

Document to Digital – With Low Cost, Lightweight, Easy to Use, USB-Powered Mobile Scanning Solutions

Overview: Document Capture Technologies, Inc. (DCMT) is a worldwide leader in the design, development, manufacturing, and sale of USB powered mobile page-fed document capture solutions. Its vertical integration and innovative proprietary software development kits (SDK's) allow for a broad range of applications, faster time-to-market and ease of integration for its customers. Key aspects of DCMT operations include:



DUPLEX (HI-SPEED)

- **Extensive IP Portfolio:** DCMT has a growing intellectual property (IP) portfolio that currently numbers more than 25 granted domestic and international patents as well as 3 patents pending. DCMT maintains an aggressive IP strategy to defend its technology and market leadership position.
- **Broad Distribution and Key Strategic Partners:** DCMT has more than 45 key accounts, with a majority based in North America and a growing network in Europe and Asia. DCMT distributes globally through private label solutions to leading Tier 1 original equipment manufacturers (OEM's), value added resellers (VAR's) and other system integrators, including Qualcomm, Visioneer / Xerox, and Brother.
- **Diverse and Growing Applications Markets:** DCMT provides more than 30 different product solutions across five distinct categories. Applications for DCMT products include document and information management across a broad range of sectors, identification card scanners, passport security scanners, bank note and check verification, business card readers, optimal mark readers used in lottery terminals, and remote deposit capture.
- **Estimated 70%+ Market Share:** DCMT has steadily grown its business (37% three-year organic CAGR) in the health care, security, financial and compliance vertical markets. DCMT and its licensees have sold over 3 million scanners, and currently enjoy a greater than 70% estimated market share for USB-powered mobile scanners.

Summary: DCMT enjoys a leading position in markets with excellent growth potential. Despite significant macroeconomic market pressures diverting target market resources away from IT upgrades throughout 2008, particularly in the financial sector, DCMT's new management team has been able to strengthen the balance sheet, complete a strategic buyout of over 50% of the shares held by the former near-majority owner, maintain strong cash flow and EBITDA, and expand the company's key partner relationships and market opportunities. Based on the belief that DCMT is now positioned to deliver 2009 revenue of \$16.8 million, or 35% over the preceding four quarters and 12% over 2007 revenues, Murphy Analytics (MA) expects DCMT will deliver net income of \$0.10 per share for 2009. Also based on the expectation that general valuation levels will return to more historical ranges during the year, MA is assuming a multiple of 15x net income is justifiable for DCMT, and we are initiating coverage on DCMT with a 12-month price target of \$1.50.

DCMT Recent Price	\$0.45	<p style="color: red; margin: 0;"><u>Please review the risk factors outlined later in this report and the important disclosures and disclaimers at the end of this report.</u></p>
DCMT - Approximate Market Cap	\$8.3 million	
52-Week Low	\$0.30	
52-Week High	\$1.00	
MA 12-Month Price Target for DCMT	\$1.50	

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DCMT Executive Management

David P. Clark, CEO. Prior to joining the Company, Mr. Clark held Executive-level positions with both public and privately held companies over the past 18 years, including President of Nautical Vision, Inc., a consumer electronics specialty marketing company, President and CEO of Homebytes.com, and President of Distribution/Director at Take 2 Interactive. He also has held key roles in business development, corporate finance, and sales and marketing at Inventory Management Systems, Inc., Creative Alliance Group, Sony, Acclaim Entertainment, and Phillips Sales, Inc. He received his B.S. in Business Administration from the State University of New York, Binghamton in 1990. Mr. Clark, who joined DCMT in 2004 as Senior VP of Business Development and later served as Chief Investment Officer, became CEO in March of 2008 as part of DCMT's strategic re-focusing on the core mobile scanning operation.

William Hawkins, President & COO. Mr. Hawkins has held various management positions at Syscan, Inc., the Company's wholly owned subsidiary, since 1999. Prior thereto, Mr. Hawkins' product focus had been primarily in the imaging systems and computer peripheral markets, including senior-level positions with General Electric (UK), Kaman Aerospace, British Aerospace Engineering, Gartner Research and Per Scholas. Mr. Hawkins received a Bachelor's Degree in Physics from the University of Maryland in 1978 and a Masters of Technology Management (MOT) from Johns Hopkins University.

M. Carolyn Ellis, CFO. Ms. Ellis was named CFO effective November 1, 2007. Prior to joining Document Capture Technologies, Inc., she served as a director, secretary and treasurer of Knovative, Inc., a telecommunications research and development company that she co-founded in 2003 and where she remains a member of the Board of Directors. From April 2000 until she co-founded Knovative, Ms. Ellis served as the Vice President of Finance for Correlant Communications, a company in the telecommunications industry. Ms. Ellis is a Certified Public Accountant. She has a Bachelor's Degree in Economics and Accounting from Hendrix College and an MBA from the University of New Mexico.

Admiral Edward M. Straw, Chairman of the Board. Admiral Straw is currently EVP of PRTM Management Consultants¹, an operational strategy consulting group. From 2000-2005, he served as President of Global Operations for Estee Lauder. From 1998-1999 he served as Senior Vice President of supply chain management and manufacturing for the Compaq Computer Corp. Prior to Compaq, he served as President of Ryder Integrated Logistics Inc. from 1996-1998. Prior to joining the private sector, Admiral Straw had a distinguished 30-year career in the U.S. Navy, retiring as a three-star admiral in 1996. Admiral Straw holds a B.S. degree from the U.S. Naval Academy and an MBA from The George Washington University, and is also a graduate of the National War College.

¹ <http://www.prtm.com/NewsItem.aspx?id=2472&langtype=1033>

DCMT Solutions Offering

Overview: DCMT designs, develops, manufactures, and sells USB powered mobile page-fed document capture solutions. DCMT provides over 30 different products across five distinct categories. DCMT's vertical integration and innovative proprietary system development kits allow for a broad range of applications, faster time-to-market and ease of integration for its customers. Driven by the power and flexibility of their software development kits (SDK), DCMT provides solutions, not just hardware. DCMT's hardware /SDK solutions and easily integrated into a wide range of applications, including:

- *Document and information management*
- *Identification card scanners*
- *Passport security scanners*
- *Bank note and check verification*
- *Business card readers*
- *Optimal mark readers used in lottery terminals.*

DCMT is actively shipping six groups of image-capture products and expands and/or develops this offering as customers demand improvements in speed, ease of use, and security, including information, identity and financial transaction protection. In all solutions offerings, DCMT emphasizes low cost, low power utilization, lightweight, ease of use and integration with existing systems, and adaptability. In terms of relative product pricing, a typical DCMT hardware / SDK solution sells for under \$200 while competitive mobile offerings sell for \$400 or more.

The Solutions: DCMT currently offers five types of mobile scanners and thirteen legacy scanners. Following are descriptions of a sampling of the DCMT products:

DocketPORT® 487 – Scans Full Size Documents on Both Sides Simultaneously



Specifications:

- Interface: USB 2.0 (Hi-Speed USB)
- Image Sensor: Dual, 2 linear color CMOS
- Resolution: 600 dpi (optical)
- Scanning modes: 48-bit color (internal), 24-bit color (output), 8-bit grayscale, 1-bit B&W
- Scanning Speed: 6ppm B&W; 3ppm color (pages per minute), based on 200dpi
- Scan Area: Business card to legal document, A4 format
- Scanner Weight: 17.8 oz. (505 grams)
- Dimension: 11.8" x 2.4" x 1.9" (300mm x 61mm x 48mm) (L x W x H)
- Power Consumption: 0.2W (standby), 2.0W (during scan), fully USB powered!
- Paper Sensor: Electro-Mechanical
- Paper Thickness: 0.1mm to 0.8mm

DocketPORT® 687 – Duplex ID Card Scanner



DUPLEX (HI-SPEED)

Specifications:

- Interface: USB 2.0 (Hi-Speed USB)
- Image Sensor: Dual, 2 linear color CMOS
- Resolution: 600 dpi (optical)
- Scanning modes: 48-bit color (internal), 24-bit color (output), 8-bit grayscale, 1-bit B&W
- Scanning Speed: 6ppm B&W; 4ppm color (4" X 6" sheet) at 200dpi
- Scan Area: 10" x 4.13" (254mm x 105mm) (L x W), A6 format
- Scanner Weight: 10.6 oz. (300 grams)
- Dimension: 8" x 2.75" x 1.8" (203mm x 70mm x 46mm) (L x W x H)
- Power Consumption: 0.2W (standby), 2.0W (during scan), fully USB powered!
- Paper Sensor: Electro-Mechanical
- Paper Thickness: 0.1mm to 1.5mm

DocketPORT® 531 – Scans Security Documents with Infrared Source



Specifications:

- Interface: USB 2.0 (Full Speed)
- Image Sensor: linear color - infrared CMOS
- Resolution: 600 dpi (optical)
- Scanning Modes: Monochrome, Color & Infrared filter
- Scanning Speed: 3 to 12 seconds
- Scanning Area: 5" x 3" (12.7cm x 7.62cm)
- Weight: 567g (20oz)
- Dimensions : 8.6" x 6.1" x 1.7"(L x W x H) (21.8cm x 15.5cm x 4.3cm)
- Cable Length: 60 inches (152cm), detachable
- Power Consumption: 0.2W (standby), 2.0W (during scan), fully USB powered!
- Paper Sensor: None - Flatbed design
- Paper Thickness: No limitation - Flatbed design
- Regulatory Requirement: FCC Class B, CE
- Environmental Requirement: WEEE, RoHS
- Operating Systems: Windows XP, 2000, ME, & 98SE
- Bundled Software: TWAIN driver only

TravelScan® PRO600 / 600ND – Portable Document Scanner

Specifications:

- Interface: USB2.0 (Full Speed)
- Image Sensor: linear color CMOS
- Resolution: 600 dpi (optical)
- Scanning Modes: 48-bit color (internal), 24-bit color (output), 8-bit grayscale, 1-bit B&W
- Scanning Speed: 3ppm (pages per minute) B&W; 2ppm color
- Scanning Area: Business card to legal document, A4 format
- Weight: 12 oz. (340 grams)
- Dimensions: 11" x 1.9" x 1.6" (LxWxH) (279mmx48mm xc41mm)
- Cable Length: 32 inches (81cm), attached
- Power Consumption: 0.2W (standby), 2.0W (during scan), fully USB powered!
- Paper Sensor: Electro-Mechanical
- Paper Thickness: 0.1mm to 0.8mm
- Regulatory Requirement: FCC Class B, CE, USB-IF.org
- Environmental Requirement: WEEE, RoHS
- Operating Systems: Windows Vista, XP, 2000, ME, 98SE, & Mac OS 10.3 (and later)
- Bundled Software: DocketSCAN (PRO 600), Presto! PageManager 7.0 (PRO 600ND)

DCMT Intellectual Property

IP: While the success of DCMT's business depends more on such factors as DCMT's employees' technical expertise and innovative skills, the success of DCMT's business also relies on the ability to protect proprietary technology, which DCMT seeks to protect in a variety of ways, including obtaining patents on innovative technologies. DCMT's IP portfolio, much of which relates to the use of BUS/USB power for mobile scanning, currently numbers more than 25 granted domestic and international patents as well as 3 patents pending. DCMT patents do not begin to expire until 2017. Another way DCMT seeks to protect proprietary technology and other proprietary rights is by requiring employees and contractors to execute confidentiality and invention assignment agreements. DCMT relies upon employee and third-party nondisclosure agreements and other intellectual property protection methods, including proprietary know-how, to protect confidential information and DCMT's other intellectual property.

R&D: DCMT spent \$2.4 million on R&D in 2007 and \$3.1 million in 2006. For the first three quarters of 2008, DCMT reduced R&D spending to \$539,000 as it completely exited the HD display development efforts and as part of the general effort to reduce costs. DCMT expects that future success will depend in part, on the ability to anticipate changes, enhance current products, develop and introduce new products that keep pace with technological advancements, and address the increasingly sophisticated needs of DCMT customers. As is the case with the existing solutions offering, DCMT's new solutions will emphasize low cost and power requirements that are light weight with small footprints emphasizing ease of use and integration into existing systems and platforms.

DCMT Distribution and Business Development Opportunities

Overview: DCMT products are sold as private label solutions to leading Tier 1 OEM's, VAR's and other system integrators, including Qualcomm, Visioneer/Xerox and The Brother Group, whose recently created Mobile Solutions² division and acquisition of PENTAX Mobile Solutions³ are strong indicators of the company's view of the mobile solutions opportunity. A DCMT private label scanner is shown on the Brother Mobile Solutions site⁴. Because DCMT is IP-protected, low cost mobile scanning solution provider, by a significant margin, it is more economical to private label DCMT solutions than to develop the technologies in house. The agreement with Qualcomm, completed after a year-long trial period, provides clear validation of this strategy.

DCMT does not sell directly to the end-users of its products, but rather through its network of over 45 independent distributors and channel partners located primarily in North America but also in Europe and Asia. DCMT sells solutions solely through these partners and does not compete with them. These distribution partners serve not only a sales force for DCMT products, but also provide marketing communications and technical support. DCMT products also reach some retail and internet outlets through these channels. To date, DCMT and its licensees have shipped over 3 million scanners.

Growth Drivers: Although sales have slowed in 2008 due to general macroeconomic conditions, especially in the banking and finance sectors, DCMT revenues grew nearly 60% from 2005 to 2006, and over 20% from 2006 to 2007. DCMT cites the following factors as drivers of this growth:

- *Overall growth of the document/image-capture market resulting from an increased market demand for products that manage how information is retrieved, stored, shared and disseminated.*
- *Increased end-user market penetration, including distribution channel expansion, by DCMT and its largest customers.*
- *The expansion of the customer base.*
- *More consistent market delivery of product, which is attributable to (i) the growth of smaller customers and less dependence on larger customers, (ii) management of customer demand and product delivery and (iii) the movement toward a just-in-time inventory management product delivery system.*
- *Increased use of Value Added Reseller ("VAR") channel distributions.*
- *Overall growth in the small office home office ("SOHO") markets, and the result of DCMT efforts to appeal to customers in the SOHO market.*

² <http://www.brothermobilesolutions.net/Mobile/>

³ http://pub.brother.com/pub/com/investor/news/2008/080602mobile_e.pdf

⁴ <http://www.brothermobilesolutions.net/Mobile/DSMobile600.aspx>

Customer Concentration: For Q3 08, four customers accounted for 78% of DCMT gross revenues, with one customer accounting for 28% of revenue. This general level of customer concentration has been typical for DCMT historically, and is likely to remain so, with some periodic fluctuation. DCMT does not obtain long-term commitments requiring the purchase of specified volumes.

Supply Agreement with Qualcomm's (Nasdaq: QCOM) OmniVisionSM Transportation Services Group⁵: After a year long pilot program, DCMT has entered into a purchasing agreement to supply mobile scanning hardware technology for Qualcomm's In-Cab Scanning service for transportation and logistics carriers, whose paperwork includes trucking/shipping transactions, mileage reports, bills of lading and other critical information. The electronic capturing of this information improves productivity and profitability by truncating the time to invoice production, thereby reducing costs and shortening payment time.

QCOM OmniVisionSM Transportation Services are designed to enhance the safety, efficiency, and productivity of fleet operations while improving the drivers' in-cab experience. Included among the numerous product and service offerings of this Qualcomm division, the following description of the In-Cab Scanning product appears on the Qualcomm's website⁶:



Qualcomm's In-Cab Scanning service provides carriers a comprehensive document management solution that enables enhanced customer satisfaction, improves productivity and reduces operating expenses. No more wasted time making extra stops and paying fees to copy, scan, fax or mail documents. This end-to-end service enables drivers to scan and transmit documents from the cab of their truck directly into the customer's back-office system through web services integration and helps companies improve back-office efficiency. In-Cab Scanning helps improve customer and driver satisfaction by reducing manual errors associated with re-keying important information, including trip and mileage reports, bills of lading, timesheets, receipts and other critical customer information.

The agreement with QCOM opens up a great deal of new opportunity for DCMT. As just one example, QCOM notes in its 2008 annual report⁷ that it has begun discussions with trucking manufacturers regarding the possibility of using QCOM products as the embedded communications and reporting systems:

"...some original equipment manufacturers of trucks and truck components are beginning to offer built-in, on-board communications and position location reporting systems that may impact our margins and intensify competition in our current and new markets. We are currently in discussions with some trucking manufacturers about using our products as their embedded solution."

⁵ http://www.qualcomm.com/products_services/mobile_content_services/enterprise/assetmanagement/omnivisiontransportation.html

⁶ http://www.qualcomm.com/products_services/mobile_content_services/enterprise/assetmanagement/scanning.html

⁷ <http://files.shareholder.com/downloads/QCOM/517363204x0xS936392-08-707/804328/filing.pdf>

DCMT Agreement with Silver Bullet Technology: In August 2008, DCMT and Silver Bullet technology announced that they have engaged in a strategic partnership to develop Silver Bullet's Ranger® for Document Capture Technologies' OEM and VAR line of check scanners. API (application programming interface) Library integrations will begin during the third quarter of 2008, with first anticipated Ranger® integrated product delivery expected in the fourth quarter of calendar 2008. Silver Bullet boasts a very impressive partner list⁸ that includes leading banks, OEM's and resellers. The addition of the DCMT technology to Silver Bullet's Ranger software will allow banks and other financial institutions to incorporate this extremely low-priced scanner into their programs without replacing current software solutions. Commenting on the agreement, DCMT CEO David Clark stated:

"It has become clear that the remote capture check truncation market continues to proliferate and progress...Our partnership with Silver Bullet to develop Ranger® for our Check Scanner solutions will provide a cost-effective alternative for most financial institutions and the cash management needs of most professional offices, small business and healthcare facilities with low volume remote deposit needs."

Silver Bullet Overview⁹: "Pensacola, FL-based Silver Bullet Technology, Inc. is the industry's foremost check scanner software developer, offering a comprehensive suite of Check 21 solutions and software tools. Silver Bullet has considerable experience working directly with financial institutions, scanner manufacturers and software vendors. Silver Bullet's newest software tool, Scout™, remotely tracks MICR and image quality and hardware performance, and displays the results in a concise web-based format."

Check 21¹⁰: "The Check Clearing for the 21st Century Act (Check 21) was signed into law on October 28, 2003, and became effective on October 28, 2004. Check 21 is designed to foster innovation in the payments system and to enhance its efficiency by reducing some of the legal impediments to check truncation. The law facilitates check truncation by creating a new negotiable instrument called a substitute check, which permits banks to truncate original checks, to process check information electronically, and to deliver substitute checks to banks that want to continue receiving paper checks. A substitute check is the legal equivalent of the original check and includes all the information contained on the original check. The law does not require banks to accept checks in electronic form nor does it require banks to use the new authority granted by the Act to create substitute checks."

HSBC and Remote Deposit Capture: As a concrete illustration of the potential market opportunity made possible by Check 21 and the partnership with Silver Bullet, money center bank HSBC now offers a remote deposit scanner to business checking account customers. DCMT reports that the scanner used in the service is made by a DCMT competitor, and typically

⁸ <http://www.sbullet.com/partners.html>

⁹ www.sbullet.com

¹⁰ <http://www.federalreserve.gov/paymentsystems/truncation/>

sells at a price likely multiple times higher than comparable DCMT solutions. Following from the HSBC website is the description of the service:

HSBC Remote Deposit Capture Solution Description:

“Deposit checks electronically into your HSBC business checking account without ever going to the bank. With Remote Deposit Capture you simply use an image scanner and PC to send images of your checks to HSBC, electronically. With Remote Deposit Capture from HSBC you can:

Reduce Costs - *Eliminate expenses associated with photocopying and transporting checks to the bank.*

Improve your cash flow - *Access your funds more quickly with same day ledger credit for checks scanned by 9:00 pm.*

Benefit from more Convenience - *Make deposits 24/7 from the security of your office*

Save time - *Simultaneously scan the front and back of checks thus eliminating the need to scan each side separately.*

Reduce errors - *Remote Deposit Capture optical character recognition technology reads both courtesy amount recognition (CAR) and legal amount recognition (LAR) from checks and validates deposit balances, reducing keying errors and the need to input check amounts.*

Count with dedicated support - *An experienced team ensures the quick handling of all your service requests and inquiries, to keep your operations running smoothly.*

<http://www.us.hsbc.com/1/2/3/business/other/cash-management/receivable/remote-deposit-capture>

DCMT Production

Manufacturing: DCMT, which has fewer than 15 full-time employees, purchases the majority of finished scanner imaging products from Syscan Lab Limited (“SLL”), a wholly-owned subsidiary of Syscan Technology Holdings Limited (“STH”), the parent company of DCMT’s former majority stockholder. DCMT’s former Chairman and CEO, Darwin Hu, was formerly the CEO of STH, and resigned from STH effective December 2004.

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

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

Where possible, DCMT works with secondary suppliers to qualify additional sources of supply. To reduce the risk associated with using a sole supplier, DCMT attempts to maintain strategic inventories of these sole-sourced components. To date, DCMT has been able to obtain adequate supplies of the components used in the production of documents/image-capture products in a timely manner from existing sources. If in the future DCMT is 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 DCMT's business, financial condition and results of operations.

DCMT Market Overview

Summary: DCMT, which combined with its licensees, has shipped over 3 million scanners since inception, estimates that its market share, including the partners that license DCMT solutions, likely is greater than 70% for USB-powered lightweight mobile scanners. Driven especially by growing need and applications for the financial and healthcare markets, DCMT estimates a projected 2009 annual growth rate of approximately 25% for the portable page fed scanner market. Harvey Spencer Associates estimates the global market for document capture software alone is \$1.7 billion¹¹.

DCMT Differentiation: DCMT has several direct competitors in its document / image capture markets. Many of these competitors pay a royalty fee to DCMT for use of the intellectual property that drives these products. DCMT cites the following strengths as the source of its competitive differentiation:

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

¹¹ <http://www.documentcapture2008.com/notablepubs.html>

- *Product quality and performance*

Competition: There are a number of document capture industry players noted at the Harvey Spencer Associates¹² website for the Document Capture 2009 Conference¹³. IT and imaging incumbents such as Oracle, EMC, HP, Epson, Kodak, and Fujitsu offer document capture solutions, but in terms of mobile document capture, the offerings from Digital Check¹⁴ and Panini¹⁵ are most comparable to DCMT solutions. As noted previously, these competing solutions can be several times more expensive.

DCMT Potential Cash Flows

Murphy Analytics Estimate of Potential DCMT Annual Cash Flows					
	<u>Actual</u> <u>Results from</u> <u>10/1/07 -</u> <u>9/30/08</u>	<u>Potential CF</u> <u>with</u> <u>Revenue Up</u> <u>10%</u>	<u>Potential CF</u> <u>with</u> <u>Revenue Up</u> <u>25%</u>	<u>Potential CF</u> <u>with</u> <u>Revenue Up</u> <u>35%</u>	<u>Potential CF</u> <u>with</u> <u>Revenue Up</u> <u>50%</u>
Gross Revenue	\$12,464,000	\$13,710,400	\$15,580,000	\$16,826,400	\$18,696,000
Cost of Revenue	\$8,322,000	\$8,774,656	\$9,971,200	\$10,768,896	\$11,965,440
Gross Profit	\$4,142,000	\$4,935,744	\$5,608,800	\$6,057,504	\$6,730,560
Gross Profit %	33%	36%	36%	36%	36%
R&D	\$926,000	\$950,000	\$950,000	\$950,000	\$950,000
S/G/A	\$3,122,000	\$3,125,000	\$3,125,000	\$3,200,000	\$3,200,000
Operating Income	\$94,000	\$860,744	\$1,533,800	\$1,907,504	\$2,580,560
Other Inc/Exp	n/a	\$50,000	\$100,000	\$150,000	\$200,000
Net Income	(\$109,000)	\$810,744	\$1,433,800	\$1,757,504	\$2,380,560
Est. Share Count	18,450,000	18,450,000	18,450,000	18,450,000	18,450,000
Net / Share	n/a	\$0.04	\$0.08	\$0.10	\$0.13

**DCMT has accumulated approximately \$20 million in net operating losses.*

The preceding table represents the Murphy Analytics estimate of potential DCMT cash flows in various revenue growth scenarios for increases in revenue relative the four quarters ended 9/30/08. Gross profit margin is based on the trend in DCMT reported quarterly results for 2008, and the assumption that this margin will move back closer to full year 2007 results. R&D, S/G/A and other income/interest expense are analyst estimates based on historical results also biased towards more recent performance. Utilizing these margin and expense assumptions, the model predicts that DCMT reaches \$0.04 in net income per share with a 10% increase in revenue relative to the preceding four quarters. If revenue growth is in line with DCMT's estimate of overall industry growth of 25%, the model predicts that net income reaches \$0.08 per DCMT common share. For revenue growth of 35%, the model predicts that DCMT will earn net income

¹² <http://www.documentcapture2008.com/index.html>

¹³ http://www.documentcapture2008.com/documentcapture/2008dc_highlights.html

¹⁴ http://www.digitalcheck.com/company_profile/about_us/

¹⁵ <http://www.paninina.com/company/index.php>

of \$0.10 per share. Finally for revenue growth of 50%, the model predicts that DCMT will earn \$0.13 in net income per share. While 50% top line growth may sound unrealistic given macroeconomic conditions, it should be noted that revenue of \$18.7 million represents an increase of only 25% relative to 2007. Additionally, DCMT delivered annual revenue growth of over 38% on average from 2005 to 2007.

DCMT Comparables

With a market share of approximately 70% and with the closest competitors being privately held, directly relevant publicly traded comparables are difficult to find for DCMT. There is a directory of various public, private and foreign operators listed at the Document Imaging Report¹⁶ website, but following, with varying degrees of comparability, is a sampling of publicly traded companies with operations that have some similarity to those of DCMT.

Select Publicly Traded Companies with Products Similar to DCMT								
Ticker	Company Name	Recent Price	Market Cap	TTM Revenue	TTM Net Income	Net Income Margin	Price / Net Inc.	Price / Revenue
ADBE	Adobe Systems Inc.	\$21.00	\$11,080,000,000	\$3,575,000,000	\$847,000,000	23.69%	13.1	3.10
DCMT	Document Capture Tech.	\$0.45	\$8,300,000	\$12,464,000	(\$599,000)	-4.81%	n/a	0.67
EK	Eastman Kodak	\$7.25	\$1,920,000,000	\$10,074,000,000	\$691,000,000	6.86%	2.8	0.19
MITK	Mitek Systems Inc.	\$0.07	\$1,090,000	\$5,577,000	(\$428,000)	-7.67%	n/a	0.20
OTEX	Open Text Corp.	\$30.73	\$1,600,000,000	\$743,000,000	\$59,800,000	8.05%	26.8	2.15

Information obtained from Quotemedia as of 1/20/08; Analyst estimates.

DCMT – Historical Operating Results

Q3 2008 Balance Sheet: Following are comments regarding DCMT capital structure as of the quarter ended 9/30/08:

- As of 9/30/08, DCMT reported total assets of \$3.1 million, with current assets of \$3.03 million, including \$761k in cash, \$1.1 million in receivables, and \$1 million in inventories.
- Cash and equivalents fell from \$1.2 million as of 6/30/08, but the current ratio remained stable at around 2x as DCMT reduced accounts payable during the quarter.
- Total liabilities of \$2.04 million include \$968k in derivative and warrant related liabilities.
- Cash and equivalents at \$761k as of 9/30/08 is down from \$1.77 million as of 12/31/07, but DCMT repaid \$2 million in debt, including the payoff in 9/08 of a \$1.5 million term loan.

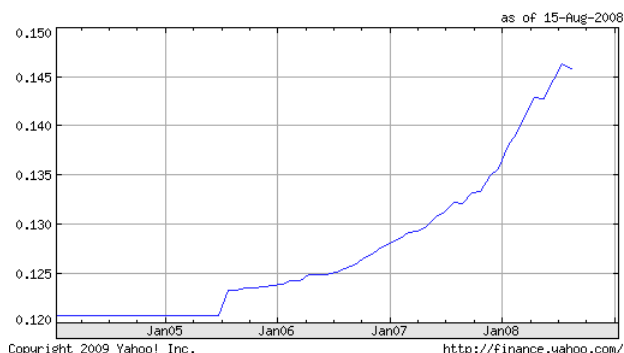
¹⁶ http://www.documentimagingreport.com/Directory_for_document_im.408.0.html

- DCMT maintains a \$3 million line of credit with Silicon Valley Bank. The line had a balance of \$0 as of 9/30/08. Under the line of credit, DCMT is able to borrow against up to 80% of trade receivables and 40% of inventories, resulting in \$1.1 million in borrowing capacity as of 9/30/08.
- From 3/31/08 to 5/2/08, DCMT received \$550k in cash payments related to the 12/31/07 sale of the assets of the Sky Glory Enterprise Investment Co. business, which DCMT has exited.
- On 3/15/08, all of DCMT's Series A preferred stock was redeemed and accrued dividends were paid in shares of DCMT common stock. As of 9/30/08, DCMT reported \$107k of Series B convertible preferred stock.
- DCMT's accumulated deficit was \$31.2 million, and stockholders' equity as of 9/30/08 was \$980k.

Q3 2008 Operating and Cash Flow Results: Following are comments regarding DCMT operations, some of which are highlighted in subsequent tables:

- For Q3 08, gross revenue fell approximately 8% from Q3 07, but rose slightly over Q2 08. DCMT attributes the revenue decline to macroeconomic conditions and the resulting reduction in information technology (IT) spending. DCMT sales within the banking and financial sector in particular have fallen \$828k in 2008, and there were no sales in this sector in Q3 08.
- Gross profit margin at approximately 34% for Q3 08 was in line with the preceding three quarters, although down from an average of 39% for 2007.
- Throughout 2008, DCMT has significantly reduced selling / general / administrative expense (S/G/A) and spending on research and development (R&D). The termination, effective 12/31/07, of DCMT's high definition display research and related development efforts has been the most significant source of cost savings.
- DCMT reported positive operating income for Q3 08, but net income available to common was (\$564k) after interest expense, non-cash derivative related charges and preferred stock dividends. DCMT also negotiated a price reduction for the finished product, phased-out certain 3rd party software in favor of less expensive software, and continues to focus on reducing the product costs.
- For Q3 08, four customers accounted for 78% of DCMT gross revenues, with one customer accounting for 28% of revenue.
- DCMT purchases the majority of its finished scanner imaging products, \$1.9 million for Q3 08, from a subsidiary of Syscan Technology Holdings Limited, the parent company of DCMT's former majority stockholder.
- 92% of revenue was generated in the U.S., although international revenues are increasing as DCMT has doubled the distribution network in Europe in 2008.

- Although DCMT revenues are generated predominantly in U.S. dollars, all of the Company's products are purchased from China. The long-term appreciation, reflected in the adjacent chart, of the Chinese Yuan Renminbi, versus the U.S. dollar has increased the cost of products for DCMT. As of 1/9/09, the exchange rate is approximately \$1 / 0.1462 Chinese Yuan, or 6.84 Chinese Yuan to \$1.



- For the 9 months of 2008, DCMT has realized a non-operating, \$550k gain on the sale of the assets related to the HD business.

Results from Operations for Previous 4 Quarters					
Quarter Ended:	<u>9/30/2008</u>	<u>6/30/2008</u>	<u>3/31/2008</u>	<u>12/31/2007</u>	<u>Total</u>
Gross Revenue	\$3,019,000	\$3,003,000	\$2,538,000	\$3,904,000	\$12,464,000
Cost of Revenue	\$1,986,000	\$2,020,000	\$1,805,000	\$2,511,000	\$8,322,000
Gross Profit	\$1,033,000	\$983,000	\$733,000	\$1,393,000	\$4,142,000
Gross Profit %	34%	33%	29%	36%	33%
R&D	\$166,000	\$170,000	\$203,000	\$387,000	\$926,000
S/G/A	\$836,000	\$511,000	\$961,000	\$814,000	\$3,122,000
Operating Income	\$31,000	\$302,000	(\$431,000)	\$192,000	\$94,000
Net Income	(\$551,000)	\$758,000	(\$480,000)	\$164,000	(\$109,000)
Net Income to Common	(\$564,000)	\$746,000	(\$813,000)	\$32,000	(\$599,000)
Net Income %	n/a	25%	n/a	1%	n/a

**Data from YahooFinance; Analyst Estimates*

Annual Results from Operations				
Year Ended:	<u>10/07-9/08</u>	<u>2007</u>	<u>2006</u>	<u>2005</u>
Gross Revenue	\$12,464,000	\$15,023,000	\$12,469,000	\$7,848,000
Cost of Revenue	\$8,322,000	\$9,120,000	\$8,221,000	\$4,989,000
Gross Profit	\$4,142,000	\$5,903,000	\$4,248,000	\$2,859,000
Gross Profit %	33%	39%	34%	36%
R&D	\$926,000	\$2,439,000	\$3,084,000	\$951,000
S/G/A	\$3,122,000	\$4,024,000	\$7,439,000	\$3,955,000
Operating Income	\$94,000	(\$560,000)	(\$6,275,000)	(\$2,047,000)
Net Income	(\$109,000)	(\$1,060,000)	(\$5,199,000)	(\$1,493,000)
Net Income to Common	(\$599,000)	(\$1,913,000)	(\$5,948,000)	(\$2,039,000)

**Data from YahooFinance; Analyst Estimates*

DCMT Ownership and Share Count

MA Estimate of Outstanding and Potential Fully Diluted Common Share Count

Outstanding common shares as 11/7/08:	18,443,770
Options outstanding at a weighted ave. exercise price of \$0.01 with 3.5 years remaining life	2,241,165
Options outstanding at a weighted ave. exercise price of \$0.30 with 9.8 years remaining life	5,105,000
Options outstanding at a weighted ave. exercise price of \$0.70 with 8.3 years remaining life	2,091,000
Warrants Issued with Series A Stock, \$1.00 Price, Maturity 3/15/10	186,500
Warrants Issued with Series A Stock, \$2.00 Price, Maturity 3/15/10	932,500
Warrants Issued with Series B Stock, \$1.50 Price, Maturity 8/7/09	675,000
Series A Stock, \$1.00 Price, Maturity 3/15/08	0
Series B Stock, \$1.00 Price, Maturity 8/7/09	150,000
	29,824,935

**On 10/3/08, DCMT shareholders approved an increase in available stock options from 1.5 million to 2.5 million.*

As of 2/22/08, DCMT common shares were held by 370 holders of record. Historically, the largest shareholder was Syscan Imaging Limited, which beneficially owned slightly less than 50% of outstanding DCMT common shares. Beginning 9/27/07, at a total cost of \$2 million funded with \$500,000 from the Silicon Valley bank facility and a \$1.5 million loan from Montage Capital, all \$2 million of which has already been retired, DCMT repurchased 8 million of Syscan Imaging Limited shares, reducing the outstanding common share count by 36%. After DCMT completed the repurchase of these 8 million DCMT common shares, Syscan Imaging Limited owned approximately 8.2 million shares.

Having purchased 5 million of Syscan Imaging Limited's shares of DCMT common stock, the largest DCMT shareholder is now Mr. Richard "Bo" Dietl¹⁷, who also owns an option to purchase the remaining 3.2 million shares held by Syscan Imaging Limited. In, 1985, Mr. Dietl founded Beau Dietl & Associates, which has grown to become one of the world's largest agencies specializing in corporate investigations for major international companies. Mr. Dietl, who introduced DCMT Chairman Admiral Edward Straw to the Board of Directors, serves as a company consultant and has been instrumental in corporate networking on behalf of DCMT. Mr. Dietl recently appeared on CNBC's "Power Lunch" to discuss the Madoff scandal and the need for comprehensive due diligence and investigation of financial investments, noting that technologies such as DCMT's document / image capture are part of the solution.

¹⁷ <http://www.beaudietl.com/>

DCMT Risks

As discussed in detail in DCMT’s SEC filings, which should be read in conjunction with this report, the Company faces various operational risks, including:

- Exchange rate risk. DCMT generates revenue primarily in US dollars, while cost of goods sold is denominated primarily in Chinese Yuan. DCMT estimates the cost of sales would have increased \$221k for Q3 08 and \$645k for Q1 – Q3 08 had the Yuan appreciated 10% against the dollar.
- Customer concentration.
- History of operating losses, with an accumulated deficit of \$31.2 million.
- DCMT subcontracts manufacturing to a single company.
- DCMT utilizes a limited number of suppliers.
- Unauthorized use of DCMT IP could adversely affect business.

DCMT Historical Price Chart



DCMT Unaudited Financial Statements

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2008	2007	2008	2007
Net sales	\$ 3,019	\$ 3,296	\$ 8,560	\$ 11,119
Cost of sales	1,986	1,975	5,811	6,609
Gross profit	1,033	1,321	2,749	4,510
Operating expenses:				
Selling, general and administrative	836	920	2,308	3,210
Research and development	166	526	539	2,052
Total operating expenses	1,002	1,446	2,847	5,262
Operating income (loss)	31	(125)	(98)	(752)
Non-operating income (expense), net:				
Change in fair value of derivative instruments and warrant liability	(425)	(464)	(314)	(501)
Gain on sale of assets	-	-	550	-
Interest expense and other	(157)	13	(409)	33
Total non-operating income (expense), net	(582)	(451)	(173)	(468)
Net loss before income taxes	(551)	(576)	(271)	(1,220)
Income tax expense	-	2	2	4
Net loss	(551)	(578)	(273)	(1,224)
Dividend on Series A and accretion of Series A and Series B preferred stock redemption value	(13)	(237)	(127)	(721)
Deemed dividend on Series A preferred stock maturity and Conversion	-	-	(231)	-
Net loss available to common stockholders	\$ (564)	\$ (815)	\$ (631)	\$ (1,945)
Loss per common share - basic and diluted	\$ (0.03)	\$ (0.04)	\$ (0.04)	\$ (0.09)
Weighted average common shares outstanding - basic and diluted	18,444	21,717	17,784	22,445

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

	September 30, 2008	December 31, 2007
	(Unaudited)	(Audited)
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 761	\$ 1,770
Trade receivables	1,141	2,464
Inventories, net	1,023	1,400
Prepaid expenses and other current assets	105	32
Total current assets	3,030	5,666
Fixed assets, net	97	127
Total assets	\$ 3,127	\$ 5,793
LIABILITIES AND STOCKHOLDERS' EQUITY (DEFICIT)		
Current liabilities:		
Notes payable	\$ -	\$ 989
Trade payables to related parties	560	578
Trade payables and other current liabilities	278	658
Deferred revenue and customer deposits	234	-
Fair value of warrant liability	432	399
Accrued dividends on Series A 5% cumulative convertible preferred stock	-	178
Total current liabilities	1,504	2,802
Long-term bank line of credit	-	2,021
Liability under derivative contracts	536	255
Total liabilities	2,040	5,078
Commitments and contingencies (Note 10)		
Convertible preferred stock, \$.001 par value, 2,000 authorized:		
Series A 5% cumulative convertible preferred stock, 0 and 11.5 shares issued and outstanding at September 30, 2008 and December 31, 2007, respectively; liquidation value of \$0 and \$1,150 at September 30, 2008 and December 31, 2007, respectively	-	1,074
Series B convertible preferred stock, 1.5 shares issued and outstanding at September 30, 2008 and December 31, 2007; liquidation value of \$150 at September 30, 2008 and December 31, 2007	107	70
Stockholders' equity (deficit):		
Common stock \$.001 par value, 50,000 authorized, 18,444 shares issued and outstanding at September 30, 2008 and 15,904 shares issued and 15,404 outstanding at December 31, 2007 (500 shares held in escrow)	18	15
Additional paid-in capital	32,211	30,174
Accumulated deficit	(31,249)	(30,618)
Total stockholders' equity (deficit)	980	(429)
Total liabilities and stockholders' equity (deficit)	\$ 3,127	\$ 5,793

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Overview of the OTC Bulletin Board¹⁸

The OTC Bulletin Board[®] (OTCBB) is a regulated quotation service that displays real-time quotes, last-sale prices, and volume information in over-the-counter (OTC) equity securities. An OTC equity security generally is any equity that is not listed or traded on NASDAQ[®] or a national securities exchange. OTCBB securities include national, regional, and foreign equity issues, warrants, units, American Depositary Receipts (ADRs), and Direct Participation Programs (DPPs). The OTCBB is a quotation medium for subscribing members, not an issuer listing service, and should not be confused with The NASDAQ Stock MarketSM. There are no minimum quantitative standards which must be met by an issuer for its securities to be quoted on the OTCBB; however, the new Eligibility Rule limits quotations on the OTCBB to the securities of issuers that are current in their reports filed with the SEC or other regulatory authority. Issuers do not have any filing or reporting requirements with The NASDAQ Stock Market, Inc., or FINRA. Market Makers will be required to provide the periodic financial reports filed by OTCBB issuers with the SEC or other regulatory authorities pursuant to the Eligibility Rule. NASDAQ has no business relationship with the issuers of securities quoted on the OTCBB. Investors must contact a broker/dealer to trade OTCBB securities. Investors do not have direct access to the OTCBB service. The Securities and Exchange Commission's (SEC's) Order-Handling Rules which apply to NASDAQ-listed securities do not apply to OTCBB securities. It is important to note that FINRA has no regulatory authority over OTC Bulletin Board issuers. FINRA's responsibilities include establishing rules governing its broker/dealer members' business conduct; setting qualification standards for securities industry professionals; examining members for their financial and operational condition as well as their compliance with appropriate rules and regulations; investigating alleged violations of securities laws; disciplining violators of applicable rules and regulations; and responding to inquiries and complaints from investors and members. Due to the high level of risk involved in investing in Penny Stocks, the SEC created Rule 15g-2, which makes it "unlawful for a broker or dealer to effect a transaction in any penny stock for or with the account of a customer unless, prior to effecting such transaction, the broker or dealer has furnished to the customer a document containing the information set forth in Schedule 15G, Rule 15g-100, and has obtained from the customer a manually signed and dated written acknowledgement of receipt of the document." (SEC Rule 15g-2(a), Risk Disclosure Document Relating to the Penny Stock Market). If you believe that you have been defrauded by an OTC Bulletin Board issuer, you may file a complaint with your State Securities Regulator or contact the SEC's Office of Investor Education and Assistance.

¹⁸ <http://www.otcbb.com/investorinformation/investorinfo.stm>