WOODMAN THERESE
Form 4
January 03, 2018

FORM 4

Check this box if no longer subject to Section 16. Form 4 or Form 5 obligations may continue. *See* Instruction 1(b).

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

STATEMENT OF CHANGES IN BENEFICIAL OWNERSHIP OF SECURITIES

Filed pursuant to Section 16(a) of the Securities Exchange Act of 1934, Section 17(a) of the Public Utility Holding Company Act of 1935 or Section 30(h) of the Investment Company Act of 1940

OMB APPROVAL

OMB Number:	3235-0287
Expires:	January 31, 2005
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(Print or Type Responses)

1. Name and Address of Reporting Person *
WOODMAN THERESE

(Last) (First) (Middle)

C/O MALVERN BANCORP, INC.,, 42 EAST LANCASTER AVENUE

(Street)

PAOLI, PA 19301

(City) (State) (Zip)

2. Issuer Name **and** Ticker or Trading Symbol
MALVERN BANCORP, INC. [MLVF]

3. Date of Earliest Transaction (Month/Day/Year)
12/29/2017

4. If Amendment, Date Original Filed(Month/Day/Year)

5. Relationship of Reporting Person(s) to Issuer

(Check all applicable)

__X__ Director _____ 10% Owner
_____ Officer (give title below) _____ Other (specify below)

6. Individual or Joint/Group Filing(Check Applicable Line)
_X_ Form filed by One Reporting Person
___ Form filed by More than One Reporting Person

Table I - Non-Derivative Securities Acquired, Disposed of, or Beneficially Owned

1.Title of Security (Instr. 3)	2. Transaction Date (Month/Day/Year)	2A. Deemed Execution Date, if any (Month/Day/Year)	3. Transaction Code (Instr. 8)		4. Securities Acquired (A) or Disposed of (D) (Instr. 3, 4 and 5)			5. Amount of Securities Beneficially Owned Following Reported Transaction(s) (Instr. 3 and 4)	6. Ownership Form: Direct (D) or Indirect (I) (Instr. 4)	7. Nature of Indirect Beneficial Ownership (Instr. 4)
			Code	V	Amount	(A) or (D)	Price			
Common Stock	12/29/2017		A		816 (1)	A	$ 0	11,112	D	

Reminder: Report on a separate line for each class of securities beneficially owned directly or indirectly.

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SEC 1474 (9-02)

Table II - Derivative Securities Acquired, Disposed of, or Beneficially Owned
(*e.g.*, puts, calls, warrants, options, convertible securities)

1. Title of Derivative Security (Instr. 3)	2. Conversion or Exercise Price of Derivative Security	3. Transaction Date (Month/Day/Year)	3A. Deemed Execution Date, if any (Month/Day/Year)	4. Transaction Code (Instr. 8)		5. Number of Derivative Securities Acquired (A) or Disposed of (D) (Instr. 3, 4, and 5)		6. Date Exercisable and Expiration Date (Month/Day/Year)		7. Title and Amount of Underlying Securities (Instr. 3 and 4)		8. P Der Sec (Ins
				Code	V	(A)	(D)	Date Exercisable	Expiration Date	Title	Amount or Number of Shares	
Stock Option (right to buy)	$ 26.2	12/29/2017		A		1,166		(2)	12/29/2027	Common Stock	1,166	

Reporting Owners

Reporting Owner Name / Address	Relationships			
	Director	10% Owner	Officer	Other
WOODMAN THERESE C/O MALVERN BANCORP, INC., 42 EAST LANCASTER AVENUE PAOLI, PA 19301	X			

Signatures

/s/ Therese Woodman	01/03/2018
**Signature of Reporting Person	Date

Explanation of Responses:

* If the form is filed by more than one reporting person, *see* Instruction 4(b)(v).

** Intentional misstatements or omissions of facts constitute Federal Criminal Violations. *See* 18 U.S.C. 1001 and 15 U.S.C. 78ff(a).

(1) The 816 restricted shares vest in five 20% increments beginning on the one year anniversary of the grant date and were granted under the Company's 2014 Long-Term Incentive Compensation Plan

(2) The option becomes exercisable in five 20% increments beginning on the one year anniversary of the grant date and were granted under the Company's 2014 Long-Tern Incentive Compensation Plan

Note: File three copies of this Form, one of which must be manually signed. If space is insufficient, *see* Instruction 6 for procedure.
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Fair Value

Shares

Fair Value

Warrants issued with Series A Stock

March 15, 2010

1.00

186.5

$

26

186.5

$

160

Warrants issued with Series A Stock

March 15, 2010

2.00

932.5

70

932.5

32

Warrants issued with Series B Stock

August 7, 2009

1.50

675.0

35

675.0

41

Series A Stock

March 15, 2008

1.00

-

-

1,150.0

-

Series B Stock

August 7, 2009

1.00

150.0

13

150.0

22

Total

$
144

$
255

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DOCUMENT CAPTURE TECHNOLOGIES, INC.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS - (Unaudited)

The fair value of the above Derivative Instruments was determined under the following assumptions:

	June 30, 2008	December 31, 2007
Remaining contractual term, Series A Stock Warrants (years)	1.7	2.2
Remaining contractual term, Series B Stock Warrants (years)	1.1	1.6
Remaining contractual term, Series A Stock (years)	-	0.2
Remaining contractual term, Series B Stock (years)	1.1	1.6
Expected volatility	102%	49%
Expected dividend yield	0%	0%
Risk free interest rate	3%	4%

Note 10 - Commitments and Contingencies

Operating Leases

The Company is committed under various non-cancelable operating leases which extend through February 2011. Future minimum rental commitments as of June 30, 2008 are as follows (*in thousands*):

Year Ending June 30,		Future Minimum Lease Payments
2009	$	213
2010		213
2011		2
Total	$	428

Bank Line of Credit

DCT has a $3,000,000 line of credit (“LOC”) at a commercial bank. Borrowings under the LOC are limited to 80% of eligible accounts receivable and 40% of eligible inventory, as defined in the LOC agreement. The LOC bears an annual interest rate of prime (5.0% at June 30, 2008) plus 1.25% for advances drawn against accounts receivables and prime plus 2.25% for advances drawn against inventory. Interest payments are due monthly and all unpaid interest and principal is due in full on September 13, 2009. Upon certain events of default, the default variable interest rate increases to prime plus 5%. DCT had an available borrowing capacity of $59,000 on its LOC at June 30, 2008.

As of June 30, 2008, DCT was in compliance with all LOC debt covenants.

Long-Term Loan

On September 27, 2007, the Company entered into a $1,500,000 term loan agreement ("Loan Agreement") with Montage Capital, LLC ("Lender") in an arm’s length transaction. DCT granted the Lender a continuing security interest, and pledged to the Lender, all of its assets to secure payment and performance of its obligations under the Loan Agreement. The Loan Agreement and the security interest are subordinate to DCT’s LOC.

DCT is currently making monthly principal payments of $100,000 and interest payments at an annual interest rate of 15%. All outstanding principal and accrued interest is due at the time the loan matures on November 30, 2008. However, if DCT sells any assets outside the ordinary course of business and receives cash proceeds from such sale, the Lender must be paid 20% of such proceeds as pre-payment of the outstanding principal. Under this portion of the agreement, DCT made an additional $100,000 principal payment during the three months ended June 30, 2008 as a result of selling its HD related assets as previously discussed. Additionally, under certain circumstances defined in the Loan Agreement, the Lender has the right to declare all of the amounts due under the Loan Agreement immediately due and payable. No such circumstances have occurred to date.

DOCUMENT CAPTURE TECHNOLOGIES, INC.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS - (Unaudited)

In connection with the Loan Agreement, DCT issued warrants (“Loan Warrants”) to purchase up to 650,000 shares of DCT’s common stock at an initial exercise price of $0.60 per share. The Loan Warrants vested immediately and expire September 2012. From the initial funding of the Loan Agreement through March 31, 2008, the warrant holders had the right to require DCT to purchase the warrant for a maximum of $250,000. On March 31, 2008, the warrant repurchase price increased to a maximum of $350,000. The warrant repurchase feature expires September 2012.

Under the Black-Scholes pricing model, the fair value of the Loan Warrants on the issuance date was $399,000 using the following assumptions: contractual term of five years, 5.3% risk-free interest rate, expected volatility of 90% and expected dividend yield of 0%. Because the warrants were immediately redeemable for $250,000 cash at the warrant holder’s request, DCT accounted for the original $250,000 warrant redemption value as a current liability and the $149,000 excess fair value over the warrant redemption value as additional paid-in capital. On March 31, 2008, DCT accounted for the warrant repurchase price increased maximum by increasing the related current liability from $250,000 to $350,000 with the offset recorded to additional paid in capital.

DCT is accreting the entire $399,000 debt discount to interest expense over the life of the Loan Agreement. In connection with the Loan Warrants, DCT recorded non-cash interest expense for the three and six months ended June 30, 2008 of $83,000 and $167,000, respectively.

Future annual repayment obligations as of June 30, 2008 were as follows (*in thousands*):

Principal payments due less than 12 months	$	600
Loan Warrants redemption value		350
Total obligations		950
Less unamortized debt discount		(144)
Total notes payable and related warrant liability	$	806

The Loan Warrants provide for weighted average anti-dilution price adjustments if the Company issues common stock (or securities convertible into common stock) for consideration less than the then-effective exercise price; provided that if the Company sells or issues its equity securities within one year after the issue date in an offering in which the Company receives gross proceeds of at least $1,000,000 (“Equity Event”), then, at the option of the Lender, the shares into which the Loan Warrants are convertible will be of the type and series of stock issued in the Equity Event. The exercise price shall be equal to the price per share paid in the Equity Event, and the Lender shall have the rights given to the purchasers in the Equity Event.

Employment Agreements

The Company maintains employment agreements with its executive officers, which extend through 2008. The agreements provide for a base salary, annual bonus to be determined by the Board of Directors, termination payments, stock options, non-competition provisions, and other terms and conditions of employment. In addition, the Company maintains employment agreements with other key employees with similar terms and conditions. As of June 30, 2008, termination payments totaling $389,000 are in effect. On July 15, 2008, termination payments increased to $769,000 as a result of amending employment agreements with executive officers. See Note 12.

DOCUMENT CAPTURE TECHNOLOGIES, INC.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS - (Unaudited)

Consulting Agreement

DCT entered into an Investor Relations Consulting Agreement dated January 25, 2008, for a term of one year beginning January 1, 2008, payable at a monthly rate of $5,000. Additionally, DCT agreed to pay the consultant 110,000 warrants with an exercise price of $0.65 per share, with the following vesting schedule: (i) 50% upon signing the agreement, (ii) 25% on June 30, 2008, and (iii) 25% on September 30, 2008. The warrants expire three years after their respective vesting dates (January 1, 2011, June 30, 2011, and September 30, 2011). Each warrant includes a cashless exercise provision. The warrants will not be registered under federal or state securities laws. The fair value of these warrants, as determined by the Black-Scholes valuation model, totaled approximately $68,000 and is amortized ratably over the vesting period. As such, $17,000 and $51,000 was charged to general and administrative expense and credited to additional paid-in capital during the three and six months ended June 30, 2008, respectively.

Registration Rights Agreements

In connection with the issuance of multiple equity instruments, DCT executed registration rights agreements with the purchasers thereof under which DCT agreed to register the common shares underlying the equity instrument.

All registration rights agreements provide for liquidated damages in the event the registration statement is not maintained continuously effective. During the six months ended June 30, 2008, DCT maintained continuously effective registration statements for all equity instruments that require effective registration statements.

Litigation, Claims and Assessments

The Company 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 11 - Segment and Geographic Information

Segment Information

DCT currently operates in one segment: the design, development and delivery of various imaging technology solutions, most notably scanners, as defined by SFAS 131, *Disclosures about Segments of an Enterprise and Related Information* ("SFAS 131").

Geographic Information

During the three and six months ended June 30, 2008 and 2007, DCT recorded net sales throughout the U.S., Asia and Europe as determined by the final destination of the product. The following table summarizes total net sales attributable to significant countries (*in thousands*):

	Three Months Ended June 30,		Six Months Ended June 30,	
	2008	**2007**	**2008**	**2007**
U.S.	**$ 2,724**	$ 3,538	**$ 5,076**	$ 7,539
Asia	**22**	-	**22**	-
Europe and other	**257**	158	**443**	284
	$ 3,003	$ 3,696	**$ 5,541**	$ 7,823

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DOCUMENT CAPTURE TECHNOLOGIES, INC.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS - (Unaudited)

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

	June 30, 2008	December 31, 2007
U.S.	**$ 3,900**	$ 5,574
Asia	**90**	110
Europe	**144**	109
	$ 4,134	$ 5,793

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 12 - Subsequent Events

Changes to DCT Board of Directors

Effective July 15, 2008, Mr. Lawrence Liang resigned from the Board of Directors of DCT.

Effective July 15, 2008, Mr. Darwin Hu stepped down as Chairman of DCT's Board of Directors. Mr. Hu will continue to serve as a director of DCT until its next annual meeting of stockholders.

On July 15, 2008, DCT's Board of Directors unanimously voted to elect Mr. Edward M. Straw to serve as Chairman of DCT's Board of Directors, effective immediately, until DCT's next annual meeting of stockholders. Mr. Straw filled the vacancy on DCT's Board of Directors created by the aforementioned resignation of Mr. Liang.

Employment Agreement Amendments

On July 15, 2008, the DCT's Board of Directors approved addenda to the employment agreements for certain DCT executive officers. The addenda were a result of title changes, added responsibilities and realignment of financial and operational responsibilities.

Stock Option Grants

On July 15, 2008, the DCT's Board of Directors approved an aggregate of 5,168,750 stock options, which were granted to key employees, directors and consultants. Compensation cost related to the stock option grant totaled approximately $1,200,000, which is expected to be recognized over a weighted average period of 3.5 years.

Item 2 - Management's Discussion and Analysis of Financial Condition and Results of Operations

The following discussion should be read in conjunction with Document Capture Technologies, Inc.'s ("DCT" or "Company") unaudited condensed consolidated financial statements and notes included herein. The results described below are not necessarily indicative of the results to be expected in any future period. Certain statements in this discussion and analysis, including statements regarding our strategy, financial performance and revenue sources, are forward-looking statements based on current expectations and entail various risks and uncertainties that could cause actual results to differ materially from those expressed in the forward-looking statements. Readers are referred to DCT's Annual Report on Form 10-KSB for the year ended December 31, 2007 as filed with the Securities and Exchange Commission on March 5, 2008. We undertake no duty to update any forward-looking statement to conform the statement to actual results or changes in our expectations.

Management's discussion and analysis of financial condition and results of operations ("MD&A") is provided as a supplement to the accompanying unaudited condensed consolidated financial statements and notes to help provide an understanding of our financial condition, changes in financial condition and results of operations. The MD&A section is organized as follows:

· ***Overview***. This section provides a general description of the Company's business, as well as recent developments that we believe are important in understanding the results of operations and to anticipate future trends in those operations.

· ***Critical accounting policies***. This section provides an analysis of the significant estimates and judgments that affect the reported amounts of assets, liabilities, revenues and expenses, and related disclosure of contingent assets and liabilities.

· ***Results of operations.*** This section provides an analysis of our results of operations for the three and six months ended June 30, 2008 compared to the three and six months ended June 30, 2007. A brief description of certain aspects, transactions and events is provided, including related-party transactions that impact the comparability of the results being analyzed.

· ***Liquidity and capital resources.*** This section provides an analysis of our financial condition and cash flows as of and for the six months ended June 30, 2008 as compared to the six months ended June 30, 2007.

Overview

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

We are actively shipping six groups of image-capture products. We have expanded our document/image-capture product offerings, and will continue to expand our product offerings in the future in response to the increased market demand for faster and easier-to-use products as well as increased security to meet the growing need for information protection, including identity and financial transaction protection.

Although our 2008 sales have been affected by the general economic slowdown of the U.S. economy, we have reduced our expenses by concentrating on our core business and focusing our resources toward revenue-generating activities. The successful reduction of our operating expenses has somewhat mitigated the negative impact of our reduced sales to our financial condition. The most significant reduction to our operating expenses was a result of terminating our high definition ("HD") display research and development efforts during November 2007. All HD display related expenses, including employees and contractors were terminated by December 31, 2007. As such, our operating expenses for the three and six months ended June 30, 2008 are not directly comparable to our operating expenses for the three and six months ended June 30, 2007. We never generated any sales from our HD display research and development efforts.

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While substantially all our revenues and operating expenses have historically been denominated in the U.S. dollar and unaffected by the decreased value of the U.S. dollar, all our product is purchased in the Chinese Yuan. This has significantly increased the cost of our product, which has not been passed through to our customers. We expect this trend to continue throughout the remainder of 2008.

We have and will continue to explore and evaluate a range of strategic opportunities to enhance shareholder value, including, but not limited to, combinations, partnerships, sales or mergers of our operations or assets with another entity and/or a recapitalization. As of the date of this filing, we continue to evaluate different strategic opportunities.

Critical Accounting Policies

Our MD&A is based upon our condensed consolidated financial statements, which have been prepared in accordance with accounting principles generally accepted in the United States. The preparation of these financial statements requires us to make estimates and judgments that affect the reported amounts of assets, liabilities, revenues and expenses, and related disclosure of contingent assets and liabilities. On an on-going basis, we evaluate our estimates, including those related to our derivative financial instruments, revenue recognition, trade receivables and the related allowance, inventories and the related allowance, and income taxes. We base our estimates on historical experience and on various other assumptions that we believe are reasonable under the circumstances, the results of which form the basis for making judgments about the carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates under different assumptions or conditions.

An accounting policy is deemed to be critical if it requires an accounting estimate to be made based on assumptions about matters that are highly uncertain at the time the estimate is made, and if different estimates that reasonably could have been used or changes in the accounting estimate that are reasonably likely to occur could materially change the financial statements.

Our disclosures of critical accounting policies in our Annual Report on Form 10-KSB for the year ended December 31, 2007 have not materially changed since that report was filed.

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Results of Operations

The following table summarizes certain aspects of our results of operations for the three and six months ended June 30, 2008 compared to the three and six months ended June 30, 2007 (*in thousands*):

	Three Months Ended June 30,				Six Months Ended June 30,			
	2008	**2007**	**. $**	**. %**	**2008**	**2007**	**. $**	**. %.**
Net sales	$ 3,003	$ 3,696	$ (693)	(19)%	$ 5,541	$ 7,823	$ (2,282)	(29)%
Cost of sales	2,020	2,150	(130)	(6)	3,825	4,634	(809)	(17)
As a percentage of sales	67%	58%			69%	59%		
Selling, general and administrative expense	511	974	(463)	(48)	1,472	2,289	(817)	(36)
Research and development expense	170	749	(579)	(77)	373	1,526	(1,153)	(76)
Total other income (expense)	456	341	NM	NM	409	(18)	NM	NM
Dividend and deemed dividend on 5% convertible preferred stock and accretion of preferred stock redemption value	(12)	(243)	NM	NM	(345)	(484)	NM	NM
NM = Not Meaningful								

Net Sales

The decrease in net sales during both the three and six months ended June 30, 2008 as compared to the same periods in 2007 was attributable to the following conditions:

- The overall slowdown of the general economic and market conditions in the U.S. economy and the related slowdown of information technology ("IT") spending.

- Decreased demand from the banking and financial sectors of our market. This sector has been more focused on regulatory actions and financial hardships rather than investing in transaction system infrastructure, of which we are a key supplier. Sales to this particular sector decreased $497,000 and $828,000 during the three and six months ended June 30, 2008, respectively, as compared to the same periods in 2007.

Historically, international sales have been immaterial to our results of operations. However, during the three and six months ended June 30, 2008, our European sales were $257,000 and $443,000, or 9% and 8%, respectively, of our total net sales. During the three and six months ended June 30, 2007, our European sales were $158,000 and $284,000, respectively, which represented only 4% of our sales for both periods. The European markets for our products continue to show strong growth as we have nearly doubled our distribution network within this market during the six months ended June 30, 2008 as compared to the six months ended June 30, 2007. We expect this trend to continue as we have improved our ability to deliver all channel products from our Netherlands based warehouse and improve our time-to-market and reduce our logistics costs, including but not limited to shipping costs.

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

Although we continue to concentrate on expanding our significant customer base, our revenue is dependent on a small number of significant customers. During the three months ended June 30, 2008, 60% of sales were generated from three customers as compared to 51% of sales generated from three customers during the same period in fiscal 2007. During the six months ended June 30, 2008, 61% of our sales were generated from three customers as compared to 60% of sales generated from three customers during the same period in fiscal 2007. 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, imaging modules and services related to the delivery of those items manufactured in China, and to a lesser extent, engineering services and software royalties. Cost of sales as a percentage of net sales increased during both the three and six months ended June 30, 2008 as compared to the same periods in 2007 as a direct result of the devaluation of the U.S. dollar against the Chinese Yuan. This increase was somewhat offset by the following factors during the three months ended June 30, 2008:

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

We expect our cost of sales as a percentage of net sales to fluctuate somewhat during the remainder of 2008 as we experience changes in our product mix, as the value of the U.S. dollar remains volatile and as we implement further product cost reduction strategies.

Selling, General and Administrative Expenses

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

The decrease in selling, general and administrative expense during both the three and six months ended June 30, 2008 as compared to the same periods in 2007 was primarily attributable to the termination of our HD display related activities, which added approximately $100,000 and $207,000 of product promotion and marketing expense during the three and six months ended June 30, 2007, respectively. Subsequent to January 1, 2008, we have not incurred any HD display-related expenses.

To a lesser extent, the decrease was attributable to lower stock-based compensation costs (a non-cash charge) as a result of granting stock options to key employees as accounted for under SFAS 123R. See “Note 7: Employee Equity Incentive Plans” in Part I, Item 1 of this Form 10-Q. Stock-based compensation cost was $79,000 and $165,000 for the three and six months ended June 30, 2008, respectively. Stock-based compensation cost was $149,000 and $730,000 for the three and six months ended June 30, 2007, respectively.

The decrease in our selling, general and administrative expenses caused by the termination of our HD display related activities and the reduction of stock-based compensation cost was somewhat offset by our increased personnel costs to support our public company status, including the costs of complying with the Sarbanes-Oxley Act.

Research and Development Expense

Research and development expense consists primarily of salaries and related costs, including stock-based compensation costs, of employees engaged in product research, design and development activities, compliance testing, documentation, prototypes and expenses associated with transitioning the product to production. The decrease during the three and six months ended June 30, 2008 as compared to the three and six months ended June 30, 2007 was a result of terminating our HD display related product development during November 2007. During the three and six months ended June 30, 2007, salaries, expensed equipment and contractors related to our HD display product was approximately $536,000 and $974,000, respectively. Subsequent to January 1, 2008, we have not incurred any HD display related expenses. To a lesser extent, research and development expenses decreased as a result of reduced stock-based compensation cost (a non-cash charge) attributable to granting stock options to key employees during the first quarter of fiscal 2007 and accounting for such option grants under SFAS 123R. See “Note 7: Employee Equity Incentive Plans” in Part I, Item 1 of this Form 10-Q. Stock-based compensation cost was $25,000 and $49,000 for the three and six months ended June 30, 2008, respectively. Stock-based compensation cost was $117,000 and $350,000 for the three and six months ended June 30, 2007, respectively.

Total Other Income (Expense)

The most significant component of our other income (expense) was a $150,000 and $400,000 gain on sale of assets during the three and six months ended June 30, 2008, respectively. In December 2007, DCT entered an asset purchase agreement with Sky Glory Enterprise Investment Co., Ltd ("Sky Glory"), whereby Sky Glory agreed to purchase certain HD display related assets, subject to certain terms and conditions, for a total of $600,000 cash. On March 31, 2008, DCT received an initial $400,000 cash payment. A second cash payment of $150,000 was received on May 2, 2008. On June 26, 2008, DCT entered an agreement with Darwin Hu to assign and transfer its rights to the final $50,000 owed by Sky Glory to Mr. Hu in lieu of any additional severance payments and related overhead (approximately $72,000) owed to Mr. Hu as of June 26, 2008.

Darwin Hu is a current member of DCT's board of directors and was the Chairman of DCT's board of directors until his resignation effective July 15, 2008. See Part II, Item 5 of this Form 10-Q. Mr. Hu was instrumental in negotiating and closing the sale of the HD display related assets. Until March 1, 2008, Mr. Hu was DCT's President and Chief Executive Office, at which time he resigned from DCT to become an executive at a subsidiary of Sky Glory.

There were no costs associated with the sale of HD related assets. As such, the entire cash proceeds of $400,000 and $150,000 were recorded as a gain on sale of assets during the three months ended March 31, 2008 and the three months ended June 30, 2008, respectively.

Also included in our other income (expense) is the change in the fair value of our liability for derivative contracts (associated with our Series A Stock and related warrants and Series B Stock and related warrants). During the three and six months ended June 30, 2008, the fair value of our liability for derivative contracts decreased $425,000 and $111,000 respectively. During the three and six months ended June 30, 2007, the fair value of our liability for derivative contracts decreased $330,000 and increased $38,000, respectively. Pursuant to SFAS 133 and EITF 00-19, the increase in the fair value of our liability for derivative contracts is included as other expense in our consolidated statements of operations while the decrease in the fair value of our liability for derivative contracts is included as other income in our consolidated statements of operations.

Other income (expense) was also impacted by our increased debt, which resulted in an increase in interest expense to $121,000 and $268,000 during the three and six months ended June 30, 2008, respectively, from $44,000 and $60,000 during the three and six months ended June 30, 2007, respectively. Of the interest expense recorded during the three and six months ended June 30, 2008, $83,000 and $167,000, respectively, was non-cash interest expense attributable to amortization of debt issuance costs. We had no non-cash interest expense during the three and six months ended June 30, 2007.

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

During the three and six months ended June 30, 2008, the total accretion on our preferred stock was $12,000 and $100,000, respectively. During the three and six months ended June 30, 2007, the total accretion on our preferred stock was $220,000 and $440,000, respectively. The decrease during both periods was attributable to the conversion of both our Series A Stock and Series B Stock and the maturity of our Series A Stock on March 15, 2008.

We had no dividends during the three months ended June 30, 2008, as a result of the maturity of our Series A Stock, as compared to $23,000 during the three months ended June 30, 2007. During the six months ended June 30, 2008 and 2007, Series A Stock dividends were approximately $14,000 and $44,000, respectively. We do not pay dividends on our Series B Stock.

DCT recorded a deemed dividend on its Series A Stock during the first quarter of 2008 totaling $231,000. This non-cash dividend was recorded to reflect the implied economic value to the preferred stockholder of converting Series A shares into common stock at a 15% discount of the common stock price at the time of conversion. The fair value was calculated using the difference between the agreed-upon conversion price of the Series A Preferred Stock into shares of common stock and the fair market value of DCT's common stock on the conversion date. See “Note 9: Equity” in Part I, Item 1 of this Form 10-Q.

Liquidity and Capital Resources

At June 30, 2008, our principal sources of liquidity included cash and cash equivalents of $1,150,000 and an available borrowing capacity of $59,000 on our bank line of credit. We had no significant cash outlays, except as part of our normal operations and contractual agreements, during the three months ended June 30, 2008.

A summary of our cash flow activities is show below (*in thousands*):

	Six Months Ended June 30,			
	2008		**2007**	
Net cash provided (used) by operating activities	$	1,559	$	(994)
Net cash used by investing activities		-		(67)
Net cash (used) provided by financing activities		(2,179)		500
Net decrease in cash and cash equivalents	**$**	**(620)**	**$**	**(561)**

Operating activities: During the six months ended June 30, 2008, our operating activities provided $1,559,000 of cash. This amount was comprised of our $67,000 net loss available to common shareholders, $679,000 of net non-cash expenses, and $947,000 net cash provided by changes in operating assets and liabilities. Our net loss available to common shareholders for the six months ended June 30, 2008 included a $550,000 gain on the sale of our HD display related assets, which positively impacted our cash position. Additionally, during the second quarter of 2008, we sold, and our customer immediately paid for, “end of life” parts, which totaled $230,000. And although we don’t recognize revenue associated with the sale until the finished scanner is shipped to the customer, the entire transaction had a positive impact on our cash flow from operations.

During the six months ended June 30, 2007, our operating activities used $994,000 of cash. This amount was comprised of our $1,130,000 net loss, $1,587,000 of net non-cash expenses and $1,451,000 net cash used by changes in operating assets and liabilities.

For both the six months ended June 30, 2008 and 2007, non-cash items in net loss available to common shareholders include depreciation expense, stock-based compensation cost of options, fair value of warrants issued for services rendered, change in fair value of derivative instruments and the accretion of our Series A and Series B preferred stock redemption value. Changes in our operating assets and liabilities are indicative of the decrease in the sales of our product during the six months ended June 30, 2008 compared to the six months ended June 30, 2007.

We expect future cash provided (used) by operating activities to fluctuate, as a result of fluctuations in our operating results, timing of product shipments, trade receivables collections, inventory management and timing of vendor payments.

Investing activities: We had no investing activities during the six months ended June 30, 2008. Our investing activities for the three months ended June 30, 2007 were minimal and consisted of computer and general equipment purchases during the normal course of business.

Financing activities: During the six months ended June 30, 2008, our financing activities consisted of (i) paying down our bank line of credit, (ii) making normal recurring monthly principal payments according to the terms of our notes payable agreement, which totaled $600,000, and (3) making an additional $100,000 principal payment on our notes payable. During the six months ended June 30, 2007, our financing activities consisted of a $500,000 draw against our bank line of credit to meet short-term obligations, including payments for product purchases.

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Cash and Working Capital Requirements

As previously discussed, we terminated our HD display research and development efforts during November 2007. With the termination of the HD display portion of our business, our operating expenses during the three and six months ended June 30, 2008 were more aligned with our net sales. Additionally, our anticipated future operating expenses will be more aligned with our projected net sales. If we successfully manage our projected net sales and realigned operating expenses, of which there can be no assurance, management believes that current cash and other sources of liquidity are sufficient to fund normal operations through the next 12 months.

Contractual Obligations

The following table summarizes our contractual obligations at June 30, 2008, and the effect such obligations are expected to have on our liquidity and cash flows in future periods (*in thousands*):

	Total	Less Than One Year	One - Three Years	Three - Five Years
Long-term bank line of credit [1]	$ 534	$ -	$ 534	$ -
Term loan principal payments [2]	600	600	-	-
Term loan warrant liabilities[3]	350	350	-	-
Series B Stock principal[4]	150	-	150	-
Operating lease obligations	428	213	215	-
Consulting agreement	30	30	-	-
Total contractual cash obligations	$ 2,092	$ 1,193	$ 899	$ -

[1] DCT has a $3,000,000 line of credit ("LOC") at a commercial bank. Borrowings under the LOC are limited to 80% of eligible accounts receivable and 40% of eligible inventory, as defined in the LOC agreement. The LOC bears an annual interest rate of prime (5.0% at June 30, 2008) plus 1.25% for advances drawn against accounts receivables and prime plus 2.25% for advances drawn against inventory. Interest payments are due monthly and all unpaid interest and principal is due in full on September 13, 2009. Upon certain events of default, the default variable interest rate increases to prime plus 5%. DCT had an available borrowing capacity of $59,000 on its LOC at June 30, 2008.

As of June 30, 2008, DCT was in compliance with all LOC debt covenants.

[2] On September 27, 2007, we entered into a $1,500,000 term loan agreement ("Loan Agreement") with Montage Capital, LLC ("Lender") and used the funds to repurchase 8,000,000 shares of our restricted common stock. We granted the Lender a continuing security interest, and pledged to the Lender, all of our assets to secure payment and performance of its obligations under the Loan Agreement. The Loan Agreement and the security interest are subordinate to our LOC.

The Loan Agreement bears an annual interest rate of 15% with interest-only payments due monthly starting from initial funding through October 31, 2007. Thereafter, principal of $100,000 per month plus accrued interest is due at the end of each month through the loan's maturity date of November 30, 2008. The remaining principal balance and accrued interest is due on the maturity date.

[3] In connection with the Loan Agreement, we issued warrants ("Loan Warrants") to purchase up to 650,000 shares of our common stock at an initial exercise price of $0.60 per share. The Loan Warrants vested immediately and expire September 2012. From the initial funding of the Loan Agreement through March 31, 2008, the warrant holders had the right to require DCT to purchase the warrant for a maximum of $250,000. On March 31, 2008, the warrant repurchase price increased to a maximum of $350,000. The warrant repurchase feature expires September 2012.

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

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Off-Balance Sheet Arrangements

At June 30, 2008, we did not have any relationship with unconsolidated entities or financial partnerships, which other companies have established for the purpose of facilitating off-balance sheet arrangements or other contractually narrow or limited purposes. Therefore, we are not materially exposed to any financing, liquidity, market or credit risk that could arise if we had engaged in such relationships.

Trends

We expect the devaluation of the U.S. dollar against the Chinese Yuan to continue to negatively impact our business for the foreseeable future. To the best of our knowledge, except for the devaluation of the U.S. dollar against the Chinese Yuan and commitments described in “Note 10: Commitments and Contingencies” in Part I, Item 1 of this Form 10-Q, there are no other known trends or demands, commitments, events or uncertainties that existed at June 30, 2008, which are likely to have a material effect on our future liquidity.

Item 3 - Quantitative and Qualitative Disclosure about Market Risk

We are exposed to market risk related to fluctuations in interest rates and in foreign currency exchange rates as follows:

Interest Rate Exposure

DCT's exposure to market risk for changes in interest rates is limited to our LOC, which varies with the prime lending rate. We only draw on our LOC when needed for short-term working capital needs and we maintain a low or zero balance when possible. As such, the interest expense on our variable rate debt is a minimal part of our operations. Although we cannot predict market fluctuations in interest rates and their impact on our variable rate debt, management believes the exposure is minimal. For example, a 10% increase in the prime lending rate during the three and six months ended June 30, 2008 would have only increased our interest expense approximately $14,000 and $34,000, respectively. Both amounts are immaterial to our consolidated financial position, cash flows and results of operations.

Foreign Currency Exchange Rate Exposure

We operate in the United States, manufacture in China, and greater than 95% of our sales to date have been made in U.S. dollars. However, we purchase our finished scanner imaging products from a manufacturer located in China and the purchase price is denominated in the Chinese Yuan. As a result, currency fluctuations between the U.S. dollar and the Chinese Yuan have historically caused, and could continue to cause in the future, the purchase price of our finished scanner product to increase significantly. Such fluctuation has negatively impacted our historical results of operations, cash flows and financial position and could continue to negatively impact us in the future. For example, a 10% appreciation in the Chinese Yuan against the U.S. dollar would have increased our cost of sales over $224,000 and $424,000 during the three and six months ended June 30, 2008.

We expect to purchase our finished scanner imaging products from China for the near future and expect such purchases to be denominated in the Chinese Yuan. As a result, we anticipate that we may experience increased exposure to the risks of fluctuating currencies and may choose to engage in currency hedging activities to reduce these risks. Despite these measures, we cannot be certain that any such hedging activities will be effective, or available to us at commercially reasonable rates.

Item 4 - Controls and Procedures

Evaluation of Disclosure Controls and Procedures

Under the supervision and with the participation of our management, including our principal executive officer and principal financial officer, we conducted an evaluation of the effectiveness of the design and operation of our disclosure controls and procedures, as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934 as of the end of the period covered by this report (the "Evaluation Date"). Based upon the evaluation, our principal executive officer and principal financial officer concluded as of the Evaluation Date that our disclosure controls and procedures were effective. Disclosure controls are controls and procedures designed to reasonably ensure that information required to be disclosed in our reports filed under the Exchange Act, such as this report, is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms. Disclosure controls include controls and procedures designed to reasonably ensure that such information is accumulated and communicated to our management, including our chief executive officer and chief financial officer, as appropriate to allow timely decisions regarding required disclosure.

Changes in Internal Controls Over Financial Reporting

During the quarterly period covered by this report, no changes in our internal controls over financial reporting occurred that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

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PART II. OTHER INFORMATION

Item 1 - Legal Proceedings

We are subject to various legal proceedings from time to time in the ordinary course of business, none of which is required to be disclosed under this Item 1.

Item 1A - Risk Factors

There have been no changes to the risk factors included in our Annual Report on Form 10-KSB for the year ended December 31, 2007 as filed with the Securities and Exchange Commission on March 5, 2008.

Item 2 - Unregistered Sales of Equity Securities and Use of Proceeds

None.

Item 3 - Defaults Upon Senior Securities

None.

Item 4 - Submission of Matters to a Vote of Security Holders

None.

Item 5 - Other Information

Changes to DCT Board of Directors

Effective July 15, 2008, Mr. Lawrence Liang resigned from the Board of Directors of DCT.

Effective July 15, 2008, Mr. Darwin Hu stepped down as Chairman of DCT's Board of Directors. Mr. Hu will continue to serve as a director of DCT until its next annual meeting of stockholders.

On July 15, 2008, DCT's Board of Directors unanimously voted to elect Mr. Edward M. Straw to serve as Chairman of DCT's Board of Directors, effective immediately, until DCT's next annual meeting of stockholders. Mr. Straw filled the vacancy on DCT's Board of Directors created by the aforementioned resignation of Mr. Liang.

Employment Agreement Amendments

On July 15, 2008, the DCT's Board of Directors approved addenda to the employment agreements for certain DCT executive officers. The addenda were a result of title changes, added responsibilities and realignment of financial and operational responsibilities.

Item 6 - Exhibits

Exhibit Number	Description of Exhibit	Method of Filing
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

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SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, Document Capture Technologies, Inc. has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

Document Capture Technologies, Inc.

Date: August 13, 2008

/s/ David P. Clark

David P. Clark, Chief Executive Officer

Date: August 13, 2008

/s/ M. Carolyn Ellis

M. Carolyn Ellis, Chief Financial Officer

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