u>PART IV</u></b>  |             |
| Item 15 Exhibits, Financial Statement Schedules  | 41          |

## **PART I**

### **ITEM 1. BUSINESS**

#### **Overview**

Document Capture Technologies, Inc. ("DCT" or "Company"), a Delaware corporation, develops, designs and delivers various USB-powered image-scanning solutions to all types and sizes of enterprises. The Company's patented and proprietary page-imaging devices facilitate the way information is stored, shared and managed, and are designed to reduce organizations' operating costs, improve information accuracy and security, and speed processing time. End users include large and small corporations, small office-home offices ("SOHO"), professional practices, governmental agencies and consumers.

To date, DCT offers more than 40 variations of its imaging platforms sold primarily to original equipment manufacturers ("OEM"), private label brands and value added resellers ("VAR"). DCT's image-scanning products can be found in a variety of applications, including:

- . 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.

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 NCR, BURROUGHS, BRIDGEPORT TECHNOLOGIES, VISIONEER, BROTHER INTERNATIONAL, NEWELL RUBBERMAID/DYMO-CARDSCAN, and AMBIR TECHNOLOGY. Our vertically integrated design and manufacturing business model allows our customers to introduce new products to the market quickly and efficiently.

#### **Executive Management Restructuring – January 2013**

During January 2013, DCT restructured its executive management team, whereby DCT terminated both its chief executive officer and its president. In connection therewith, DCT's former CEO resigned from the Board of Directors. Concurrently, DCT entered into an employment agreement with Michael Campbell to become its new CEO and President. The purpose of the restructure is to enhance and strengthen DCT's strategic leadership and reduce overhead expenses. Mr. Campbell has twenty-three years of experience in the technology industry, has been the CEO of four companies in the technology industry and is a seasoned business development and marketing executive. Mr. Campbell will focus on mapping DCT's existing technology and human assets to emerging market opportunities and accelerating financial strength through highly-focused business initiatives.

### **Current Market Opportunities, Strategies and Products**

#### **Strategic Investment**

In August 2010, NCR invested in DCT by purchasing 3,861,004 shares of our common stock for an aggregate purchase price of \$4,000,000 ("NCR Investment"). The NCR Investment was both a strategic and financial milestone for DCT. It provided the capital to aggressively invest in new product development. As a direct result, DCT is planning to launch its next generation product in 2013. With a strengthened financial position, we were also able to actively pursue strategic partnerships with other businesses world-wide in order to expand our distribution channels and product offerings.

DCT continues to leverage its relationship with NCR, exploring ways to use DCT's technology to benefit NCR's market niches.

#### **Current Products**

Globally, the paper-to-digital revolution has grown exponentially. Information management, including how that information is retrieved, stored, shared and disseminated, has become increasingly important, and in many instances critical, for all enterprises. Our document/image-capture products help transform business-critical information from paper into a manageable digital format.

Our solutions can speed the processing of thousands of forms, documents and transactions annually, converting their content into information that is easily integrated into a database, document, or other management system. We believe that our document/image-capture products enable organizations to reduce operating costs, obtain higher information accuracy rates and markedly increase processing times. As a result, we believe there are significant and sustainable growth opportunities for our solutions to help simplify the way enterprises manage information.

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

| Year Ended        | Net Revenue |
|-------------------|-------------|
| December 31, 2012 | \$ 17,348   |
| December 31, 2011 | 17,658      |
| December 31, 2010 | 14,849      |

We offer several different image scanning product groups to meet the diverse needs of our customers. Although all of our solutions are based on patented and proprietary technologies, our product groups are characterized from one another by distinct features and configurations. Our most popular product groups include the 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;
- 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 lightweight and convenient TravelScan products are entry-level document management products directly powered by a fixed USB cable. Our small footprint TravelScan products can be carried alongside laptops because they use minimal workspace. They 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.

### **Next Generation Products**

During 2012 and 2011, DCT invested in its future by hiring additional personnel in all areas of the Company. With this expansion, we are undertaking significant new product innovations that incorporate engineering, sales, marketing, and business development. Our integrated approach to next-generation product development gives us an improved ability to explore new configurations of our existing technology scanners. New configurations include, but are not limited to, direct Internet connectivity and smart device (e.g. iPhone, iPad, Android devices) operation. We believe our next-generation products will:

- Capture the current market trends in Cloud storage, processing, and file sharing;
- Support the move from personal computers to smart devices; and
- Further distinguish our products from our competition.

To support this expansion, our engineering team is exploring WiFi technology, battery-powered technology, Bluetooth connectivity, USB for iOS and Android OS, and other hardware technologies, and we supplement our in-house abilities with contractors with specific knowledge. Our goal is to incorporate these state-of-the-art technologies with our existing power efficiency, dependability, image quality and low cost, which are DCT's patented and signature characteristics.

We recognize that most of our future technology value will be offered through unique layers of software. We are focused on new firmware embedded with the scanner, which will offer unique value by performing special secure and data rich operations at the point of capture. To capitalize on the "Cloud Computing" trend, DCT is developing a new-to-the-world combination of both novel and popular Internet services. With the combination of document and data-capture devices, secure firmware, and "Cloud Computing," we believe we will be able to offer complete solutions in a number of vertical markets.

DCT has taken critical steps in preparation for deploying these new products. Existing engineering operations are being streamlined with the introduction of new tracking, planning, testing, and collaborative processes.

### **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 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. Our products are sold by our customers 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, 2012. To maintain our competitive advantage, we maintain a high level of investment in research and development, and focus on factory efficiency. This allows 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:

Product quality and performance;  
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; and  
Broad distribution channels.

**Manufacturing and Raw Material Supply**

**Manufacturing.** Historically, we have purchased the majority of our finished scanner imaging products from various related entities (referred to collectively as “Scanner Manufacturers”) owned by a DCT stockholder who currently owns approximately 14% of DCT’s outstanding common stock. See Part III, “Item 13. Certain Relationships and Related Transactions, and Director Independence.”

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

**Raw Materials.** We do not have any long-term or exclusive purchase commitments with any of our suppliers.

Scanner Manufacturers purchase the raw materials, parts and components, with the exception of the critical components 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. Some controller chips are sole-sourced, as they are specialized devices that can effectively control the cost of our product. To reduce the risk associated with using a sole supplier, we attempt to maintain strategic inventories of these sole-sourced components. Where possible, we also work with secondary suppliers to qualify additional sources of supply.

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 our 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 64% and 67% during the years ended December 31, 2012 and 2011, respectively. See Note 1 included in Part II, "Item 8. Financial Statements." Our largest customer rankings and their respective contributions to our net sales have varied and will likely continue to vary from period to period. However, we expect that our largest customers will continue to account for a substantial portion of our net sales in the foreseeable future.

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 typically sell products pursuant to purchase orders that customers can generally defer without incurring a significant penalty. 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**

Our intellectual property ("IP") includes multiple patents and trademarks. While the success of our business depends more on unpatented factors such 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 IP rights in a variety of ways. Obtaining patents on our innovative technologies is one such way.

Another way we seek to protect our proprietary technology and other proprietary rights is by requiring our employees and independent 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 controlling the access to, and distribution of, our intellectual property to protect our confidential information and IP.

### **Compliance with Environmental, Health and Safety Regulations**

DCT and its product manufacturer have established an ongoing product surveillance program in coordination with standards set by Underwriters Laboratories, Canadian Standards Association, CB Safety Standards, Federal Communication Commission (FCC class B), Community European (CE mark) and VCCI compliance (Japan). Additionally, all DCT products offered are RoHS compliant as required by the European Union ("EU").

### **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 future products, and we expect to continue to allocate significant resources to these efforts. We have assembled a strong team of experienced engineers and technologists that are advancing our core technologies and developing the technology innovations that we believe will deliver our next generation of products. Our R&D team, consisting of employees and contractors, is responsible for designing and developing new products, optimizing the manufacturing processes, and researching future technologies and products.

With the hiring of our Chief Technology Officer in September 2011, we launched a renewed and stronger focus and commitment toward product innovation and overall IP strategy. Our renewed focus includes expanding our existing technology, developing new technology, and licensing third-party technology to complement our technology and allow for quicker time to market. We believe the benefits of our strategy include:

- A greater ability to establish new, and strengthen existing, competitive barriers;
- Additional competitive marketing advantages; and
- The potential for licensing and cross-licensing of our IP.

Our research and development expenses were \$1,833,000 and \$1,351,000 for the years ended December 31, 2012 and 2011, respectively. To date, all research and development costs have been expensed as incurred.

**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.

**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, 2012, we employed 28 employees on a full-time basis, 23 employees were located in the United States, 3 were located in China and 2 were located in Europe. Of the total, 5 were in product research and development and 23 were in sales, operations 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](http://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 4255 Burton Drive, Santa Clara, California 95054 or call 408-436-9888.

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](http://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.

## 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 64% and 67% during the years ended December 31, 2012 and 2011, 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 operating loss was \$1,157,000 and \$589,000 for the years December 31, 2012 and 2011, respectively. Our accumulated deficit as of December 31, 2012 was \$33,875,000. We cannot provide assurance that we can achieve operating 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; any interruption in the availability of these components and raw materials used in our product could reduce our revenues or increase our costs.**

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 or reduced availability 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.

Because we rely on a limited number of suppliers, any cost increases or other changes that impact our suppliers could be imposed on us, and may require us to incur additional costs in order to obtain an adequate supply of those components and raw materials.

**We face growing competition and expect competition to increase in the future.**

We face an increasingly competitive market with larger competitors and rapidly evolving technologies. We anticipate pricing pressure from domestic and international markets requiring ongoing management attention. Any material decrease in our revenues as a result of any such pricing pressures, without a corresponding reduction in our cost of goods sold, would have a material adverse effect on our gross profit.

**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.

**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.

**Our results of operations could be impacted by macroeconomic and other factors, including currency exchange rates, harming our results of operations.**

Such factors, including fluctuations in foreign currency exchange rates, specifically the fluctuation between the Chinese Yuan and the U.S. Dollar, could increase our cost of sales and negatively impact our results of operations.

**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 or our customers are infringing, or contributing to the infringement of, their intellectual property. We could be exposed to significant litigation or licensing expenses or be prevented from selling our products if such claims are successful.

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 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.

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 which are affected by, 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; 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 effect 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.

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 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.

**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 April 8, 2013, there were 22,076,976 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. As of April 8, 2013, we had the following common shares reserved for future issuance:

|  |            |
|--|------------|
| Stock options – employees, directors and contractors | 13,100,508 |
| Warrants outstanding                                 | 68,027     |
| Total  | 13,168,535 |

The numbers above do not include 2,117,957 shares that are available for future grant under our employee stock option plans. To the extent that options or warrants are exercised, the holders of our common stock would 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 would 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, 2012:

| <b>Location</b>                       | <b>Lease expiration</b> | <b>Total Square Footage</b> | <b>Primary Usage</b>   |
|---------------------------------------|-------------------------|-----------------------------|--|
| Santa Clara, CA                       | October 2015            | 32,000                      | Corporate headquarters, product development, inventory management and distribution |
| Arnhem, Netherlands                   | Month to month          | Less than 500               | Field service and sales office   |
| Apeldoorn, Netherlands <sup>(1)</sup> | Month to month          | Varies                      | Inventory management and distribution  |
| New York, NY                          | April 2013              | Less than 500               | Board of directors and subcommittee meetings, and investor relations               |

<sup>(1)</sup>We contract with a third party to provide logistics services including: transportation, storage, and distribution. The square footage varies in proportion to the amount of inventory on hand.

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. MINE SAFETY DISCLOSURES

Not applicable.

## **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”). 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 2012:            |        |        |
| 1 <sup>st</sup> Quarter | \$0.46 | \$0.24 |
| 2 <sup>nd</sup> Quarter | 0.44   | 0.24   |
| 3 <sup>rd</sup> Quarter | 0.35   | 0.15   |
| 4 <sup>th</sup> Quarter | 0.23   | 0.13   |
| Fiscal 2011:            |        |        |
| 1 <sup>st</sup> Quarter | \$0.58 | \$0.31 |
| 2 <sup>nd</sup> Quarter | 0.54   | 0.33   |
| 3 <sup>rd</sup> Quarter | 0.42   | 0.26   |
| 4 <sup>th</sup> Quarter | 0.44   | 0.15   |

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

#### **Record Holders**

As of April 8, 2013, there were 365 registered holders of record as indicated on the records of DCT’s transfer agent. In addition, there are a significant number of holders of DCT common stock that are “street name” or beneficial holders, whose shares are held of record by banks, brokers, and other financial institutions.

#### **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.

**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, 2012:

|  | Number of securities to be issued upon exercise of outstanding options, warrants and rights<br>(a) | Weighted average exercise price of outstanding options, warrants and rights<br>(b) | Number of securities remaining available for future issuance under equity compensation plans (excluding securities reflected in column (a))<br>(c) |
|--|--|--|--|
| Equity compensation plans approved by security holders     | 8,582,043  | \$ 0.44  | 2,117,957  |
| Equity compensation plans not approved by security holders | 4,586,492  | 0.27   | –  |
| Total  | 13,168,535   | \$ 0.38  | 2,117,957  |

### **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. 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, 2012, there were 446,290 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. 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, 2012, there were 351,000 options

available for future grant under the 2006 Plan.

### **2009 Stock Option Plan**

At our stockholders' annual meeting on September 14, 2009, our stockholders approved the adoption of the 2009 Stock Option Plan ("2009 Plan"). Currently the plan is administered by our Board of Directors. The 2009 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 2009 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. 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 2009 Plan provides that each outstanding option will fully vest and become exercisable. The maximum number of options that can be granted under the 2009 Plan is 1,500,000. As of December 31, 2012, there were 320,667 options available for future grant under the 2009 Plan.

### **2010 Stock Option Plan**

At our stockholders' annual meeting on April 19, 2011, our stockholders approved the adoption of the 2010 Stock Option Plan ("2010 Plan"). Currently the plan is administered by our Board of Directors. The 2010 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 2010 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. 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 2010 Plan provides that each outstanding option will fully vest and become exercisable. As of December 31, 2012, there were 1,000,000 options available for future grant under the 2010 Plan.

### **2013 Stock Option Plan**

In January 2013, our board of directors adopted the 2013 Stock Option Plan (“2013 Plan”) pursuant to which the Company may grant options to purchase up to 3,500,000 shares of its common stock. Currently the plan is administered by our Board of Directors. The 2013 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 2013 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. 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 2013 Plan provides that each outstanding option will fully vest and become exercisable. Because the 2013 Plan was adopted in January 2013 there were no options issued under the 2013 Plan as of December 31, 2012.

### **Recent Sales of Unregistered Securities**

During the year ended December 31, 2012, 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.

### **Issuer Purchases of Equity Securities**

There were no repurchases of equity securities by the issuer or affiliated purchasers during the fourth quarter of the year ended December 31, 2012.

- 17 -

## 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 and Strategy.*** 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, 2012 ("Fiscal 2012") compared to the year ended December 31, 2011 ("Fiscal 2011"). A brief description of certain aspects, transactions and events is provided, which 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, 2012 and our cash flows for Fiscal 2012 compared to Fiscal 2011.

***Contractual Obligations, Off-Balance-Sheet Arrangements, and Trends.*** As of December 31, 2012, an overview of (i) contractual obligations and contingent liabilities and commitments, including an expected payment schedule, (ii) an explanation of off-balance-sheet arrangements, and (iii) known trends.

### **Overview and Strategy**



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 related to document digitization and utilization. We sell our products to customers throughout the world.

In August 2010, NCR invested \$4,000,000 in DCT by purchasing 3,861,004 shares of our common stock for an aggregate purchase price of \$4,000,000 (“NCR Investment”). The NCR Investment was both a strategic and financial milestone for DCT. It provided the capital to aggressively invest in new product development. It also allowed us to actively pursue strategic partnerships with other businesses world-wide in order to expand our distribution channels and product offerings.

In September 2011, we appointed a Chief Technology Officer (“CTO”), and have since hired additional engineers as part of our continuous investment in research and development. In addition to expanding our engineering staff, we have increased our usage of specialized contractors with unique skills and abilities to supplement our new product innovation and development. Our in-house engineers are focused on expanding our existing intellectual property and creating and developing state-of-the-art solutions. Contractors are used where appropriate to supplement DCT’s in-house capabilities with state-of-the-art complementary skills. Our goal is to consistently develop new products while minimizing our time to market, strengthen competitive barriers, broaden our revenue base, and balance the risk of new product development.

January 2013, DCT restructured its executive management team, whereby DCT terminated both its chief executive officer and its president. In connection therewith, DCT’s former CEO resigned from the Board of Directors. Concurrently, DCT entered into an employment agreement with Michael Campbell to become its new CEO and President. The purpose of the restructure is to enhance and strengthen DCT’s strategic leadership and reduce overhead expenses. Mr. Campbell has twenty-three years of experience in the technology industry, has been the CEO of four companies in the technology and industry and is a seasoned business development and marketing executive. Mr. Campbell will focus on mapping DCT’s existing technology and human assets to emerging market opportunities and accelerating financial strength through highly-focused business initiatives.

### **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.

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 product sales including the sale of optical image capturing devices, modules of optical image capturing devices, and chips and other optoelectronic products. Generally, revenue is recognized when the product is shipped and the risks and rewards of ownership have transferred to the customer. In certain instances, when deemed appropriate by management, we recognize revenue as the cash is collected.

Shipping charges billed to customers are included in net sales and the related shipping costs are included in cost of sales in the period of shipment.

Occasionally we enter into revenue arrangements that contain multiple deliverables. For arrangements with multiple elements, revenue is allocated across the separately identified deliverables and recognized when all criteria of revenue recognition have been met for each deliverable. Direct costs are recognized during the same period that the related revenue is recognized.

#### **Sales Incentives**

In certain instances, we offer sales incentives whereby we give customers additional product for certain volume-related purchases. We record the cost of the product-related sales incentives as a cost of sales during the period the incentive is earned.

### **Inventory and Warranty Reserves**

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. At December 31, 2012 and 2011, our allowance for slow-moving inventory was \$246,000 and \$33,000, respectively. We had no material inventory write-offs during the years ended December 31, 2012 or 2011.

Currently, our manufacturer warrants products against defects in material and workmanship for a period of 18 months after the completion of manufacture. After such 18-month period, our manufacturer 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. Repair costs incurred after the 18-month warrantee period are reimbursed by our customers. As a result, 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.

### **Impairment of Long-Lived Assets**

We evaluate our 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 2012 or Fiscal 2011.

## 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. 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.

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, 2012 and 2011.

## Stock-Based Compensation Expense

We have incentive plans that permit us to grant incentive stock options and non-qualified stock options to employees, directors and consultants. All stock options are valued using a Black-Scholes option pricing model. 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.

Stock-based compensation expense recognized in our financial statements 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, directors or consultants.

### **Fair Value of Financial Instruments**

We account for certain liabilities pursuant to the Fair Value Topic of the Codification, which defines three levels of inputs that may be used to measure fair value:

Level 1. Quoted prices in active markets for identical assets or liabilities. We had no Level 1 assets or liabilities during Fiscal 2012 or Fiscal 2011.

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 during Fiscal 2012 or Fiscal 2011.

Level 3. Unobservable inputs to the valuation methodology that are significant to the measurement of the fair value of assets or liabilities. We had no Level 3 assets during any period presented. Our Level 3 liabilities include (i) stock option liabilities and (ii) derivative contracts liabilities. DCT estimates the fair value of Level 3 liabilities using either the Binomial option pricing model or the Black-Scholes valuation model, depending on the attributes of the liability being measured. During the third quarter of 2012, our Level 3 liability matured. As of December 31, 2012, we had no Level 3 liabilities.

Results of Operations

The following table summarizes our results of operations for Fiscal 2012 compared to Fiscal 2011 (*in thousands*):

|   | Fiscal 2012 | Fiscal 2011 | \$ Change | % Change |
|---|-------------|-------------|-----------|----------|
| Net sales                                   | \$ 17,348   | \$ 17,658   | \$ (310 ) | (2 )%    |
| Cost of sales                               | 11,219      | 10,952      | 267       | 2        |
| As a percentage of sales                    | 65 %        | 62 %        |           |          |
| Selling, general and administrative expense | 5,453       | 5,944       | (491 )    | (8 )     |
| Research and development expense            | 1,833       | 1,351       | 482       | 36       |
| Total non-operating income (expense)        | 481         | 297         | 184       | NM       |
| Provision for income taxes                  | –           | 64          | (64 )     | NM       |
| Net loss                                    | (676 )      | (356 )      | (320 )    | NM       |

NM = Not Meaningful

**Net Sales**

Net sales decreased for Fiscal 2012 compared to Fiscal 2011 as a result of sales for Fiscal 2011 having been favorably impacted by the fulfillment of a large order for one customer during that period. Our sales during Fiscal 2012 were positively impacted by the globalization and expansion of our products into Europe and Asia.

As a percentage of total sales, international sales increased to 15% in Fiscal 2012 from 4% in Fiscal 2011. The increase in international sales as a percentage of sales and the increase in international sales expressed in absolute dollars were attributable to the globalization and expansion of our products into Europe and Asia as discussed above.

International sales are strategically important to the growth of our business. The majority of our international sales are in Europe. Because our products can be easily configured to support different languages, and we provide ongoing support for Romanized, Cyrillic and Sinographic character software, we are able to actively pursue sales opportunities in many different international markets.

Although we continually concentrate on expanding our 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 64% and 67% during Fiscal 2012 and Fiscal 2011, respectively. See “Note 1 – Organization and Significant Accounting Policies” in Part II, Item 8 of this Form 10-K. 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.

### **Cost of Sales, Including Gross Profit**

Cost of sales includes all direct costs related to the purchase of scanners and imaging modules manufactured in China, and to services related to the delivery of those items. To a lesser extent, cost of sales also includes engineering services, software royalties and depreciation of manufacturing equipment. For scanners where the final assembly and test is completed in the U.S., additional labor costs are included.

Cost of sales as a percentage of sales increased during Fiscal 2012 compared to Fiscal 2011 primarily due to the mix of products sold. To a lesser extent, currency fluctuations and volume-related discounts impacted cost of sales as a percentage of sales.

Our cost of sales as a percentage of sales has been affected in the past, and may continue to be affected in the future, by various factors, including, but not limited to, the following:

- Our product mix and volume of product sales (including sales to high volume customers).
- Changes to customer requirements for third-party software integrated into our products.
- Manufacturing efficiencies and inefficiencies, including cost reduction strategies.

Currency fluctuations between the Chinese Yuan and the U.S. Dollar.

Product expansion.

The proportion of sales generated from scanners assembled in the U.S. versus the proportion of scanners assembled at our subcontract manufacturer in China.

Provisions for slow-moving inventories.

Our ability to advance to the next technology faster than our competitors.

We expect our cost of sales as a percentage of net sales to fluctuate in the future as we experience changes in our product mix, work toward implementing further product cost reduction strategies, and expand our product offerings.

### **Selling, General and Administrative Expenses**

Selling, general and administrative expenses (“SG&A”) 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 and logistics are also included.

Although total SG&A expenses decreased during Fiscal 2012 compared to Fiscal 2011, certain expenses within SG&A increased and others decreased:

Increased headcount and compensation-related increases of approximately \$199,000 to attract and retain talent hired to grow and expand our business.

Decreased professional recruiting fees of approximately \$94,000; these fees were incurred only in Fiscal 2011 while expanding our management team.

Decreased IT consulting expenses of \$126,000 resulting from the upgrade to our IT infrastructure during Fiscal 2011.



Decreased stock-based compensation expense (a non-cash charge) of approximately \$353,000 as a result of fully amortized options during the latter part of 2011. See “Note 4 - Equity Incentive Plans” in Part II, Item 8 of this Form 10-K.

Remaining decrease in SG&A during Fiscal 2012 compared to Fiscal 2011 was a result of active expense management as we realized our growth initiatives were not increasing sales in the current period. We anticipate that future selling, general and administrative expenses will fluctuate as we concentrate on growing our business by expanding our customer base, product offering, revenue base, and global presence.

### **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 increased research and development expense during Fiscal 2012 compared to Fiscal 2011 was primarily attributable to: (i) increased personnel expenses for internal engineers, outside consultant and contractors, and our newly-hired CTO, and (ii) expenses associated with accelerating the development of new products. In connection with the hiring of our CTO, we renewed our focus and commitment toward product innovation and overall IP strategy. Our renewed focus includes expanding our existing technology, developing new technology, and licensing third-party technology to complement our technology and allow for quicker time-to-market.

We anticipate that research and development expense will continue to increase as a result of our aforementioned renewed commitment toward product innovation, our overall IP strategy, and our evolution into a mobile and cloud-centric solutions provider with an emphasis on document and data capture in a secure environment.

**Non-Operating Income (Expense)**

The most significant component of our non-operating income (expense) was a non-cash gain of \$502,000 and \$309,000 during Fiscal 2012 and Fiscal 2011, respectively, to reflect the decreased fair value of our stock option liability. See “Note 8 – Fair Value” in Part II, Item 8 of this Form 10-K. During the third quarter of 2012, our stock option liability matured without being exercised. As such, our future non-operating income (expense) will no longer be impacted by such non-cash gain (loss).

**Provision for Income Taxes**

DCT generated a taxable loss during Fiscal 2012 and taxable income during Fiscal 2011. Although DCT has state and federal net operating loss carryforwards (“NOLs”) to offset any current year taxable income, the federal tax expense of \$3,000 for Fiscal 2011 represents alternative minimum tax, as NOLs can only offset 90% of taxable income. Additionally, the State of California legislated the suspension of NOLs for companies with taxable income in excess of \$300,000 for 2011. As such, DCT’s taxable income generated during Fiscal 2011 was fully taxable at the current California statutory tax rate and resulted in state taxes of \$61,000.

**Liquidity and Capital Resources**

At December 31, 2012, our principal sources of liquidity included cash and cash equivalents of \$2,166,000 and an available borrowing capacity of \$1,746,000 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, 2012 and 2011 (*in thousands*):

|  | As of or for the<br>Year Ended December 31, |          |
|--|---|----------|
|  | 2012  | 2011     |
| Net cash provided by operating activities                | \$ 40                                       | \$ 179   |
| Net cash used by investing activities                    | (336 )                                      | (39 )    |
| Net cash provided (used) by financing activities         | 7   | (7 )     |
| Net (decrease) increase in cash and cash equivalents     | (289 )                                      | 133      |
| Cash and cash equivalents at the beginning of the period | 2,455                                       | 2,322    |
| Cash and cash equivalents at the end of the period       | \$ 2,166                                    | \$ 2,455 |

|                 |          |          |
|-----------------|----------|----------|
| Working capital | \$ 5,389 | \$ 5,566 |
|-----------------|----------|----------|

### Operating Activities

Cash provided by operations during Fiscal 2012 was primarily a result of our \$676,000 net loss, \$754,000 of net non-cash expenses, and \$38,000 net cash used by changes in operating assets and liabilities. Cash provided by operations during Fiscal 2011 was primarily a result of our \$356,000 net loss, \$1,167,000 of net non-cash expenses, and \$632,000 net cash used by changes in operating assets and liabilities.

Net non-cash expenses include: depreciation expense, allowance for slow-moving inventory, stock-based compensation cost for options, fair value of common stock warrants issued for services rendered, non-cash interest expense, and change in fair value of stock option liability.

Our largest use of cash during Fiscal 2011 was attributable to the increase in inventory due to a shipping delay; products originally scheduled for delivery during the fourth quarter of Fiscal 2011 were instead shipped during the first quarter of Fiscal 2012. Our inventories decreased during Fiscal 2012 compared to Fiscal 2011, as we were not holding any inventory shipments at December 31, 2012.

Remaining changes in operating assets and liabilities during both Fiscal 2012 and Fiscal 2011 were indicative of the normal operational fluctuations related to the timing of product shipments, trade receivable collections, inventory management, and timing of vendor payments.

We expect future cash provided (used) by operating activities to fluctuate primarily as a result of: expansion efforts, variations in operating results, timing of product shipments, trade receivables collections, inventory management including the expansion of our product offerings, and timing of vendor payments.

### Investing Activities

During Fiscal 2012 the majority of our investing activities were attributable to our \$300,000 ACSC Note. The ACSC Note pays five percent interest per year. Principal and interest are both due on September 17, 2013 (“Maturity Date”). At any time prior to the Maturity Date, we are entitled to convert the original principal amount of this Note into shares of ACSC equal to six percent of the outstanding common stock at the time of exercise. The purpose of the investment in the ACSC Note is to diversify and expand our product offerings into the Internet security market and expedite our evolution into a mobile and cloud-centric solutions provider with an emphasis on document and data capture in a secure environment.



The remaining investing activities for both Fiscal 2012 and Fiscal 2011 included capital purchases to support normal business operations.

### **Financing Activities**

During Fiscal 2012 and 2011, financing activities consisted of (i) proceeds received from the exercise of employee stock options, and (ii) debt issuance costs related to the extension of our bank line of credit.

### **Cash and Working Capital Requirements**

Our strengthened financial position as a result of the 2010 NCR Investment allowed us to actively pursue revenue growth through new strategic partnerships, as well as invest in product development. However, during 2012, sales fell short of expectation, and liquidity and working capital decreased.

During January 2013, we reorganized and downsized our executive management team to reduce operating expenses to more align with current and anticipated sales. Such reorganization will immediately reduce operating expenses and allow us to focus specifically on the next generation of document capture technology rather than growth and expansion.

Management believes that current cash and other sources of liquidity are sufficient to fund normal operations for the next 12 months.

### **Contractual Obligations**

The following table summarizes our contractual obligations at December 31, 2012, and the effect such obligations are expected to have on our liquidity and cash flows in future periods (*in thousands*):

|  | Less Than<br>Total One Year | One – Three<br>Years |
|--|-----------------------------|----------------------|
|--|-----------------------------|----------------------|

|  |       |        |        |
|--|-------|--------|--------|
| Bank line of credit <sup>(1)</sup>         | \$-   | \$ -   | \$ -   |
| Operating lease obligations <sup>(2)</sup> | 746   | 246    | 500    |
| Total contractual cash obligations         | \$746 | \$ 246 | \$ 500 |

<sup>(1)</sup> During November 2012, we amended our LOC (“Amended LOC”), to extend the maturity date to November 15, 2013 and expand our borrowing base. Previously, the borrowing base formula allowed accounts receivable from individual customers up to 25% of total accounts receivable. The Amended LOC expands the borrowing base by including certain customer balances in excess of 25% of the total accounts receivable. All other significant terms and conditions remain unchanged.

As of December 31, 2012, we were in compliance with all 2012 Amended LOC debt covenants and had unused borrowing capacity of \$1,746,000.

<sup>(2)</sup> Operating lease obligations relate to DCT’s corporate office and warehouse space that extends through October 2015. In addition to the lease payments, we are also responsible for common area maintenance (“CAM”) charges and pro-rated taxes and insurance. CAM is subject to change, but has averaged approximately \$10,000 per month since the inception of the lease.

**Off-Balance Sheet Arrangements**

At December 31, 2012, 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, 2012, 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 12 – Commitments and Contingencies and Note 15 – Subsequent Events” in Part II, Item 8 of this Form 10-K.

**ITEM 8. FINANCIAL STATEMENTS**

The information required by this Item is set forth beginning on page F-1 of this Annual Report on Form 10-K and is incorporated by reference herein.

- 25 -

**ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE**

None.

**ITEM 9A. CONTROLS AND PROCEDURES**

**Evaluation of Disclosure Controls and Procedures**

Based on management's evaluation (with the participation of our CEO and Chief Financial Officer (CFO)), as of the end of the period covered by this report, our CEO and CFO have concluded that our disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended (the Exchange Act)), are effective to provide reasonable assurance that information required to be disclosed by us in reports that we file or submit under the Exchange Act is recorded, processed, summarized, and reported within the time periods specified in U.S. Securities and Exchange Commission (SEC) rules and forms, and is accumulated and communicated to management, including our principal executive officer and principal financial officer, as appropriate, to allow timely decisions regarding required disclosure.

**Evaluation of Changes in Internal Control over Financial Reporting**

There were no changes to our internal control over financial reporting (as defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act) that occurred during the quarter ended December 31, 2012 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

**Management's Report on Internal Control Over Financial Reporting**

Our management is responsible for establishing and maintaining adequate internal control over financial reporting (as defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act) to provide reasonable assurance regarding the reliability of our financial reporting and the preparation of consolidated financial statements for external purposes in accordance with U.S. generally accepted accounting principles.



Management assessed our internal control over financial reporting as of December 31, 2012, the end of our fiscal year. Management based its assessment on criteria established in “*Internal Control—Integrated Framework*” issued by the Committee of Sponsoring Organizations of the Treadway Commission. Management’s assessment included evaluation of elements such as the design and operating effectiveness of key financial reporting controls, process documentation, accounting policies, and our overall control environment.

Based on our assessment, management has concluded that our internal control over financial reporting was effective as of the end of the fiscal year to provide reasonable assurance regarding the reliability of financial reporting and the preparation of consolidated financial statements for external reporting purposes in accordance with U.S. generally accepted accounting principles. We reviewed the results of management’s assessment with the Audit Committee of our Board of Directors.

Management's report was not subject to attestation by our registered public accounting firm pursuant to rules established by the Securities and Exchange Commission that permit us to provide only management's report in this Annual Report.

**Inherent Limitations on Effectiveness of Controls**

Our management, including the CEO and CFO, does not expect that our disclosure controls or our internal control over financial reporting will prevent or detect all errors and all fraud. A control system, no matter how well designed and operated, can provide only reasonable, not absolute, assurance that the control system’s objectives will be met. The design of a control system must reflect the fact that there are resource constraints, and the benefits of controls must be considered relative to their costs. Further, because of the inherent limitations in all control systems, no evaluation of controls can provide absolute assurance that misstatements due to error or fraud will not occur or that all control issues and instances of fraud, if any, have been detected. The design of any system of controls is based in part on certain assumptions about the likelihood of future events, and there can be no assurance that any design will succeed in achieving its stated goals under all potential future conditions. Projections of any evaluation of the effectiveness of controls to future periods are subject to risks. Over time, controls may become inadequate because of changes in conditions or deterioration in the degree of compliance with policies or procedures.

**PART III****ITEM 10. DIRECTORS, EXECUTIVE OFFICERS, PROMOTERS, CONTROL PERSONS AND CORPORATE GOVERNANCE; COMPLIANCE WITH SECTION 16(a) OF THE EXCHANGE ACT****Directors, Executive Officers, and Significant Employees**

The following table sets forth the names, ages, years elected and principal offices and positions of our current directors and executive officers as of April 8, 2013.

| <b>Name</b>         | <b>Year First Elected As Officer or Director</b> | <b>Age</b> | <b>Office</b>                         |
|---------------------|--|------------|---------------------------------------|
| Richard Dietl       | 2011   | 62         | Chairman                              |
| Edward M. Straw     | 2008   | 74         | Vice Chairman                         |
| Michael J. Campbell | 2013   | 48         | President and Chief Executive Officer |
| Karl Etzel          | 2013   | 40         | Chief Marketing Officer               |
| M. Carolyn Ellis    | 2007   | 48         | Chief Financial Officer and Secretary |
| Martin Boliek       | 2011   | 52         | Chief Technical Officer               |
| Roseann Larson      | 2010   | 54         | Director                              |
| Darwin Hu           | 2004   | 60         | Director                              |
| Jody R. Samuels     | 2009   | 44         | Director                              |

None of the members of the Board of Directors or executive officers of the Company are related. Each year the stockholders elect the members of our Board of Directors. We do not have a standing nominating committee. Our entire board of directors currently serves as the nominating committee. There were no changes in procedures for nominating DCT directors during the year ended December 31, 2012.

**RICHARD DIETL** became Chairman of our Board of Directors on September 29, 2011. Mr. Dietl is the Founder & Chairman of Beau Dietl & Associates, which was founded in 1985 following Mr. Dietl's 16-year career as one of the most decorated detectives in the NYPD. Beau Dietl & Associates has grown to become one of the premier investigative and security firms in the nation. Mr. Dietl has been DCT's largest stockholder and has been instrumental with numerous DCT strategic initiatives since July 2008. In 2010, Mr. Dietl formed Beau Dietl Consulting Services ("BDCS") to recruit temporary and permanent placements in the IT, Finance, and Business verticals for global leaders and Fortune 500 companies. Clients include JP Morgan Chase, Citibank and Ernst & Young.

Mr. Dietl is the Founder of Electronic Risk Management Solutions (“ERMS”), a company at the forefront of corporate security initiatives. It provides state-of-the-art anti-hacking security systems.

Mr. Dietl has been the Chairman of Security Solutions since 1999, a company that provides the highest level of professional computer network security for all size companies from small businesses to multi-national corporations.

Mr. Dietl is the Founder and Chairman of a revolutionary software tool called Bo Dietl’s One Tough ComputerCop. The software was developed to significantly increase a parent’s ability to protect children from online predators. The software has been approved by the National Center for Missing and Exploited Children, and has been featured on America’s Most Wanted.

In 2003 Mr. Dietl became the Principal of NetWolves, an innovator of a 3 tier firewall software system called the Fox Box. NetWolves inked a deal with General Electric for worldwide installation of NetWolves technology.

Mr. Dietl is a Fox News contributor focused on current events and is a regular guest on the radio talk show *Imus in the Morning*.

**EDWARD M. STRAW** became Chairman of our Board of Directors on July 15, 2008 and became our Vice Chairman on September 29, 2011. Mr. Straw is currently Executive Vice President of PRTM Management Consultants, a world class, operational strategy consulting group, where he assists with business development in federal, high tech and consumer packaged goods verticals as well as mentors and coaches younger partners in leadership, communication, presentation and deal closing skills. He also serves on the boards of Eddie Bauer Holdings, Ply Gem Industries, Panther Expedited Services, and is the Chairman of Odyssey Logistics and Technology.

From 2000 to 2005, Mr. Straw served as President of Global Operations of the Estée Lauder Companies Inc., where he led the manufacturing, research and development, information systems, package engineering, quality assurance and global supply chain areas, which support all 20 brands of the Estée Lauder Companies around the world. From 1998 to 2000, Mr. Straw was Senior Vice President, Global Manufacturing and Supply Chain Management at Compaq Computer Corporation, then the world's largest computer company. At Compaq, Mr. Straw was responsible for integrating and managing its global supply chain across the entire organization and among suppliers, partners and customers. From 1997 to 1998, Mr. Straw was President of Ryder Integrated Logistics, Inc., the leading provider of supply chain services in North America.

Prior to joining the private sector, Mr. Straw served in various positions in the U.S. Navy for over 30 years, including as Vice Admiral, Director and Chief Executive Officer of the Defense Logistics Agency, the largest military logistics command supporting the American armed forces. Mr. Straw is also currently Trustee for the U.S. Naval Academy Foundation, and has served on the Board of Directors of the Navy Federal Credit Union, the U.S. Chamber of Commerce, and the Boy Scouts of America, National Capital Region. Mr. Straw holds a Bachelor of Science degree in Engineering from the U.S. Naval Academy and a master's degree in Business Administration from the George Washington University.

**MICHAEL J. CAMPBELL** was appointed our President and Chief Executive Officer (“CEO”) on January 14, 2013. Mr. Campbell has twenty-three years of experience in the technology industry. Prior to DCT, Mr. Campbell has been the CEO of several different technology companies and is a seasoned business development and marketing executive. He has led several start-ups and venture-backed businesses through strategic changes, turnarounds, growth and exits. Mr. Campbell's particular focus is mapping a company's technology and human assets to emerging market opportunities and accelerating growth through highly focused business acquisition initiatives. Even as a CEO, Campbell has personally closed millions of dollars of business as an executive focused on customer and market engagement.

In December 2001, Mr. Campbell founded MachineShop, Inc. and served as Chairman, President and CEO until January 2013. MachineShop is a next generation enterprise middleware service that bridges the gap between Operations Technology and Information Technology. Mr. Campbell is currently the Executive Chairman of MachineShop. From 2009 to 2011 he was President and CEO of SensorLogic, a Machine-to-Machine (M2M) application platform. While at SensorLogic, he re-positioned the company and technology to embrace cloud computing and to address the emerging role of integrators and wireless operators in the M2M market. Gemalto (Euronext NL0000400653 GTO) acquired the company in December 2011. From 2007-2009, Mr. Campbell was Senior Vice President for Corporate Development at InnerWireless, Inc. (acquired by Black Box. From 2002-2007, Mr. Campbell led the turnaround, growth and eventual sale of PanGo Networks, Inc. to InnerWireless. PanGo was a pioneer in the enterprise location-based service market. Prior to PanGo, Mr. Campbell was a principal and CEO of a boutique management consulting firm Michael James & Company, Inc. While at Michael James & Company from 1993 - 2002, Mr. Campbell consulted with emerging, mid-tier and public technology companies on their go-to-market strategies and business development programs. He started his career as a lobbyist and public affairs manager for various trade and business groups.

Mr. Campbell earned a bachelor's degree in Philosophy from Gannon University and did his Masters work at the University of Pittsburgh Graduate School of Public and International Affairs.

**KARL ETZEL** joined DCT in February 2011 and was appointed our Chief Marketing Officer ("CMO") on January 23, 2013. Prior to joining DCT, from December 2007 to January 2010, Mr. Etzel was the general manager and co-founder of Intelligent Fitness Solutions, Inc. ("IFS") where he was responsible for all aspects of small business ownership and management. During his tenure at IFS, he was responsible for year-over-year sales growth in excess of 20%. From January 2006 to December 2007, Mr. Etzel was a program manager for Intel Digital Health Group where he drove product development and marketing team coordination as program manager for the Mobile Clinical Assistant product category. Later, Mr. Etzel became software ecosystem enabling lead, working as liaison to independent software vendors ("ISV") deploying electronic medical record solutions.

He served as an officer in the US Navy Nuclear Propulsion Program and earned a bachelor of science degree in mechanical engineering from the University of Notre Dame and a master's degree in mechanical engineering from the University of California, Irvine.

**M. CAROLYN ELLIS** was appointed our Chief Financial Officer ("CFO") on November 1, 2007. Ms. Ellis was an independent contractor to the Company from April 2006 through November 2007, where she was in charge of and supervised our financial reporting obligations. Prior to her work with DCT, Ms. Ellis served as a director, secretary and treasurer of Knovative, Inc., a telecommunications research and development company that she co-founded in 2003. She was a member of Knovative's board of directors until August 2011. From April 2000 until July 2003, Ms. Ellis served as the Vice President of Finance for Correlant Communications, a company in the telecommunications industry. Ms. Ellis has been a certified public accountant since 1989. She earned a bachelor's degree in Economics and Accounting from Hendrix College in 1986 and a master's degree in Business Administration from the University of New Mexico in 1994.

**MARTIN BOLIEK** became DCT's Chief Technology Officer on September 6, 2011. From July 2009 until joining DCT, Mr. Boliek provided consulting services for business, technology, and IP development for several start-up companies in the SaaS management, security, document processing, mobile, and video domains. From September 1990 until July 2009, Mr. Boliek held multiple executive positions with Ricoh Innovations, Inc., and most recently held the position of Program Manager.

Mr. Boliek has over 20 years of engineering and management experience leading the invention of several new technologies including components of the JPEG and JPEG 2000 image coding standards, wavelet-based document image enhancement, and document security and authentication technology. Mr. Boliek holds more than 50 issued patents with more pending. He has published more than 25 academic journal and conference papers and received several awards from Ricoh USA (e.g. No. 1 Technology Award, Best Conference paper, Responder Award) and ISO (e.g. Gene Milligan Award, Certificates of Appreciation). Mr. Boliek has been a member of the Institute of Electrical and Electronics Engineers (“IEEE”) for 24 years and is currently a Senior Member of IEEE. Mr. Boliek received his Masters of Business Administration from the University of San Francisco, his Masters of Science in Electrical Engineering from the University of California, Davis and his Bachelor of Arts in Physics from the University of California, Santa Cruz.

**ROSEANN LARSON** was appointed director and Chairman of our Audit Committee on June 8, 2010. Ms. Larson started her own consulting company, CSO on Call, in January 2012 and is currently a consultant to Beau Dietl & Associates acting as Chief Operating Officer. Prior to starting CSO on Call, Ms. Larson held several executive positions with Estee Lauder Companies Inc. (NYSE: EL) in her more than twenty years with the company. Most recently, Ms. Larson held the position of Vice President and Program Manager, EMEA (Europe, Middle East and Africa) for Estee Lauder, responsible for the centralizing, standardization, and streamlining of the information systems across Estee Lauder’s global enterprise. At the commencement of her career at Estee Lauder in 1989, Ms. Larson was Manager, Internal Audit for Estee Lauder where she conducted operational, IT, financial, and environmental audits and contributed to fraud investigations for all divisions worldwide. Ms. Larson is a Certified Public Accountant and a member of the AICPA. She earned a bachelor’s degree in Accounting from Bernard Baruch College, New York, NY in 1980.

**DARWIN HU** became our Chairman, President and Chief Executive Officer on April 2, 2004, in connection with our acquisition of Syscan, Inc. Mr. Hu resigned as President and Chief Executive Officer on March 1, 2008 and stepped down as Chairman of the Board of Directors on July 15, 2008. Since April 2012, Mr. Hu has been the President and CEO of Jasper Display Corp., a technology company involved in the development of a digital LCOS chip, driver IC and controller design for projection display and its enabling applications. From 2008 through December 2011, Mr. Hu was President and CEO of Splendid Optronics Technology, based in Wuhan, China, where Mr. Hu was primarily responsible for developing an LCOS rear projection TV and projector display. Mr. Hu continues to serve as a director of the Company. Prior to April 2, 2004, Mr. Hu was the President and Chief Executive Officer of Syscan, Inc., our wholly-owned subsidiary. Mr. Hu has over 30 years of experience in the high-tech industry and has held various management-related positions within organizations related to color graphic imaging input scanning, display output and imaging communication product development, manufacturing and sales and marketing. Before joining Syscan, Inc. in April 1998, Mr. Hu held senior management positions at Microtek, Xerox, OKI, AVR, DEST, Olivetti and Grundig. Mr. Hu holds a bachelor's degree in Engineering Science from National Cheng-Kung University, Taiwan, and a master's degree in Computer Science and Engineering from California State University, Chico, USA.

**JODY R. SAMUELS** has been a member of our Board of Directors since 2009 and is the Chairman of our Compensation Committee. In November 2010, Mr. Samuels started his own consulting business through which he provides legal and business consulting services to public and private companies. Mr. Samuels also acts as corporate counsel to several public and private companies, as well as representing investment banking firms and private

investors in connection with private securities transactions, PIPEs, reverse mergers and M&A transactions. From 2006 through 2010, Mr. Samuels was a partner of the law firm of Richardson & Patel LLP. Prior thereto he was an associate and then a partner with the law firm of Ellenoff, Grossman & Schole LLP from 2004 through 2006. From 1996 through 2004, Mr. Samuels was an associate at the law firm of Gersten Savage LP. Mr. Samuels has been the Company's corporate counsel since Syscan, Inc., our operating subsidiary, merged with Bankengine Technologies, Inc. in 2004. Throughout his career Mr. Samuels has represented numerous public and private companies in connection with their corporate and securities transactions including public offerings, PIPE's, reverse mergers, as well as M&A transactions and regulatory compliance. Mr. Samuels has also represented broker-dealers in connection with many public and private securities offerings. Mr. Samuels received a B.S. in Accounting from Brooklyn College in 1991 and his Juris Doctorate from New York Law School in 1995.

### **Corporate Governance**

#### **Board's Responsibilities and Structure**

The Board oversees, counsels, and directs management in the long-term interests of DCT and the DCT stockholders. The Board's responsibilities include:

- selecting, evaluating the performance of, and determining the compensation of executive officers;

reviewing and approving our major financial objectives and strategic and operating plans, and other significant actions;  
overseeing the conduct of our business and the assessment of our business and other enterprise risks to evaluate whether the business is being properly managed; and  
overseeing the processes for maintaining our integrity with regard to our financial statements and other public disclosures, and compliance with law and ethics.

### **Board's Role in Overall Risk Oversight**

One of the Board's functions is oversight of risk management. Risk is inherent in business, and the Board seeks to understand and advise on risk in conjunction with the activities of the Board and the Board's committees.

The Board and executive management define risk for purposes of risk oversight to be the possibility that an undesired event could occur that might adversely affect DCT's operations and business objectives. Risks include: identification of an undesired event, the types of adverse impacts that could occur if the undesired event occurs, the likelihood that an undesired event and a particular adverse impact would occur, and DCT's ability to control the risk and the risk's potential adverse impacts.

Executive management is responsible for identifying risk and risk controls related to significant business activities; mapping the risks to company strategy, and developing programs and recommendations to determine the sufficiency of risk identification, the balance of potential risk to potential reward, and the appropriate manner in which to control risk. The Board implements its risk oversight responsibilities by receiving periodic updates from management as to how the company is seeking to control risk if and when appropriate. In some cases, risks are addressed by the full Board. In other cases, a Board committee is responsible for oversight of specific risk topics. For example, the Audit Committee oversees risks related to internal control over financial reporting.

### **Board's Role in Risk Assessment for Compensation Programs**

The Board has assessed DCT's compensation programs and concluded that the compensation policies and practices do not create (i) risks that are reasonably likely to have a material adverse effect on the company, or (ii) inappropriate or unintended significant risk to the company as a whole. DCT's incentive compensation arrangements provide incentives



that do not encourage risk-taking beyond the organization's ability to effectively identify and manage significant risks; are compatible with effective internal controls and the risk management practices of DCT; and are supported by the oversight and administration of the Compensation Committee with regard to executive compensation programs.

### **Board of Directors Meetings and Subcommittees**

#### Attendance at Board Meetings and Annual Shareholders' Meeting

The Board held six meetings in 2012. We expect each director to attend every meeting of the Board and the committees on which he or she serves, as well as the annual stockholders' meeting. All directors attended at least 75% of the meetings of the Board and the committees on which they served in 2012. All directors, except one, attended our 2012 Annual Stockholders' Meeting. Following each board meeting in 2012, our independent board members met without management present.

#### Audit Committee and Financial Expert

DCT's Audit Committee was established on January 20, 2009 with all of DCT's independent directors. Subsequent to that date, the Audit Committee began assisting the Board in its general oversight of financial reporting and internal controls, and is responsible for the appointment, retention, compensation, and oversight of the work of our independent registered public accounting firm. Effective June 8, 2010, Roseann Larson was appointed our Audit Committee Chair and is also our independent financial expert. Currently, our Audit Committee consists of Ms. Larson and Mr. Straw.

The Audit Committee charter was attached to our Annual Report on Form 10-K dated April 15, 2009, at Exhibit 99.1. The Audit Committee assesses the adequacy of its charter on an annual basis.

#### Compensation Committee

DCT's Compensation Committee was established on November 12, 2009, and has authority to review and determine salaries, performance-based incentives, and other matters related to the compensation of our executive officers. The Compensation Committee also administers our stock option plans, including reviewing and granting stock options to our executive officers. Additionally, they review and determine various other compensation policies and matters. Currently, our Compensation Committee consists of Mr. Samuels, Mr. Straw and Ms. Larson.



The Compensation Committee charter is attached to our Annual Report on Form 10-K dated March 31, 2010 at Exhibit 99.2. The Compensation Committee assesses the adequacy of the charter on an annual basis.

#### Nominating Committee

At this time, we do not have a separate nominating committee as this function is performed by our full Board of Directors. Our entire Board of Directors is active in the nominating process. Nominations for election to the Board of Directors may be made by the Board of Directors or by any shareholder entitled to vote for the election of directors. The Board of Directors carefully considers nominees regardless of whether they are nominated by shareholders or existing board members.

#### Code of Ethics

Our Board of Directors adopted a Code of Ethics, including an Insider Trading Policy, applicable to all DCT employees and members of our Board of Directors. Each employee and board member is required to sign our Code of Ethics every year.

Any amendment of our Code of Ethics or waiver thereof applicable to our principal executive officer, principal financial officer and controller, principal accounting officer, directors or persons performing similar functions will be disclosed on our website within five days of the date of such amendment or waiver. In the case of a waiver, the nature of the waiver, the name of the person to whom the waiver was granted and the date of the waiver will also be disclosed.

Our Code of Ethics, originally adopted in March 2005, was updated in February 2008 and is incorporated by reference as Exhibit 14.1.

#### Involvement in Certain Legal Proceedings

To the best of our knowledge, None of our Directors or officers has appeared as a party during the past ten years in any legal proceedings that may bear on his ability or integrity to serve as a Director or officer of the Company.

**Section 16(a) Beneficial Ownership Reporting Compliance**

Section 16(a) of the Securities Exchange Act of 1934 requires our directors and executive officers, as well as persons who own more than 10% of a registered class of our equity securities, to file with the Securities and Exchange Commission initial reports of ownership and reports of changes in beneficial ownership. Directors, executive officers, and greater than 10% shareholders are required by Securities and Exchange Commission regulation to furnish us with copies of all Section 16(a) forms they file. Based solely upon a review of copies of Section 16(a) reports and representations received by us from reporting persons, and without conducting any independent investigation of our own, we believe all Forms 3, 4 and 5 were timely filed with the Securities and Exchange Commission by such reporting persons during the year ended December 31, 2012.

**Shareholder Communication**

We communicate regularly with shareholders through press releases, as well as annual and quarterly reports. Our investor relations department and Corporate Secretary address investor concerns on an on-going basis. We may also address such concerns through our website at [www.docucap.com](http://www.docucap.com).

Interested parties, including shareholders and other security holders, may communicate directly with our Board of Directors or with individual directors by writing to the Corporate Secretary at 4255 Burton Drive, Santa Clara, California 95054 or call 408-436-9888.

**Securities Authorized for Issuance under Equity Compensation Plans**

For information regarding securities authorized for issuance under Equity Compensation Plans and the equity compensation plan information table see Part II, "Item 5: Market for Common Equity and Related Stockholder Matters."

**ITEM 11. EXECUTIVE COMPENSATION****Summary Compensation**

The following table sets forth, for the years indicated, all compensation awarded to, paid to or earned by the following types of executive officers for the year ended December 31, 2012: (i) individuals who served as, or acted in the capacity of, our principal executive officer and principal financial officer for the year ended December 31, 2012; (ii) our executive officers whose compensation exceeded \$100,000 with respect to the years ended December 31, 2012 and 2011 and who were employed by us at December 31, 2012; and (iii) up to two additional individuals for whom disclosure would have been provided pursuant to paragraph (a)(3)(iii) of Item 401 of Regulation S-K but for the fact that the individual was not serving as an executive officer of the Company at the end of the last completed fiscal year.

**SUMMARY COMPENSATION TABLE <sup>(1)</sup>**

| Name and Principal Position   | Year | Salary<br>(\$) | Bonus<br>(\$) | Option<br>Awards <sup>(2)</sup><br>(\$) | All Other<br>Compensation<br>(\$) | Total<br>Compensation<br>(\$) |
|---|------|----------------|---------------|---|-----------------------------------|-------------------------------|
| David Clark, Former Chief Executive Officer and Director <sup>(3)</sup>     | 2012 | 275,000        | –             | –                                       | 10,000                            | (4) 285,000                   |
|   | 2011 | 260,000        | 78,000        | –                                       | 9,345                             | (4) 347,345                   |
| Craig H. Weber, Former President and Chief Operating Officer <sup>(3)</sup> | 2012 | 260,000        | –             | –                                       | 50,000                            | (6) 310,000                   |
|   | 2011 | 250,000        | 25,000        | 63,221 (5)                              | 25,544                            | (7) 363,765                   |
| Jacques vonBechmann, Former Senior VP of Sales <sup>(8)</sup>               | 2012 | 160,000        | –             | –                                       | –                                 | 160,000                       |
|   | 2011 | 150,000        | 91,250        | 145,600 (9)                             | –                                 | 386,850                       |
| Martin Boliek, Chief Technology Officer                                     | 2012 | 220,000        | –             | –                                       | 8,547                             | (4) 228,547                   |
|   | 2011 | 70,936 (10)    | 12,000        | 62,500 (11)                             | –                                 | 145,436                       |
| M. Carolyn Ellis, Chief Financial Officer                                   | 2012 | 180,000        | –             | –                                       | 8,400                             | (4) 188,400                   |
|   | 2011 | 170,000        | 30,000        | –                                       | 6,730                             | (4) 206,730                   |

<sup>(1)</sup>DCT did not have any stock awards, non-equity incentive plan compensation or non-qualified deferred compensation earnings during 2012 or 2011.

<sup>(2)</sup>Although there are a number of ways that the value of an equity award may be expressed, under SEC rules the values reported in the Option Award column of the Summary Compensation Table represent the dollar amount, without any risk of forfeiture, recognized for financial reporting purposes related to grants of options to each of the listed officers. DCT calculated these amounts in accordance with the Share-Based Payment topic of the Financial Accounting Standards Board Accounting Standards Codification Topic 718. See “Note 4: Employee Equity Incentive Plans” in Part II, Item 8 – Financial Statements of this Form 10-K.

<sup>(3)</sup>The Company terminated the named executive effective January 11, 2013.

<sup>(4)</sup>Represents DCT’s safe harbor match on the named executives’ 401(k) contribution.

<sup>(5)</sup>Represents the total fair value (as discussed in <sup>(2)</sup> above) of 198,710 incentive stock options granted during the year ended December 31, 2011. One-half of the options vested on November 3, 2011 and one-half vested on November 3, 2012.

<sup>(6)</sup>Includes (i) \$10,000 for DCT’s safe harbor match 401(k) contribution and (ii) \$40,000 relocation expenses.

<sup>(7)</sup>Includes (i) \$5,833 for DCT’s safe harbor match 401(k) contribution and (ii) \$19,711 for temporary housing provided during the named executive’s relocation.

<sup>(8)</sup> Named executive resigned effective March 31, 2013.

<sup>(9)</sup> Represents the total fair value (as discussed in <sup>(2)</sup> above) of 500,000 incentive stock options granted during the year ended December 31, 2011. One-third of the options vested on April 6, 2012. Remaining options were forfeited on the executive's last day of employment.

<sup>(10)</sup> Represents actual salary payments from September 6, 2011 through December 31, 2011 based on an annual salary of \$220,000.

<sup>(11)</sup> Represents the total fair value (as discussed in <sup>(2)</sup> above) of 250,000 incentive stock options granted during the year ended December 31, 2011. One-third of the options vested on September 6, 2012, one-third will vest on September 6, 2013 and one-third will vest on September 6, 2014.

### **Outstanding Equity Awards at Fiscal Year End**

The following table sets forth certain information regarding unexercised stock options, stock that has not vested, and equity incentive plan awards at December 31, 2012 by the named executive officers.

### **OUTSTANDING EQUITY AWARDS TABLE**

| Name and Principal Position                 | Option Awards   |   | Equity Incentive Plan Awards:<br>Number of Securities Underlying Unexercised Unearned Options (#) | Exercise Price (\$) | Expiration Date |
|---|---|---|---|---------------------|-----------------|
|   | Number of Securities Underlying Unexercised Options (#) Exercisable | Number of Securities Underlying Unexercised Options (#) Unexercisable |   |                     |                 |
| David Clark                                 | 343,465   | —   | —   | 0.01                | 4/26/2012       |
| Former Chief Executive Officer and Director | 400,000   | —   | —   | 0.70                | 3/25/2017       |
|   | 600,000   | —   | —   | 0.30                | 7/13/2018       |
|   | 350,000   | —   | —   | 0.32                | 12/23/2019      |
|   | 233,334   | 116,666   | <sup>(1)</sup> —  | 0.29                | 4/29/2020       |
| Craig H. Weber                              | 1,400,000   | —   | —   | 0.67                | 10/31/2020      |
| Former President,                           | 198,710   | —   | —   | 0.45                | 7/12/2021       |

Chief Operating Officer,  
and Secretary

|  |         |         |     |      |            |
|--|---------|---------|-----|------|------------|
| M. Carolyn Ellis                         | 150,000 | –       | –   | 0.60 | 10/30/2014 |
| Chief Financial Officer                  | 375,000 | –       | –   | 0.30 | 7/13/2018  |
|  | 125,000 | –       | –   | 0.32 | 12/23/2019 |
|  | 66,667  | 33,333  | (2) | –    | 4/29/2020  |
| Jacques vonBechmann                      | 166,667 | 333,333 | (3) | –    | 4/6/2021   |
| Former Senior Vice<br>President of Sales |         |         |     |      |            |
| Martin Boliek                            | 83,333  | 166,667 | (4) | –    | 9/27/2021  |
| Chief Technical Officer                  |         |         |     |      |            |

(1) All unvested options at December 31, 2012 were forfeited on the executive's last day of employment January 11, 2013.

(2) All unvested options at December 31, 2012 will vest on April 29, 2013.

(3) All unvested options at December 31, 2012 were forfeited on the executive's last day of employment March 31, 2013.

(4) One-half of the unexercisable options at December 31, 2012 will vest on September 6, 2013 and one-half will vest on September 6, 2014.



**SARS/Long-Term Incentive Plans – Awards in Last Fiscal Year**

No stock appreciation rights or long-term incentives were awarded to any executive officer or director during the year ended December 31, 2012.

**Compensation of Directors**

The general policy of the Board is that compensation for independent directors should be a mix of cash and equity-based compensation. DCT does not pay its management director for Board service in addition to his regular employee compensation.

The following table details the total compensation earned by DCT's non-employee directors during the year ended and as of December 31, 2012:

| Name           | Fees Earned<br>or Paid in<br>Cash (\$) |     | Option<br>Awards <sup>(6)</sup><br>(\$) |     | Total<br>Compensation<br>(\$) |
|----------------|--|-----|---|-----|-------------------------------|
| Richard Dietl  | \$ 48,000                              | (1) | \$ 6,668                                | (7) | \$ 54,668                     |
| Edward Straw   | 45,000                                 | (2) | 6,668                                   | (7) | 51,668                        |
| Roseann Larson | 45,000                                 | (3) | 6,668                                   | (7) | 51,668                        |
| Darwin Hu      | 40,000                                 | (4) | 6,668                                   | (7) | 46,668                        |
| Jody Samuels   | 45,000                                 | (5) | 6,668                                   | (7) | 51,668                        |
| Total          | \$ 223,000                             |     | \$ 33,340                               |     | \$ 256,340                    |

<sup>(1)</sup> Represents \$10,000 quarterly retainer plus an additional \$2,000 quarterly retainer for serving as DCT's Chairman of the Board of Directors.

<sup>(2)</sup> Represents \$10,000 quarterly retainer plus an additional \$1,250 for serving as DCT's Vice Chairman of the Board of Directors.

<sup>(3)</sup> Represents \$10,000 quarterly retainer plus an additional \$1,250 quarterly retainer for serving as DCT's Audit Committee Chair.

(4) Represents \$10,000 quarterly retainer.

(5) Represents \$10,000 quarterly retainer plus an additional \$1,250 quarterly retainer for serving as DCT's Compensation Committee Chair.

(6) Although there are a number of ways that the value of an equity award may be expressed, under SEC rules the values reported in the Option Award column of the Summary Compensation Table represent the dollar amount, without any risk of forfeiture, recognized for financial reporting purposes related to grants of options to each of the listed officers. DCT calculated these amounts in accordance with the Share-Based Payment topic of the Financial Accounting Standards Board Accounting Standards Codification Topic 718. See "Note 4: Employee Equity Incentive Plans" in Part II, Item 8 – Financial Statements of this Form 10-K.

(7) Represents the total fair value of 20,000 incentive stock options granted during the year ended December 31, 2012, for serving as director. All options vested December 31, 2012.

**Employment Agreements during the Year Ended December 31, 2012**

***Craig H. Weber, President and Chief Operating Officer, and Secretary***

Mr. Weber's employment agreement expired during November 2012. Mr. Weber was terminated effective January 11, 2013.

***M. Carolyn Ellis, Chief Financial Officer***

Ms. Ellis's employment agreement expired on December 31, 2012 and has not been renewed as of the date hereof.

***Jacques vonBechmann III, Senior Vice President of Sales***

On July 25, 2011, the Company entered into an employment agreement (“vonBechmann Agreement”) with Jacques vonBechmann pertaining to his service as Senior Vice President of Sales. The vonBechmann Agreement provides for an initial term of two years and is automatically extended for additional one-year periods, unless either party notifies the other in writing at least ninety days prior to the expiration of the then existing term of its intention not to extend the term. In the event that Mr. vonBechmann is terminated, other than with good cause, he is eligible to receive severance equal to twelve months of his then current annual salary and twelve months of C.O.B.R.A premium payments. Mr. vonBechmann resigned effective March 31, 2013.

***Report on Repricing of Options/SARs***

We did not re-price any options or SARS during the year ended December 31, 2012.

- 35 -

## ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED STOCKHOLDER MATTERS

The following table sets forth, as of April 8, 2013, information regarding the beneficial ownership of our common stock based upon the most recent information available to us for: (i) each person known by us to own beneficially more than five (5%) percent of our outstanding common stock, (ii) each of our named executive officers and directors, and (iii) all of our named executive officers and directors as a group. Unless otherwise indicated, each of the persons listed below has sole voting and investment power with respect to the shares beneficially owned by them. As of April 8, 2013 there were 22,076,976 shares of our common stock outstanding.

| Name and Address of Beneficial Owner              | <b>Number of<br/>Common Shares<br/>Beneficially<br/>Owned<sup>(1)</sup></b> | Percentage of<br>Common Shares<br>Beneficially<br>Owned |   |
|---|---|---|---|
| NCR Corporation <sup>(2)</sup>                    | 3,861,004   | 17.5  | % |
| Syscan Technology Holdings Limited <sup>(3)</sup> | 3,173,514   | 14.4  |   |
| Directors and Executive Officers:                 |   |   |   |
| Richard Dietl <sup>(4)</sup>                      | 6,295,000   | 26.7  |   |
| Darwin Hu <sup>(5)</sup>                          | 1,823,258   | 8.1   |   |
| Edward Straw <sup>(6)</sup>                       | 1,140,000   | 4.9   |   |
| M. Carolyn Ellis <sup>(7)</sup>                   | 750,000   | 3.3   |   |
| Jody Samuels <sup>(8)</sup>                       | 656,667   | 2.9   |   |
| Roseann Larson <sup>(9)</sup>                     | 240,000   | 1.1   |   |
| Karl Etzel <sup>(10)</sup>                        | 100,000   | 0.5   |   |
| Martin Boliek <sup>(11)</sup>                     | 83,333  | 0.4   |   |
| Michael J. Campbell <sup>(12)</sup>               | —   | —   |   |
| All Directors and Officers as a group (9 persons) | 11,088,258  | 41.3  |   |

<sup>(1)</sup>Pursuant to the rules and regulations of the Securities and Exchange Commission, shares of common stock that an individual or group has a right to acquire within 60 days pursuant to the exercise of options or warrants are deemed to be outstanding for the purposes of computing the percentage ownership of such individual or group, but are not deemed to be outstanding for the purposes of computing the percentage ownership of any other person shown in the table.

<sup>(2)</sup> NCR Corporation is located at 3097 Satellite Blvd. Duluth, GA 30096.

<sup>(3)</sup> Syscan Technology Holdings Limited (“STH”) is located at Unit 2708, 27/F., The Center, 99 Queen’s Road Central, Hong Kong.

<sup>(4)</sup> Includes (i) 4,800,000 shares of common stock, and (ii) 1,495,000 shares of common stock issuable upon the exercise of options that are either vested or will vest within 60 days from the date hereof. The address for Mr. Dietl is One Penn Plaza, 50<sup>th</sup> Floor, New York, NY 10119.

<sup>(5)</sup> Includes (i) 1,503,258 shares of common stock and (ii) 320,000 shares of common stock issuable upon the exercise of options that are either vested or will vest within 60 days from the date hereof.

<sup>(6)</sup> Includes 1,140,000 shares of common stock issuable upon the exercise of options that are either vested or will vest within 60 days from the date hereof.

<sup>(7)</sup> Includes 750,000 shares of common stock issuable upon the exercise of options that are either vested or will vest within 60 days from the date hereof. Does not include 100,000 shares of common stock underlying options that are not exercisable within the next 60 days.

<sup>(8)</sup> Includes (i) 16,667 shares of common stock, and (ii) 640,000 shares of common stock issuable upon the exercise of options that are either vested or will vest within 60 days from the date hereof. Does not include 99,485 shares of common stock owned by Mr. Samuels’ wife which he disclaims beneficial ownership of pursuant to Section 13d-4 of the Securities Exchange Act of 1934, as amended.

<sup>(9)</sup> Includes 240,000 shares of common stock issuable upon the exercise of options that are either vested or will vest within 60 days from the date hereof.

(10) Includes 100,000 shares of common stock issuable upon the exercise of options that are either vested or will vest within 60 days from the date hereof. Does not include 200,000 shares of common stock underlying options that are not exercisable within the next 60 days.

(11) Includes 83,333 shares of common stock issuable upon the exercise of options that are either vested or will vest within 60 days from the date hereof. Does not include 191,667 shares of common stock underlying options that are not exercisable within the next 60 days.

(12) Does not include 3,200,000 shares of common stock underlying options that are not exercisable within the next 60 days.

### **ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS, AND DIRECTOR INDEPENDENCE**

During the year ended December 31, 2011, we entered into the following transactions required to be reported under Item 404 of Regulation S-K (“Item 404”):

#### **Certain Relationships and Related Transactions**

##### *Purchases and Manufacturing of our Product*

Historically, DCT has purchased the majority of its finished scanner imaging products from various related entities (referred to collectively as “Scanner Manufacturers”) owned by a DCT stockholder who currently owns approximately 14% of DCT’s outstanding common stock.

The Scanner Manufacturers purchase the non-critical raw materials, parts and components. DCT procures the critical components required to manufacture its proprietary scanners. Subsequently, the Scanner Manufacturers reimburse DCT for the cost of procuring these critical components.

Purchases from Scanner Manufacturers totaled \$9,975,000 and \$10,740,000 for the years ended December 31, 2012 and 2011, respectively. All purchases to and from Scanner Manufacturers were carried out in the normal course of business. As a result of the aforementioned purchases, the net due to related parties was \$720,000 and \$1,014,000 at December 31, 2012 and December 31, 2011, respectively.

##### *Net Sales*

During the year ended December 31, 2012 and 2011, DCT recorded net sales totaling \$18,000 and \$11,000, respectively, for finished scanners sold to Scanner Manufacturers. The related cost of goods sold was \$16,000 and \$10,000 for the years ended December 31, 2012 and 2011, respectively. All sales to Scanner Manufacturers contained similar terms and conditions as for other transactions of this nature entered into by DCT.

*Consulting Services Provided by Members of the Board of Directors*

In February 2011, DCT entered into a month-to-month product development arrangement with Darwin Hu, a current member of DCT's board of directors, whereby Mr. Hu assisted DCT with expanding the current product offering. Pursuant to the arrangement, Mr. Hu was paid \$83,000 during the year ended December 31, 2011. As a result of hiring a full time chief technology officer, DCT terminated its consulting arrangement with Mr. Hu, effective October 31, 2011. Mr. Hu continues to serve as a director on DCT's board of directors.

During the year ended December 31, 2011, DCT paid \$11,000 to CSO on Call, LLC ("CSO"), a company owned by Roseann Larson, who is a current member of DCT's board of directors. CSO was engaged by DCT's board of directors for the purpose of providing strategic guidance to the board of directors related to DCT's current operations.

No DCT board members provided consulting services to DCT during the year ended December 31, 2012.

*Legal Services Agreement*

During September 2009, DCT entered into a legal services agreement ("Agreement") with Jody R. Samuels, a director of the Company. Pursuant to the Agreement, Mr. Samuels provides certain legal services to us which will consist of assisting the Company in (i) the preparation of its periodic and other filings with the Securities and Exchange Commission ("SEC"), including proxy statements, special and annual meetings of shareholders, (ii) the negotiation of financing and corporate development transactions, (iii) preparation and review of documentation related to financing arrangements and corporate development transactions, (iv) preparing registration statements, and responding to any SEC inquiries/comment letters, (v) documenting corporate governance policies and procedures, and (vi) any other legal matters reasonably within the legal expertise of Mr. Samuels.

Pursuant to the Agreement, Mr. Samuels was paid \$4,000 per month for a total of \$48,000 during each of the years ended December 31, 2012 and 2011. The Agreement may be cancelled by either party with 30 days prior written notice.

*Agreement to License Office Space*

During April 2010, DCT entered into a two-year license agreement ("License") with Beau Dietl & Associates ("BDA") to license office space from BDA in New York City. DCT uses the office space for all meetings of the board of directors and all shareholder meetings. Mr. Dietl is DCT's Chairman of the board of directors. In connection with the License, the Company paid BDA an upfront license fee of \$50,000 as payment in full. The \$50,000 payment was capitalized



and amortized, using the straight-line method, to selling, general and administrative expense over the term of the License.

- 38 -

In December 2011, DCT's Audit Committee approved a one-year extension of the License. In connection with the extension, DCT paid BDA \$12,500 in December 2011 and \$12,500 in April 2012. Both payments were capitalized and are being amortized, using the straight-line method, to selling, general and administrative expense over the term of the License extension. The amended License extends through April 2013.

In connection with the License, DCT recorded rent expense of \$25,000 during each of the years ended December 31, 2012 and 2011, respectively.

The License can be canceled by either party with 90 days written notice.

### **Director Independence**

As of December 31, 2012, all directors with the exception of Mr. Clark qualify as "independent" in accordance with Rule 10A-3 of the Exchange Act. Mr. Clark did not qualify as independent because he was a DCT employee at December 31, 2012. Mr. Clark subsequently resigned from the Company's board of directors in January 2013.

**ITEM 14. PRINCIPAL ACCOUNTANT FEES AND SERVICES**

The following table sets forth the fees billed to us by our independent registered public accounting firm for each of the last two fiscal years:

| Fee Category       | Year Ended<br>December 31,<br>2012 | Year Ended<br>December 31,<br>2011 |
|--------------------|------------------------------------|------------------------------------|
| Audit fees         | \$ 126,855                         | \$ 111,086                         |
| Audit-related fees | –                                  | –                                  |
| Tax fees           | –                                  | –                                  |
| All other fees     | –                                  | –                                  |

***Audit Fees.*** Consists of fees billed for professional services rendered for the audit of our consolidated financial statements and review of our interim consolidated financial statements included in quarterly reports and services that are normally provided in connection with statutory and regulatory filings or engagements, including post-effective amendments to previously filed registration statements.

***Audit-Related Fees.*** Consists of fees billed for assurance and related services that are reasonably related to the performance of the audit or review of our consolidated financial statements and are not reported under “Audit fees.” These services include employee benefit plan audits, accounting consultations in connection with acquisitions, attest services that are not required by statute or regulation, and consultations concerning financial accounting and reporting standards.

***Tax Fees.*** Consists of fees billed for professional services for tax compliance, tax advice, and tax planning. These services include assistance regarding federal, state and international tax compliance, tax audit defense, mergers and acquisitions, and international tax planning.

***All Other Fees.*** No other fees have been billed for products and services billed by our accountants.

***Policy Related to Board of Directors Pre-Approval of Audit and Permissible Non-Audit Services of Independent Registered Accounting Firm.***

During the years ended December 31, 2012 and 2011, our Audit Committee Chair pre-approved all audit and permissible non-audit services provided by the independent auditors. These services may include audit services, audit-related services, tax services, and other services. Pre-approval is generally provided for up to one year and any pre-approval is detailed as to the particular service or category of services and is generally subject to a specific budget. The independent auditors and management are required to periodically report to the Audit Committee Chair regarding the extent of services provided by the independent auditors in accordance with this pre-approval, and the fees for the services performed to date. The Audit Committee Chair may also pre-approve particular services on a case-by-case basis.

- 40 -

**ITEM 15. EXHIBITS**

| <b>Exhibit Number</b> | <b>Description of Exhibit</b>   | <b>Method of Filing</b>   |
|-----------------------|---|---|
| 2.1                   | Share Exchange Agreement by and among Bankengine Technologies, Inc., Michael Xirinachs, Syscan Inc. and Syscan Imaging Limited                              | Incorporated by reference to Exhibit 99.1 to Form 8-K as filed April 19, 2004     |
| 3.1                   | Certificate of Incorporation, dated February 15, 2002   | Incorporated by reference to Exhibit 3.1 to Form 10-KSB as filed March 31, 2005   |
| 3.2                   | Certificate of Amendment to the Company's Certificate of Incorporation dated March 19, 2004   | Incorporated by reference to Exhibit 3.2 to Form 10-KSB as filed March 31, 2005   |
| 3.4                   | Amended and Restated Bylaws   | Incorporated by reference to Exhibit 3.4 to Form 10-KSB as filed March 31, 2005   |
| 3.5                   | Certificate of Amendment to the Company's Certificate of Incorporation dated June 23, 2006  | Incorporated by reference to Exhibit 3.5 to Form 10-QSB as filed August 21, 2006  |
| 10.1                  | Loan and Security Agreement dated September 14, 2009 by and between Bridge Bank, National Association, Document Capture Technologies, Inc. and Syscan, Inc. | Incorporated by reference to Exhibit 10.1 to Form 8-K as filed September 16, 2009 |
| 10.2                  | Warrant dated September 14, 2009 between Document Capture Technologies, Inc. and Bridge Bank, National Association  | Incorporated by reference to Exhibit 10.2 to Form 8-K as filed September 16, 2009 |
| 10.3                  | Loan and Security Agreement dated March 10, 2010 by and between Bridge Bank, National Association, Document Capture Technologies, Inc. and Syscan, Inc.     | Incorporated by reference to Exhibit 10.15 to Form 10-K as filed March 31, 2010   |
| 10.4                  | Loan and Security Agreement, amended November 2, 2010, by and between the Company and Bridge Bank, National Association                                     | Incorporated by reference to Exhibit 10.2 to Form 10-Q as filed November 15, 2010 |
| 10.5                  | Loan and Security Agreement, most recently amended November 14, 2012, by and between the Company and Bridge Bank, National Association                      | Filed herewith  |
| 10.6                  | Lease Agreement by and between the Company and Washcop Limited Partners dated September 7, 2010   | Incorporated by reference to Exhibit 10.1 to Form 10-Q as filed November 15, 2010 |
| 10.7                  | Employment Agreement entered between the Company and Jacques vonBechmann dated July 25, 2011  | Incorporated by reference to Exhibit 10.10 to Form 10-K as filed March 30, 2012   |
| 10.8                  | 2002 Amended and Restated Stock Option Plan   | Incorporated by reference to Exhibit 10.4 to Form 10-KSB as filed March 31, 2005  |
| 10.9                  | 2006 Stock Option Plan  | Incorporated by reference to Exhibit 10.8 to Form 10-QSB as filed August 21, 2006 |



| <b>Exhibit Number</b> | <b>Description of Exhibit</b>   | <b>Method of Filing</b>   |
|-----------------------|---|---|
| 10.10                 | 2009 Stock Option Plan  | Incorporated by reference to Exhibit 10.12 to Form 10-K as filed March 31, 2010 |
| 10.11                 | 2010 Stock Option Plan  | Incorporated by reference to Exhibit 10.1 to Form 10-Q as filed May 24, 2010    |
| 10.12                 | 2013 Stock Option Plan  | Filed herewith  |
| 10.13                 | Employment Agreement entered between the Company and Michael J. Campbell dated January 14, 2013 | Incorporated by reference to Exhibit 99.1 to form 8-K as filed January 18, 2013 |
| 14.1                  | Code of Ethics adopted by the Company's Board of Directors as amended February 2008             | Incorporated by reference to Exhibit 14.1 to form 8-K as filed March 3, 2008    |
| 21                    | List of Subsidiaries  | Filed herewith  |
| 31.1                  | Certification Pursuant to Section 302 of the Sarbanes-Oxley Act – David P. Clark                | Filed herewith  |
| 31.2                  | Certification Pursuant to Section 302 of the Sarbanes-Oxley Act – M. Carolyn Ellis              | Filed herewith  |
| 32.1                  | Certifications Pursuant to Section 906 of the Sarbanes-Oxley Act – David P. Clark               | Filed herewith  |
| 32.2                  | Certifications Pursuant to Section 906 of the Sarbanes-Oxley Act – M. Carolyn Ellis             | Filed herewith  |
| 99.1                  | Audit Committee Charter of Document Capture Technologies as adopted March 31, 2009              | Incorporated by reference to Exhibit 99.1 to form 10-K as filed April 15, 2009  |
| 99.2                  | Compensation Committee Charter of Document Capture Technologies as adopted December 17, 2009    | Incorporated by reference to Exhibit 99.2 to form 10-K as filed March 31, 2010  |

**Signatures**

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

| <b>Signature</b>                                      | <b>Title</b>   | <b>Date</b>    |
|---|--|----------------|
| <i>/s/ Michael J. Campbell</i><br>Michael J. Campbell | Chief Executive Officer<br>(Principal Executive Officer) | April 15, 2013 |

Pursuant to the requirements of the Securities Exchange Act of 1934, as amended, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated.

| <b>Signature</b>                                      | <b>Title</b>   | <b>Date</b>    |
|---|--|----------------|
| <i>/s/ Michael J. Campbell</i><br>Michael J. Campbell | Chief Executive Officer<br>(Principal Executive Officer) | April 15, 2013 |
| <i>/s/Richard Dietl</i><br>Richard Dietl              | Chairman   | April 15, 2013 |
| <i>/s/Edward Straw</i><br>Edward Straw                | Vice Chairman  | April 15, 2013 |
| <i>/s/Roseann Larson</i><br>Roseann Larson            | Director   | April 15, 2013 |
| <i>/s/Jody R. Samuels</i><br>Jody R. Samuels          | Director   | April 15, 2013 |
| <i>/s/Darwin Hu</i><br>Darwin Hu                      | Director   | April 15, 2013 |
| <i>/s/M. Carolyn Ellis</i><br>M. Carolyn Ellis        | Chief Financial Officer<br>(Principal Financial Officer) | April 15, 2013 |



**Item 8. FINANCIAL STATEMENTS**

Index to Consolidated Financial Statements

|   | Page |
|---|------|
| Financial Statements:                                   |      |
| Report of Independent Registered Public Accounting Firm | F-2  |
| Consolidated Balance Sheets                             | F-3  |
| Consolidated Statements of Operations                   | F-4  |
| Consolidated Statements of Stockholders' Equity         | F-5  |
| Consolidated Statements of Cash Flows                   | F-6  |
| Notes to the Consolidated Financial Statements          | F-7  |
| F-1   |      |

**Report of Independent Registered Public Accounting Firm**

To the Board of Directors and Stockholders

Document Capture Technologies, Inc.

We have audited the accompanying consolidated balance sheets of Document Capture Technologies, Inc. and subsidiary as of December 31, 2012 and 2011, and the related consolidated statements of operations, stockholders' equity, and cash flows for the years then ended. These consolidated 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 audits.

We conducted our audits 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 also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide 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. and subsidiary as of December 31, 2012 and 2011, and the results of their operations and their cash flows for the years then ended, in conformity with U.S. generally accepted accounting principles.

HEIN & ASSOCIATES LLP

Irvine, California

April 15, 2013



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

|   | December<br>31,<br>2012 | December<br>31,<br>2011 |
|---|-------------------------|-------------------------|
| <b>ASSETS</b>   |                         |                         |
| Current assets:   |                         |                         |
| Cash and cash equivalents   | \$ 2,166                | \$ 2,455                |
| Trade receivables   | 2,362                   | 2,207                   |
| Inventories, net  | 1,727                   | 2,876                   |
| Note receivable   | 300                     | -                       |
| Prepaid expenses and other current assets   | 155                     | 226                     |
| Total current assets  | 6,710                   | 7,764                   |
| Other non-current assets  |                         |                         |
| Fixed assets, net   | 36                      | 36                      |
| Total assets  | 104                     | 125                     |
|   | \$ 6,850                | \$ 7,925                |
| <b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>   |                         |                         |
| Current liabilities:  |                         |                         |
| Line of credit  | \$ -                    | \$ -                    |
| Trade payables to related parties   | 720                     | 1,014                   |
| Trade payables and other accrued expenses   | 395                     | 717                     |
| Accrued compensation and benefits   | 206                     | 444                     |
| Income tax payable  | -                       | 23                      |
| Total current liabilities   | 1,321                   | 2,198                   |
| Stock option liability  | -                       | 502                     |
| Long-term deferred rent   | 126                     | 113                     |
| Commitments and contingencies (Notes 12 and 13)   |                         |                         |
| Stockholders' equity:   |                         |                         |
| Preferred stock \$.001 par value, 2,000 authorized, none issued and outstanding at December 31, 2012 and December 31, 2011                    |                         |                         |
| Common stock \$.001 par value, 50,000 authorized, 22,077 and 20,578 shares issued and outstanding at December 31, 2012 and 2011, respectively | 22                      | 21                      |
| Additional paid-in capital  | 39,256                  | 38,290                  |
| Accumulated deficit   | (33,875)                | (33,199)                |
| Total stockholders' equity  | 5,403                   | 5,112                   |
| Total liabilities and stockholders' equity  | \$ 6,850                | \$ 7,925                |

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

F-3

**DOCUMENT CAPTURE TECHNOLOGIES, INC. AND SUBSIDIARY****CONSOLIDATED STATEMENTS OF OPERATIONS***(in thousands, except per share amounts)*

|   | Years Ended December 31, |            |
|---|--------------------------|------------|
|   | 2012                     | 2011       |
| Net sales   | \$ 17,348                | \$ 17,658  |
| Cost of sales   | 11,219                   | 10,952     |
| Gross profit  | 6,129                    | 6,706      |
| Operating expenses:   |                          |            |
| Selling, general and administrative                                       | 5,453                    | 5,944      |
| Research and development  | 1,833                    | 1,351      |
| Total operating expenses  | 7,286                    | 7,295      |
| Operating loss  | (1,157 )                 | (589 )     |
| Non-operating income (expense):   |                          |            |
| Change in fair value of stock option liability and derivative instruments | 502                      | 309        |
| Interest income   | –                        | 1          |
| Interest expense  | (9 )                     | (5 )       |
| Other   | (12 )                    | (8 )       |
| Total non-operating income (expense), net                                 | 481                      | 297        |
| Net loss before income taxes  | (676 )                   | (292 )     |
| Provision for income taxes  | –                        | 64         |
| Net loss  | \$ (676 )                | \$ (356 )  |
| Loss per share – basic and diluted  | \$ (0.03 )               | \$ (0.02 ) |
| Weighted average common shares outstanding – basic and diluted            | 21,666                   | 20,562     |

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

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

|  | Common Stock<br>Shares | Common Stock<br>Amount | Additional<br>Paid-in<br>Capital | Accumulated<br>Deficit | Total<br>Stockholders'<br>Equity |
|--|------------------------|------------------------|----------------------------------|------------------------|----------------------------------|
| Balances at December 31, 2010                                    | 20,479                 | \$ 20                  | \$ 36,940                        | \$ (32,843 )           | \$ 4,117                         |
| Fair value of common stock warrants issued for services rendered | —                      | —                      | 80                               | —                      | 80                               |
| Stock-based compensation expense                                 | —                      | —                      | 1,270                            | —                      | 1,270                            |
| Issuance of common stock upon exercise of stock options          | 99                     | 1                      | —                                | —                      | 1                                |
| Net loss   | —                      | —                      | —                                | (356 )                 | (356 )                           |
| Balances at December 31, 2011                                    | 20,578                 | 21                     | 38,290                           | (33,199 )              | 5,112                            |
| Fair value of common stock warrants issued for services rendered | —                      | —                      | 74                               | —                      | 74                               |
| Stock-based compensation expense                                 | —                      | —                      | 878                              | —                      | 878                              |
| Issuance of common stock upon exercise of stock options          | 1,499                  | 1                      | 14                               | —                      | 15                               |
| Net loss   | —                      | —                      | —                                | (676 )                 | (676 )                           |
| Balances at December 31, 2012                                    | 22,077                 | \$ 22                  | \$ 39,256                        | \$ (33,875 )           | \$ 5,403                         |

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

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

|   | Years Ended December 31, |           |
|---|--------------------------|-----------|
|   | 2012                     | 2011      |
| Operating activities  |                          |           |
| Net loss  | \$ (676 )                | \$ (356 ) |
| Adjustments to reconcile net loss to net cash provided by operating activities:   |                          |           |
| Depreciation expense included in operating expenses                               | 40                       | 48        |
| Depreciation expense included in cost of sales                                    | 43                       | 40        |
| Allowance for slow-moving inventory   | 213                      | 33        |
| Fair value of common stock and common stock warrants issued for services rendered | 74                       | 80        |
| Stock-based compensation expense  | 878                      | 1,270     |
| Change in fair value of stock option liability and derivative instruments         | (502 )                   | (309 )    |
| Interest expense attributable to amortization of debt issuance costs              | 8                        | 5         |
| Changes in operating assets and liabilities:                                      |                          |           |
| Trade receivables   | (155 )                   | 332       |
| Inventories   | 936                      | (1,179 )  |
| Prepaid expenses and other current assets   | 45                       | 7         |
| Other non-current assets  | –                        | 8         |
| Trade payables to related parties   | (294 )                   | 360       |
| Trade payables and other accrued expenses   | (322 )                   | 171       |
| Accrued compensation and benefits   | (238 )                   | (268 )    |
| Income taxes payable  | (23 )                    | (77 )     |
| Deferred revenue and customer deposits  | –                        | (29 )     |
| Long-term deferred rent   | 13                       | 43        |
| Net cash provided by operating activities   | 40                       | 179       |
| Investing activities  |                          |           |
| Capital expenditures  | (36 )                    | (39 )     |
| Investment in note receivable   | (300 )                   | –         |
| Net cash used by investing activities   | (336 )                   | (39 )     |
| Financing activities  |                          |           |
| Proceeds from issuance of common stock, net of issuance costs                     | 15                       | 1         |
| Debt issuance costs   | (8 )                     | (8 )      |
| Net cash provided (used) by financing activities                                  | 7                        | (7 )      |
| (Decrease) increase in cash and cash equivalents                                  | (289 )                   | 133       |
| Cash and cash equivalents at beginning of year                                    | 2,455                    | 2,322     |



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|  |          |          |
|--|----------|----------|
| Cash and cash equivalents at end of year           | \$ 2,166 | \$ 2,455 |
| Supplemental disclosures of cash flow information: |          |          |
| Cash paid during the year for:                     |          |          |
| Interest   | \$ 2     | \$ –     |
| Income taxes                                       | \$ 45    | \$ 163   |
| Non-cash investing and financing activities:       |          |          |
| Transfer of deposits to fixed assets               | \$ 26    | \$ 29    |

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

F-6

**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 USB-powered image-scanning solutions to all types and sizes of enterprises. The Company's patented and proprietary page-imaging devices facilitate the way information is stored, shared and managed, and are designed to reduce organizations' operating costs, improve information accuracy and security, and speed processing time. End users include governmental agencies, large and small corporations, small office-home offices ("SOHO"), professional practices, as well as consumers.

To date, DCT offers more than 40 variations of its imaging platforms sold primarily to original equipment manufacturers ("OEM"), private label brands and value added resellers ("VAR"). DCT's image-scanning products can be found in a variety of applications, including:

- 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 Financial Statements*

The consolidated financial statements include the accounts of DCT and its one subsidiary, Syscan, Inc. ("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.

The Company has evaluated subsequent events through the date of this report.

*Liquidity*

As shown in the financial statements, during the years ended December 31, 2012 and 2011, DCT incurred net losses available to common shareholders of \$676,000 and \$356,000. As of December 31, 2012, accumulated deficit was \$33,875,000. Management believes that current cash and other sources of liquidity are sufficient to fund normal operations through the next 12 months.

*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.

**DOCUMENT CAPTURE TECHNOLOGIES, INC. AND SUBSIDIARY**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

*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, 2012 or 2011.

*Debt Issuance Costs*

Debt issuance costs, which are included in other current assets, are costs incurred to obtain debt financing, including all related fees, and are amortized as interest expense over the term of the related financing using the straight-line method which approximates the interest rate method. See Note 10.

*Fair Value of Financial Instruments*

Fair value is defined 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.

Under the provisions of the Accounting Standards Codification (“ASC”) 820, *Fair Value Measurements and Disclosures* (“ASC 820”), there are 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 during any period presented.

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 during any period presented.

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 during any period presented. DCT's Level 3 liabilities include (i) stock option liabilities and (ii) derivative contracts liabilities. DCT estimates the fair value of Level 3 liabilities using either the Binomial option pricing model or the Black-Scholes valuation model, depending on the attributes of the liability being measured. During the third quarter of 2012, DCT's Level 3 liability matured. As of December 31, 2012, DCT had no 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 liabilities 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. Interest bearing accounts at each institution are insured by the Federal Deposit Insurance Corporation ("FDIC") up to \$250,000. Non-interest bearing accounts are 100% insured. As of December 31, 2012, DCT had consolidated balances of approximately \$152,000, which were not guaranteed by FDIC. DCT has not experienced any losses in such accounts and believes the exposure is minimal.

**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:

|            | Years Ended December 31, |   |      |   |
|------------|--------------------------|---|------|---|
|            | 2012                     |   | 2011 |   |
| Customer A | 37                       | % | 21   | % |
| Customer B | 14                       |   | 15   |   |
| Customer C | 13                       |   | 18   |   |
| Customer D | **                       |   | 13   |   |

\*\*Represents less than 10% of sales.

Trade receivables from these customers whose sales represented more than 10% during the year ended December 31, 2012 totaled \$987,000 at December 31, 2012. As of December 31, 2012 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. Historically, DCT has purchased substantially all its finished scanner imaging products from one vendor. 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 established an inventory reserve of \$246,000 and \$33,000 at December 31, 2012 and 2011, respectively, as a result of slow-moving inventory. DCT had no material inventory write offs during the years ended December 31, 2012 or 2011.

### *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 five 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.

### *Impairment of Long-Lived Assets*

DCT's long-lived assets are recorded at fair value only if an impairment charge is recognized. 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' fair value. DCT had no impairment losses during the years ended December 31, 2012 and 2011.

### *Revenue Recognition, 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. Generally, revenue is recognized when the product is shipped and the risks and rewards of ownership have transferred to the customer. In certain instances, when deemed appropriate by management, DCT recognizes revenue as the cash is collected. Shipping charges billed to customers are included in net sales and the related shipping costs are included in cost of sales in the period of shipment.

**DOCUMENT CAPTURE TECHNOLOGIES, INC. AND SUBSIDIARY**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

Multiple Element Arrangements. DCT occasionally enters into revenue arrangements that contain multiple deliverables. For arrangements with multiple elements, revenue is allocated across the separately identified deliverables. Revenue is recognized when all criteria of revenue recognition have been met for each deliverable. Direct costs are recognized during the same period that the related revenue is recognized.

Allowance for doubtful accounts. 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, 2012 or 2011 and no material trade receivable write offs during any period presented.

Return allowances. Historically, sales returns have not been significant. As such, DCT does not record a reduction to revenue for estimated product returns in the same period that the related revenue is recorded. DCT's returns were immaterial for all periods presented.

*Sales Incentives*

In certain instances, DCT offers sales incentives whereby DCT gives customers additional product for certain volume-related purchases. DCT records the cost of the product-related sales incentives as a cost of sales during the period the incentive is earned.

*Product Warranty*

As previously discussed, DCT purchases the majority of its finished scanner imaging product from one vendor, who warrants the products against defects in material and workmanship for a period of 18 months after the completion of manufacture. As a result of such product warranty, DCT does not record a product warranty reserve. DCT's warranty-related expenses were immaterial for all periods 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*

DCT has employee equity incentive plans, which are described more fully in “Note 4: Employee Equity Incentive Plans.” The straight-line attribution method is used to recognize share-based compensation over the service period of the awards.

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

|  | Years Ended December 31, |   |      |   |
|--|--------------------------|---|------|---|
|  | 2012                     |   | 2011 |   |
| Weighted average expected option life in years | 3.0                      |   | 3.0  |   |
| Weighted average expected volatility           | 231                      | % | 134  | % |
| Expected dividend yield                        | 0                        | % | 0    | % |
| Weighted average risk free interest rate       | 0.51                     | % | 1.01 | % |

**DOCUMENT CAPTURE TECHNOLOGIES, INC. AND SUBSIDIARY**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

*Income Taxes*

DCT accounts for income taxes under the liability method of accounting for income taxes. 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.

*Note 2 – Recent Accounting Pronouncements*

In June 2011, the Financial Accounting Standards Board (“FASB”), issued guidance regarding the presentation of comprehensive income. The new standard requires the presentation of comprehensive income (loss), the components of net income (loss) and the components of other comprehensive income (loss) either in a single continuous statement of comprehensive income (loss) or in two separate but consecutive statements. The updated guidance is effective on a retrospective basis for financial statements issued for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2011. DCT had no other comprehensive income (loss) during any period presented.

In December 2011, the FASB issued new guidance requiring additional disclosures about financial instruments and derivative instruments that are either: (1) offset for balance sheet presentation purposes or (2) subject to an enforceable master netting arrangement or similar arrangement, regardless of whether they are offset for balance sheet presentation purposes. This guidance will be effective at January 1, 2013, with retrospective presentation of the new disclosures required. As this new guidance is disclosure-related only and does not amend the existing balance sheet offsetting guidance, the adoption of this guidance is not expected to have an impact on our results of operations, financial condition or liquidity.

*Note 3 – Related-Party Transactions*

*Purchases*

Historically, DCT has purchased the majority of its finished scanner imaging products from various related entities (referred to collectively as “Scanner Manufacturers”) owned by a DCT stockholder who currently owns approximately 14% of DCT’s outstanding common stock.

The Scanner Manufacturers purchase the non-critical raw materials, parts and components. DCT procures the critical components required to manufacture its proprietary scanners. Subsequently, the Scanner Manufacturers reimburse DCT for the cost of procuring these critical components.

Purchases from Scanner Manufacturers totaled \$9,975,000 and \$10,740,000 for the years ended December 31, 2012 and 2011, respectively. All purchases to and from Scanner Manufacturers were carried out in the normal course of business. As a result of the aforementioned purchases, the net due to related parties was \$720,000 and \$1,014,000 at December 31, 2012 and December 31, 2011, respectively.

*Net Sales*

During the year ended December 31, 2012 and 2011, DCT recorded net sales totaling \$18,000 and \$11,000, respectively, for finished scanners sold to Scanner Manufacturers. The related cost of goods sold was \$16,000 and \$10,000 for the years ended December 31, 2011 and 2010, respectively. All sales to Scanner Manufacturers contained similar terms and conditions as for other transactions of this nature entered into by DCT.

**DOCUMENT CAPTURE TECHNOLOGIES, INC. AND SUBSIDIARY**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

*Consulting Services Provided by Members of the Board of Directors*

In February 2011, DCT entered into a month-to-month product development arrangement with Darwin Hu, a current member of DCT's board of directors, whereby Mr. Hu assisted DCT with expanding the current product offering. Pursuant to the arrangement, Mr. Hu was paid \$83,000 during the year ended December 31, 2011. As a result of hiring a full time chief technology officer, DCT terminated its consulting arrangement with Mr. Hu, effective October 31, 2011. Mr. Hu continues to serve as a director on DCT's board of directors.

During the year ended December 31, 2011, DCT paid \$11,000 to CSO on Call, LLC ("CSO"), a company owned by Roseann Larson, who is a current member of DCT's board of directors. CSO was engaged by DCT's board of directors for the purpose of providing strategic guidance to the board of directors related to DCT's current operations.

No DCT board members provided consulting services to DCT during the year ended December 31, 2012.

*Legal Services Agreement*

During September 2009, DCT entered into a legal services agreement ("Agreement") with Jody R. Samuels, a director of the Company. Pursuant to the Agreement, Mr. Samuels provides certain legal services to us which will consist of assisting the Company in (i) the preparation of its periodic and other filings with the Securities and Exchange Commission ("SEC"), including proxy statements, special and annual meetings of shareholders, (ii) the negotiation of financing and corporate development transactions, (iii) preparation and review of documentation related to financing arrangements and corporate development transactions, (iv) preparing registration statements, and responding to any SEC inquiries/comment letters, (v) documenting corporate governance policies and procedures, and (vi) any other legal matters reasonably within the legal expertise of Mr. Samuels.

Pursuant to the Agreement, Mr. Samuels was paid \$4,000 per month for a total of \$48,000 during each of the years ended December 31, 2012 and 2011. The Agreement may be cancelled by either party with 30 days prior written notice.

*Agreement to License Office Space*

During April 2010, DCT entered into a two-year license agreement (“License”) with Beau Dietl & Associates (“BDA”) to license office space from BDA in New York City. DCT uses the office space for all meetings of the board of directors and all shareholder meetings. Mr. Dietl is DCT’s Chairman of the board of directors. In connection with the License, the Company paid BDA an upfront license fee of \$50,000 as payment in full. The \$50,000 payment was capitalized and amortized, using the straight-line method, to selling, general and administrative expense over the term of the License.

In December 2011, DCT’s Audit Committee approved a one-year extension of the License. In connection with the extension, DCT paid BDA \$12,500 in December 2011 and \$12,500 in April 2012. Both payments were capitalized and are being amortized, using the straight-line method, to selling, general and administrative expense over the term of the License extension. The amended License extends through April 2013.

In connection with the License, DCT recorded rent expense of \$25,000 during each of the years ended December 31, 2012 and 2011, respectively.

The License can be canceled by either party with 90 days written notice.

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

*Stock Options*

DCT issues options under four different stock option plans as well as through employment agreements with key employees, executives and consultants (approved by the board of directors on a case-by-case basis). Options generally vest over two to three years from the date of grant and expire seven years from the date of grant.

The following table sets forth, by the respective option plan, certain aspects of DCT's stock options as of December 31, 2012:

| 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 | 2,753,710                                 | 446,290                    | 3,200,000 |
| 2006 Stock Option Plan                      | –                      | 2,500,000                           | 2,500,000 | 2,149,000                                 | 351,000                    | 2,500,000 |
| 2009 Stock Option Plan                      | –                      | 1,500,000                           | 1,500,000 | 1,179,333                                 | 320,667                    | 1,500,000 |
| 2010 Stock Option Plan                      | –                      | 3,500,000                           | 3,500,000 | 2,500,000                                 | 1,000,000                  | 3,500,000 |
| Key Personnel Option Grants                 | 5,075,000              | –                                   | 5,075,000 | 4,518,465                                 | –                          | 4,518,465 |

5,075,000    10,700,000    15,775,000    13,100,508    2,117,957    15,218,465

### *Stock-Based Compensation*

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

|                                     | Years Ended December 31, |          |
|-------------------------------------|--------------------------|----------|
|                                     | 2012                     | 2011     |
| Selling, general and administrative | \$ 809                   | \$ 1,162 |
| Research and development            | 69                       | 108      |
|                                     | \$ 878                   | \$ 1,270 |

At December 31, 2012, DCT had approximately \$180,000 of total unrecognized compensation cost related to unvested stock options. This cost is expected to be recognized over a weighted-average period of approximately 1.25 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, 2010                | 15,244,498   | \$ 0.34                         |   |
| Granted   | 1,143,710    | 0.39                            | * |
| Cancelled                                       | (1,765,000 ) | 0.38                            |   |
| Exercised                                       | (98,850 )    | 0.01                            |   |
| Outstanding at December 31, 2011                | 14,524,358   | \$ 0.34                         |   |
| Granted   | 275,000      | 0.35                            | * |
| Cancelled                                       | (200,000 )   | 0.32                            |   |
| Exercised                                       | (1,498,850 ) | 0.01                            |   |
| Outstanding at December 31, 2012                | 13,100,508   | \$ 0.38                         |   |
| Vested or expected to vest at December 31, 2012 | 13,100,508   | \$ 0.38                         |   |

\* Approximates the weighted-average fair value.





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

The following table summarizes all options outstanding and exercisable by price range as of December 31, 2012:

| Range of Exercise Prices | Options Outstanding |   |                                 | Options Exercisable |                                 |
|--------------------------|---------------------|---|---------------------------------|---------------------|---------------------------------|
|                          | Number Outstanding  | Weighted-Average Remaining Contractual Life (Years) | Weighted-Average Exercise Price | Number Exercisable  | Weighted-Average Exercise Price |
| \$0.01                   | 643,465             | 0.31  | \$ 0.01                         | 643,465             | \$ 0.01                         |
| \$0.29-\$0.45            | 9,557,043           | 5.27  | \$ 0.32                         | 8,519,534           | \$ 0.31                         |
| \$0.60 - \$0.70          | 2,900,000           | 5.85  | \$ 0.68                         | 2,900,000           | \$ 0.68                         |
|                          | 13,100,508          |   |                                 | 12,062,999          |                                 |

The “intrinsic value” of options is the excess of the value of DCT stock over the exercise price of such options. The total intrinsic value of options outstanding (of which all are expected to vest) was approximately \$103,000 and \$1,546,000 at December 31, 2012 and 2011, respectively. The total intrinsic value for exercisable options was \$103,000 and \$1,303,000 at December 31, 2012 and 2011, respectively. The total intrinsic value for options exercised during the year ended December 31, 2012 was \$475,000. The total intrinsic value for options exercised during the year ended December 31, 2011 was \$43,000.

**Note 5 – Composition of Certain Financial Statement Captions**

Inventories, net are summarized as follows (*in thousands*):

|                           | December 31, |         |
|---------------------------|--------------|---------|
|                           | 2012         | 2011    |
| Raw materials             | \$279        | \$803   |
| Finished goods            | 1,694        | 2,106   |
|                           | 1,973        | 2,909   |
| Less: Inventory allowance | (246 )       | (33 )   |
|                           | \$1,727      | \$2,876 |

Fixed assets are summarized as follows (*in thousands*):

|                                | December 31, |        |
|--------------------------------|--------------|--------|
|                                | 2012         | 2011   |
| Computer and office equipment  | \$ 100       | \$ 123 |
| Leasehold improvements         | 26           | 26     |
| Tooling and product design     | 325          | 294    |
|                                | 451          | 443    |
| Less: Accumulated depreciation | (347)        | (318)  |
|                                | \$ 104       | \$ 125 |

Depreciation expense totaled \$83,000 and \$88,000 for the years ended December 31, 2012 and 2011, respectively.

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

Accrued compensation and benefits are summarized as follows (*in thousands*):

|                                     | December 31, |        |
|-------------------------------------|--------------|--------|
|                                     | 2012         | 2011   |
| Vacation                            | \$ 139       | \$ 147 |
| Bonuses                             | 46           | 219    |
| Accrued payroll                     | 21           | 33     |
| Executive relocation <sup>(1)</sup> | –            | 45     |
|                                     | \$ 206       | \$ 444 |

<sup>(1)</sup>Relates to the hiring of a DCT executive in November 2010.

***Note 6 –Note Receivable***

During the third quarter of 2012, DCT’s board of directors authorized a \$300,000 investment in Advanced Cyber Systems Corp. (“ACSC”) in the form of a convertible note receivable (“ACSC Note”). The ACSC Note pays five percent interest per year. Principal and interest are both due on September 17, 2013 (“Maturity Date”). At any time prior to the Maturity Date, DCT is entitled at its option to convert the original principal amount of the ACSC Note into shares of ACSC equal to six percent of the outstanding common stock at the time of exercise.

The purpose of the investment in ACSC is to diversify and expand DCT’s product offerings into the Internet security market and expedite DCT’s evolution into a mobile and cloud-centric solutions provider with an emphasis on document and data capture in a secure environment.

Management evaluated ACSC as a possible variable interest entity (“VIE”) as defined by the FASB’s Accounting Standards Codification (“ACS”) Topic 810 - Consolidations (“ACS 810”). Management concluded that ACSC meets the business scope exception under Topic 810. As such, ACSC is not a VIE. DCT has no commitment or obligation, either implicit or explicit, to provide financial or other support to ACSC other than the ACS Note. DCT’s maximum exposure to loss is limited to the Note and related unpaid interest.

***Note 7 – 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.

Common stock equivalents of 606,000 and 12,125,000 were not considered in calculating diluted net loss per common share for the years ended December 31, 2012 or 2011, respectively, as their effect would be anti-dilutive.

***Note 8 – Equity***

***Common Stock***

***Common Stock Issuances - 2012***

During the first and second quarters of 2012, DCT issued 1,498,850 shares of common stock upon the exercise of employee stock options.

***Common Stock Issuances - 2011***

During the first quarter of 2011, DCT issued 98,850 shares of common stock upon the exercise of employee stock options.

**DOCUMENT CAPTURE TECHNOLOGIES, INC. AND SUBSIDIARY**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

*Common Stock Warrants*

*Common Stock Warrants Issued for Consulting Services*

In certain instances, DCT issues warrants to consultants for consulting services. DCT did not issue any warrants for consulting services during the years ended December 31, 2012 or 2011. DCT issued warrants to purchase 620,000 shares of DCT common stock during the year ended December 31, 2010. The initial value of such warrants was calculated using the Black-Scholes valuation model using the following assumptions:

|  |        |
|--|--------|
| Contractual Term                         | 2.0    |
| Weighted average expected volatility     | 175 %  |
| Weighted average expected dividend yield | 0 %    |
| Weighted average risk free interest rate | 0.61 % |

The total fair value of warrant issued during the year ended December 31, 2010 was \$229,000. DCT amortized the fair value of the warrants ratably over the consulting agreements. Accordingly, \$74,000 and \$80,000 was charged to selling, general and administrative expense and credited to additional paid-in capital during the years ended December 31, 2012 and 2011, respectively. At December 31, 2012, DCT had no unrecognized compensation cost related to such warrants.

*Common Stock Warrant Activity and Outstanding*

DCT had the following common stock warrant activity during the years ended December 31, 2012 and 2011:

|                                  |                        |
|----------------------------------|------------------------|
|                                  | Number<br>of<br>Shares |
| Outstanding at December 31, 2010 | 798,027                |
| Cancelled                        | (110,000)              |

|                                  |           |
|----------------------------------|-----------|
| Outstanding at December 31, 2011 | 688,027   |
| Cancelled                        | (620,000) |
| Outstanding at December 31, 2012 | 68,027    |

The following table summarizes certain aspects of DCT's outstanding warrants as of December 31, 2012:

| Warrants Issued in Connection with: | Number of<br>Shares<br>Outstanding<br>and Vested | Exercise<br>Price (\$) | Issuance<br>Date | Expiration<br>Date |
|-------------------------------------|--|------------------------|------------------|--------------------|
| Bank line of credit                 | 68,027   | 0.59                   | 9/2/09           | 8/31/16            |

### ***Note 9 – Fair Value***

During August 2010, DCT and NCR Corporation (“NCR”) entered into (i) Share Purchase Agreement, (ii) Investor Rights Agreement, and (iii) Voting Agreement pursuant to which NCR purchased from DCT 3,861,004 shares of the Company’s common stock for an aggregate purchase price of \$4,000,000. Additionally, DCT granted NCR a two-year option (“NCR Option”) to purchase up to an additional \$4,000,000 of Common Stock at an exercise price of \$1.036 per share, subject to adjustment.

On August 4, 2012, the NCR Option matured without being exercised. On the maturity date, the fair value of the NCR Option was valued deterministically to be zero. As of December 31, 2011, DCT estimated the fair value using the Binomial option pricing model and the following assumptions: 0.12% risk-free interest rate, expected volatility of 198%, expected dividend yield of 0%, and remaining life equal to the remaining contractual life of the option.

Until maturity, DCT’s stock option liability fair value was classified using Level 3 inputs, as unobservable inputs to the valuation methodology are significant to the measurement of the fair value, as defined by ASC 820.

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

The following table summarizes the changes in Level 3 liabilities measured at fair value on a recurring basis (*in thousands*):

|   | As of and for the Years<br>Ended December 31, |        |
|---|---|--------|
|   | 2012  | 2011   |
| Beginning balance - stock option liability          | \$ 502  | \$ 811 |
| Unrealized gain included in net loss <sup>(1)</sup> | (502 )  | (309 ) |
| Ending balance- stock option liability              | \$ –  | \$ 502 |

<sup>(1)</sup> Included as a component of non-operating income (expense).

***Note 10 – Bank Line of Credit******Bank Line of Credit - 2011***

During November 2011, DCT amended its existing \$2,000,000 line of credit (“LOC”) to increase the available borrowings from \$2,000,000 to \$3,000,000 and extended the maturity date to November 15, 2012. The borrowing base remained unchanged at 80% of eligible accounts receivable (as defined in the LOC agreement). The annual interest rate remained unchanged at prime plus 1.0%. Upon certain events of default (as defined in the LOC agreement), the default variable interest rate increases five percentage points above the interest rate applicable immediately prior to the default. Additionally, the lender has the right to declare all of the amounts due under the LOC immediately due and payable upon an event of default.

In connection with the amendment, DCT paid the lender a loan modification fee of \$8,000, which was recorded as deferred financing costs and amortized over the life of the loan to interest expense.

***Bank Line of Credit - 2012***

During November 2012, DCT amended its LOC (“Amended LOC”), extending the maturity date to November 15, 2013 and expanding DCT’s borrowing base. Previously, the borrowing base formula allowed accounts receivable from individual customers up to 25% of total accounts receivable. The Amended LOC expands the borrowing base by including certain customer balances in excess of 25% of the total accounts receivable. All other significant terms and conditions remain unchanged.

In connection with the amendment, DCT paid the lender a loan modification fee of \$8,000, which was recorded as deferred financing costs and is being amortized over the life of the loan to interest expense.

As of December 31, 2012, DCT was in compliance with all 2012 Amended LOC debt covenants and had unused borrowing capacity of \$1,746,000.

#### ***Note 11 – Income Tax***

DCT’s provision (benefit) for income taxes are summarized as follows (*in thousands*):

|                | Year Ended December 31, |       |
|----------------|-------------------------|-------|
|                | 2012                    | 2011  |
| Current taxes: |                         |       |
| Federal taxes  | \$ –                    | \$ 3  |
| State taxes    | –                       | 61    |
|                | \$ –                    | \$ 64 |

As of December 31, 2012 DCT has estimated available net operating loss carryforwards of approximately \$8,453,000 and \$5,844,000 for federal and state income tax purposes, respectively. Pursuant to Sections 382 and 383 of the Internal Revenue Code, the utilization of net operating losses (“NOL”) and other tax attributes may be subject to substantial limitations if certain ownership changes occur during a three-year testing period (as defined). During the year ended December 31, 2008 management analyzed changes to DCT’s ownership and estimated the impact of such changes to DCT’s NOLs. The aforementioned NOLs are based on management’s estimates and are limited to an annual limitation of approximately \$500,000 per year. During the years ended December 31, 2012 and 2011, DCT did not have any ownership changes that limit NOLs.



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

DCT believes sufficient uncertainty exists regarding the realization of net operating loss carryforwards and other timing differences for the periods presented. Accordingly, a valuation allowance has been provided for the entire amount related thereto. The valuation allowance increased by approximately \$170,000 and \$164,000 for the years ended December 31, 2012 and 2011, respectively.

A reconciliation of the differences between the United States statutory federal income tax rate and the effective tax rate as provided in the consolidated statements of operations is as follows:

|   | Year Ended December 31, |        |
|---|-------------------------|--------|
|   | 2012                    | 2011   |
| U.S. Federal statutory rate (%)                 | (35 )%                  | (35 )% |
| State income taxes, net of federal income taxes | –                       | 14     |
| Effect of permanent differences and other       | –                       | 124    |
| Use of NOLs                                     | –                       | (91 )  |
| Change in valuation allowance and other         | 35                      | 10     |
|   | – %                     | 22 %   |

The deferred income tax asset consisted of the following (*in thousands*):

|  | December 31, |         |
|--|--------------|---------|
|  | 2012         | 2011    |
| Deferred tax assets                      |              |         |
| Federal net operating loss carryforwards | \$2,959      | \$2,662 |
| State net operating loss carryforwards   | 336          | 451     |
| Other                                    | 196          | 208     |
|  | 3,491        | 3,321   |
| Less: valuation allowance                | (3,491)      | (3,321) |
|  | \$-          | \$-     |

Effective at the beginning of 2007, DCT adopted standards that changed the accounting for uncertain tax positions. The implementation of these standards did not result in a cumulative effect adjustment to the Company's accumulated deficit. As of the date of adoption, the Company had no unrecognized income tax benefits. Accordingly, the annual effective tax rate was not affected. Should the Company incur interest and penalties relating to tax uncertainties, such amounts would be classified as a component of interest expense and operating expense, respectively.

At December 31, 2012, the Company had no increase or decrease in unrecognized income tax benefits for the year. There was no accrued interest or penalties relating to tax uncertainties at December 31, 2012. Unrecognized tax benefits are not expected to increase or decrease within the next twelve months.

The Company is subject to income tax in the U.S. federal jurisdiction and California. DCT is no longer subject to U.S. federal or state income tax examination by tax authorities for tax returns filed for the years ended on or before December 31, 2008 and December 31, 2007, respectively. DCT has not filed its U.S. federal or state return for the year ended December 31, 2012. These returns are considered open tax years as of the date of these consolidated financial statements. No tax returns are currently under examination by any tax authorities.

F-18

**DOCUMENT CAPTURE TECHNOLOGIES, INC. AND SUBSIDIARY****NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS***Note 12 – Commitments and Contingencies**Operating Leases*

DCT's corporate office and warehouse space is an operating lease that extends through October 2015. As of December 31, 2012, future minimum rental commitments under non-cancellable leases were as follows (*in thousands*):

| Year Ending<br>December 31, | Future<br>Minimum<br>Lease<br>Payments |
|-----------------------------|--|
| 2013                        | \$ 246                                 |
| 2014                        | 265                                    |
| 2015                        | 235                                    |
| Thereafter                  | –                                      |
|                             | \$ 746                                 |

Under the lease agreement, DCT is responsible for common area maintenance (“CAM”) charges and pro-rated taxes and insurance. Rent, CAM, and pro-rated taxes and insurance expenses under the operating lease totaled \$366,000 and \$381,000 for the years ended December 31, 2012 and 2011, respectively.

Rent expense was \$257,000 and \$259,000 for the years ended December 31, 2012 and 2011, respectively.

*Employment Agreements*

DCT maintains employment agreements with certain of its executive officers that provide for a base salary and annual bonus to be determined by the Board of Directors. The agreements also provide for termination payments, stock options, non-competition provisions, and other terms and conditions of employment. DCT also maintains employment agreements with other key employees with similar terms and conditions. As of December 31, 2012, termination

payments totaling \$833,000 remain in effect. Additionally, DCT has commitments to several key employees to pay severance if the employee is terminated by DCT. Such commitments total \$59,000 as of December 31, 2012.

#### *Research and Development Agreement*

During the second quarter of 2011, the Company entered into an agreement (“Development Agreement”) with a customer to develop scanners to meet the customer’s specific product requirements. Revenue and the associated cost of revenue are recognized based on a percentage-of-completion estimate. During the years ended December 31, 2012 and 2011, DCT recognized revenue of \$42,000 and \$56,000, respectively based on an estimated percentage of completion. DCT had no deferred revenue at December 31, 2012 or 2011 associated with the Development Agreement.

#### *Litigation, Claims and Assessments*

DCT experiences routine litigation in the normal course of its business and does not believe that any pending litigation will have a material adverse effect on DCT's financial condition, results of operations or cash flows.

#### *Note 13 – Employee Benefits*

DCT has a 401(k) plan for employees who are at least 21 years of age and have completed a minimum of 1,000 hours of service. Under the terms of the plan, employees may make voluntary contributions as a percent of compensation, but not in excess of the maximum amounts allowed under the Internal Revenue Code. DCT contributions totaled \$80,000 and \$60,000 for the years ended December 31, 2012 and 2011, respectively.

#### *Note 14 – Segment and Geographic Information*

##### *Segment Information*

DCT operates in one segment: the design, development and delivery of various imaging technology solutions, most notably scanners.

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

During the years ended December 31, 2012 and 2011, DCT recorded net sales throughout the U.S., Europe and Asia Pacific as determined by the final destination of the product. The following table summarizes total net sales attributable to significant countries (*in thousands*):

|                  | Years Ended December |           |
|------------------|----------------------|-----------|
|                  | 31,                  |           |
|                  | 2012                 | 2011      |
| U.S.             | \$ 14,760            | \$ 16,875 |
| Europe and other | 1,979                | 772       |
| Asia Pacific     | 609                  | 11        |
|                  | \$ 17,348            | \$ 17,658 |

Presented below is information regarding identifiable assets, classified by operations located in the U.S., Asia, and Europe (*in thousands*):

|                  | December 31, |         |
|------------------|--------------|---------|
|                  | 2012         | 2011    |
| U.S.             | \$6,229      | \$7,357 |
| Europe and other | 583          | 516     |
| Asia Pacific     | 38           | 52      |
|                  | \$6,850      | \$7,925 |

Assets located in Asia relate to tooling equipment required to manufacture DCT's product. Assets located in Europe relate to DCT's field service, sales, distribution and inventory management in the Netherlands.

**Note 15 – Subsequent Events***Executive Management Restructuring*

Effective January 11, 2013, DCT terminated its Chief Executive Officer (“CEO”) and its President. In connection with the termination, DCT entered a severance agreement with its former CEO whereby DCT agreed to pay nine months’ severance and medical premiums totaling \$242,000. Although DCT offered its former President a severance package, an agreement was not executed. During March 2013, DCT received a letter from its former President requesting additional severance and the intent to seek damages in California state court if a severance settlement cannot be reached. DCT believes the former President’s claims are without merit. Total severance payments were expensed in January 2013.

Effective January 11, 2013 DCT’s former CEO resigned from the Board of Directors.

Effective January 14, 2013, DCT entered into an employment agreement (“Employment Agreement”) with its new CEO. The Employment Agreement provides for an initial term of one year, an annual base salary of \$250,000, an annual bonus at the discretion of DCT’s board of directors, and a change of control bonus of \$175,000. In connection with the Employment Agreement, DCT granted its new CEO 3,200,000 options at an exercise price of \$0.17 per share. One fourth of the options vest and become exercisable on each of the following dates: June 30, 2013, December 31, 2013, June 30, 2014, and December 31, 2014. In certain instances, including but not limited to a change in control, the vesting schedule accelerates.

#### *Approval of New Option Plan*

On January 14, 2013, DCT’s Board of Directors approved the adoption of the 2013 Stock Option Plan (“2013 Plan”). The 2013 Plan has not been approved by DCT stockholders. The 2013 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 maximum number of options that can be granted under the 2013 Plan is 3,500,000.

#### *Stock Option Grants to Employees*

On March 20, 2013 the Company’s board of directors granted an aggregate of 750,000 options to certain employees of the company. The options are exercisable for a period of ten years from the date of grant at an exercise price of \$0.12 per share and vest as follows: one-third on March 20, 2014, one-third on March 20, 2015 and one-third on March 20, 2015.