Derycz Scientific Inc
Form 10-K
September 28, 2012

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-K

(Mark One)

x **ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
For the fiscal year ended: June 30, 2012

¨ **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
For the transition period from _____________ to _____________

Commission File No. 000-53501

DERYCZ SCIENTIFIC, INC.

(Exact name of registrant as specified in its charter)

Nevada	**11-3797644**
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)
5435 Balboa Blvd., Suite 202, Encino, California	**91316**
(Address of principal executive offices)	(Zip Code)

(310) 477-0354

(Registrant's telephone number, including area code)

1524 Cloverfield Boulevard, Suite E, Santa Monica, CA 90404

(Former name, former address and former fiscal year, if changed since last report)

Securities registered pursuant to Section 12(b) of the Act: None

Securities registered pursuant to Section 12(g) of the Act: common stock, par value $0.001 per share

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes ¨ No þ

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes ¨ No þ

Indicate by check mark whether the registrant: (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes þ No ¨

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

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of the registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendments to this Form 10-K. ¨

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer," and "smaller reporting company" in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer ¨	Accelerated filer ¨
Non-accelerated filer ¨ (Do not check if a smaller reporting company)	Smaller reporting company þ

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes ¨ No þ

The aggregate market value of the voting and non-voting common equity held by non-affiliates computed by reference to the closing price of such stock on December 30, 2011, the last business day of the registrant's most recently completed second fiscal quarter, was $9,265,900 (based on the closing price of $1.10 as reported on the OTC Bulletin Board as of that date).

Indicate the number of shares outstanding of each of the issuer's classes of common stock as of the latest practicable date.

Title of Class	Number of Shares Outstanding on September 24, 2012
Common Stock, $0.001 par value	17,087,281

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Cautionary Notice Regarding Forward-Looking Statements

In this document, Derycz Scientific, Inc. and its subsidiaries are referred to as “we,” “our,” “us,” or the “Company”.

The following discussion and analysis of our financial condition and results of operations for the years ended June 30, 2012 and 2011 should be read in conjunction with our consolidated financial statements and related notes to those financial statements that are included elsewhere in this report.

Our discussion includes forward-looking statements based upon current expectations that involve risks and uncertainties, such as our plans, objectives, expectations and intentions. Actual results and the timing of events could differ materially from those anticipated in these forward-looking statements as a result of a number of factors, including, without limitation:

- *the projected growth or contractions in the industry within which we operate;*
- *our business strategy for expanding, maintaining or contracting our presence in these markets;*
- *anticipated trends in our financial condition and results of operations; and*
- *our ability to distinguish ourselves from our current and future competitors.*

We use words such as “anticipate,” “estimate,” “plan,” “project,” “continuing,” “ongoing,” “expect,” “believe,” “intend,” “may,” “will,” “should,” “could,” and similar expressions to identify forward-looking statements. All forward-looking statements included in this report are based on information available to us on the date hereof and, except as required by law, we assume no obligation to update any such forward-looking statements.

PART I

Item 1. Business

Company Overview

Derycz Scientific, Inc. is a publicly traded holding company formerly with three wholly-owned subsidiaries, Reprints Desk, Inc., a Delaware corporation (“Reprints” or “Reprints Desk”), Techniques Appliquées aux Arts Graphiques, S.p.A., an entity organized under the laws of France (“TAAG”), and Pools Press, Inc., an Illinois corporation (“Pools” or “Pools Press”). On January 1, 2012, Pools Press was merged with and into Reprints Desk to form one consolidated subsidiary.

Our mission is to provide information logistics solutions that facilitate the flow of information from the publishers of scientific and technical content to enterprise customers in life science and other research intensive industries around the world. We provide customers with access to hundreds of thousands of newly published articles each year in addition to the tens of millions of existing articles that have been published in the past, helping them to identify the most useful and relevant content for their purposes. We serve both the publishers who own the content rights and the end-users of the content. We utilize web-based platforms as well as traditional delivery channels and are developing products and services that make it easier for our customers to find and legally use information. During the year ended June 30, 2012, we delivered more than 10 million articles in either hard copy or electronic form to over 1,000 customers in over 100 countries.

We provide three types of solutions to our customers; research solutions; marketing solutions; and publisher solutions.

Research Solutions

Researchers and regulatory personnel generally order single copies of published materials, called “document delivery,” for use in their research activities. In order to use the content, our customers must pay appropriate copyright fees and our services ensure that we have obtained the necessary permissions from the owners of the published content so that our customers’ use of the content complies with applicable copyright laws. We have developed Internet-based interfaces that allow customers to initiate orders and manage transactions, at any time, by specifying the citation or other identifying information related to the particular article they need. In some cases, we are able to fulfill the order without the need for action on the part of our employees. We also help these customers to maximize the information resources they already own or have access to via subscriptions or internal libraries, as well as organize workgroups to collaborate around scientific information. Our services alleviate the need for our customers to develop internal systems or contact multiple publishers in order to obtain the required information.

Marketing Solutions

Generally, marketing departments order large quantities of printed copies of published materials called “reprints” that they distribute to interested parties, including customers and doctors who may prescribe a customer’s products. We print the reprints we deliver to our customers whenever possible and are responsible for any logistics required to distribute such reprints. TAAG also prints other materials that are used for marketing purposes and provides other printing logistics products and services. Electronic copies, called “eprints,” are also used for distribution through the Internet and other electronic mechanisms. We have also developed eprint software systems that increase the efficiency of our customers’ content purchases by transitioning from paper reprints to electronic eprints. Our software systems also help to improve compliance with copyright and promotional regulations within the life sciences industry.

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Publisher Solutions

Our publisher solutions include technology solutions and reprint management services, whereby we are responsible for all aspects of reprint and eprint production for a publisher, from taking orders to final delivery. This service eliminates the need for the publishers to establish a dedicated reprints sales force or arrange for delivery of reprinted materials. Our eprint software systems enable publishers to protect their copyrighted content and support the marketing needs of their customers.

Business Model

We generate revenue by providing three types of services to our customers; document delivery; reprints and eprints; and printing and reprint management.

Document Delivery

Our business model for document delivery services is based on charging our customers a copyright fee necessary to obtain permission of use from the content owner (publisher), and a service fee for delivering the content. We have existing non-exclusive arrangements with many publishers that provide us with electronic access to much of these publishers' content, which allows us to deliver single copies of such content to our customers in a more efficient and timely manner, often in a matter of minutes.

Reprints and eprints

Our business model for reprints and eprints is based on charging a fee for aggregating and distributing multiple copies of published materials. When possible, we obtain the right to print the reprints from the holder of the copyright and we print and ship the reprints ourselves. We also have built systems that can provide controlled distribution of electronic copies or eprints.

Printing and Reprint Management

Our business model for printing is based on charging a fee for providing printing services and delivering hard copy materials to our customers that are generally used for marketing purposes. In addition, we also provide other printing logistics products and services. These services are complementary to our reprints and eprints, and reprint management services.

Seasonality

Sales of reprints tend to be higher during the last month of each calendar quarter, particularly in December. The summer months tend to be slower for document delivery sales.

Growth Strategy

Organic Growth

The Company reaches out to customers using targeted selling and marketing campaigns consisting of sales calls on potential customers. This strategy is supported by innovative technological systems, aggressive pricing and excellent service. We also have submitted several proposals to potential customers in response to Requests For Proposals, or RFPs. We have invested heavily in our operations to ensure that they will be capable of supporting future growth.

Publisher Agreements

We regularly contact publishers directly and attempt to negotiate agreements with them under which the publisher would give us access to part or all of their content and would agree to a price list. Once we have access and a price list, when we receive an order for a particular article we can access the article electronically, print or eprint the required number of copies and provide it to the customer within a few minutes or a few days. These agreements eliminate the need to contact the publisher and obtain the rights for each individual order. Because this step is eliminated, we attempt to negotiate for discounts on the publisher's existing price list. In a few cases, we are the exclusive producer of reprints for a publisher, allowing the publisher to eliminate the need for a reprints and eprints operation internally, and we continue to aggressively market that service.

Acquisitions

As opportunities arise the Company may attempt to acquire customer lists or companies in the industry that bring revenue, profitability, growth potential, and additional technology, products, services, operations and/or geographic capabilities to the Company.

International Expansion

The Company has expanded internationally through the acquisition of TAAG and through sales to companies located abroad, particularly in Europe and Japan. We intend to further expand that reach through partnerships or acquisition opportunities if we are able to identify such opportunities and negotiate acceptable terms.

Technology

Central to the Company's ability to provide value to our customers and to publishers is the technology that underlies the products and services the Company offers. The Company offers software-driven solutions making the processes involved in identifying and obtaining content faster, more efficient and less expensive. While some of the relevant tasks require employee input, many are automatically performed by software developed by the Company. By consolidating and automating identification, retrieval and delivery functions, the Company has the potential to provide significant cost savings to its customers.

For example, Reprints Desk customer, "XYZ" Life Sciences, faced the following challenges:

- Reducing platform fees associated with third party document delivery platforms for scientific literature;
- Eliminating costly expedited services fees for delivery of content; and
- Securing a comprehensive and integrated product that would increase staff productivity.

To meet these challenges, "XYZ" Life Sciences:

- Adopted and launched Reprints' ultra-rapid article supply system on an enterprise-wide basis;
- Immediately transitioned to a full self-service model for end users with Reprints acting as the first line of support;

- Seamlessly integrated with existing discovery platforms such as PubMed and OVID; and
- Deployed a tailored version of Reprints' article resolver solution that quickly matches orders with existing company subscriptions, then delivers article-level links.

Utilization of the Company's products and services resulted in:

- Elimination of more than $10,000 in annual platform fees and $30,000 in rush delivery surcharges;
- Receipt of articles in clean PDF format 100% of the time and improved ordering and delivery speed; and
- User satisfaction and time-savings for administrators who no longer needed to intervene in document delivery operations.

The Company continues to seek ways to enhance the performance of its existing systems and to develop and implement new technologies that expand the available methods of seeking and obtaining desired content. The Company currently offers the following products:

- Article Delivery, which provides single article administration and same-day delivery, usually within a few minutes to a few hours, with features to increase end user satisfaction and avoid unnecessary purchases;
- Article Galaxy, a journal article platform that improves processes and spending related to evidence-based promotions and scientific, technical and medical research;
- Article Reprints, a global article reprints procurement solution enabling life science and healthcare communications companies to efficiently manage and effectively utilize scientific journal articles to increase product revenue;
- Article Group Purchase, a group purchasing software service that consolidates article reprint buying to provide savings on annual and per order bulk article reprint purchases;
- Publisher Service Bureau, an outsourcing service whereby Reprints manages all or part of a publisher's journal article reprints business;
- Bibliogo, a web app that enables secure scientific collaboration and discovery; and
- Article Viewer™, a mobile-web app that allows life science companies and publishers to protect their copyrighted content and support their marketing needs.

Target Markets and Customers

Derycz targets companies that have significant marketing, communications, investor relations, educational, and research and development budgets. We currently place emphasis on the life sciences industry with a focus in the pharmaceutical, biotechnology and medical device industries. We also have customers in the following industries: food and agriculture, petroleum, chemicals, legal and academia. Approximately 11% of our consolidated revenues for the year ended June 30, 2012 was derived from our largest customer. We intend to expand in our current markets and enter additional markets as opportunities arise.

The Industry and Competition

The size of the reprint and eprint market is difficult to estimate because it is a small part of the larger publishing industry and little specific financial information is available. While we believe we have a small fraction of that market, we believe that we are able to compete with larger providers in the following ways:

- *Established Relationships and Industry Presence* - We have a well-established presence and a network of contacts in the publishing and content delivery space. We have existing contractual relationships, some of which are exclusive, with a number of publishers. Further, our CEO has been involved in this space for over 20 years since he founded Infotrieve, a leading scientific document delivery services company, in 1989.

- *Customer Loyalty* - 73% of Reprints Desk's revenues for the year ended June 30, 2012 came from repeat customers, indicative of our focus on customer satisfaction and quality products.

- *Differentiated Offering* - Our services are customized to the client's needs and provide a turnkey solution that covers the spectrum of customer requirements; from identifying and locating articles, to ensuring copyright compliance, print fulfillment, electronic storage and monitoring and tracking usage.

- *Comprehensive Range of Products and Services* - We offer a broad range of products and services that meet the various information needs of our customers.

- *Technology* - We have developed proprietary content delivery and management systems, including an internet-based transaction management system that allows customers to initiate, manage and generate reports on article requests and usage. This system integrates into corporate intranets and workflows through the Internet, web services and other integration mechanisms. The system assists corporate end-users, work groups and administrators to easily access published materials as well as maximize the use of existing corporate content assets.

- *Print Capabilitie*s - We have capabilities to internally print materials and produce eprints. As a result, we often are able to substantially reduce the time it takes to deliver reprints and eprints to our customers.

- *Experienced Management Team* - Our management team has extensive experience with over 100 years of combined experience in the industry.

- *Marketing* - The Company has earned a position as a pioneer in the marketplace, employing a segment-based focus and offense-oriented marketing approach to challenge existing competition. In pursuit of growth, we invest in vertical integration and channel relationships to increase the value we provide to customers, extend our promotional reach, and decrease customer acquisition costs. We anticipate growth coming from cross-selling into our existing customer base and by generating market demand and preference from both existing and new customers. In customer acquisitions, we rely on sales promotion to sell to large enterprise accounts and marketing communications to more efficiently recruit small-to-medium and geographically-dispersed enterprises. The promotional mix of tactics we utilize includes: advertising, events, direct response and integrated marketing campaigns, public relations and content publicity, search engine optimization and marketing, thought leadership programs, channel alliances training, and analyst relations. In addition, a portion of our marketing budget is dedicated to research and customer retention, which increases total lifetime value per account and generates significant amounts of overall referrals for new business.

Industry Achievements

In 2012, Reprints was named one of KMWorld's "100 Companies That Matter in Knowledge Management" for the fourth year in a row. Companies previously named to this list include: Google, Apple, Microsoft, Oracle, SAP, Adobe, EMC and IBM.

Bibliogo™ was named the sole 2012 winner in the Best Online Science or Technology Service category by the Software & Information Industry Association (SIIA).

Article Galaxy was named a Top-100 trend-setting product in 2012 after a review of more than 600 individual products by KMWorld Magazine editors, analysts, integrators and users. Each and every company whose products were chosen as Trend-Setting Products is acknowledged for its willingness to listen and serve its customers in useful and innovative ways

Mr. Derycz has contributed articles to the journals *Pharmaceutical Manufacturing* and *Genetic Engineering & Biotechnology News*. Both articles discuss the ways that a dedicated professional document preparation service, like the kind provided by Reprints Desk, can contribute to timely regulatory submissions and approvals for pharmaceutical companies. Mr. Derycz is also a frequent speaker at industry specific conferences on the topics of information management, cloud computing, corporate social responsibility, and end user happiness.

Competition

The primary methods of competition in our industry are price, service, technology and niche focus. Competition based on price is often successful in the short-term, but can limit the ability of a supplier to provide adequate service levels. Competition based on service and/or technology requires significant investment in systems and that investment requires time to recoup. Niche operators focus on narrow activities, but cannot aggregate sufficient content, technology and services to satisfy broad customer needs. We feel that many customers and potential customers are less price sensitive if the service levels are high and the technology creates efficiency and/or management information that has not been available previously.

We compete with a number of companies, including those falling within the following categories:

- *Publisher Service Companies* - Primarily printing shops that offer to manage a publisher's reprints business in addition to providing their main subscription printing needs (*e.g.* , Sheridan Reprints, Reprint Services, Cadmus, Reprint Management Services, Foster Reprints, Red Rover Reprints).

- *Media Buyers* - These companies aggregate advertising "buy" and obtain a publisher discount, sometimes including reprints as part of their "buy" (*e.g.* , Compas).

- *Rights Management Companies* - Offer a turnkey rights management service online for publishers (*e.g.* , iCopyright).

- *Publisher In-House Capabilities* - Some large publishers have developed in-house capabilities to service the content re-use market, however, many of them neglect other content repurposing opportunities and may not be able to aggregate content from other publishers.

- *Content Aggregators* - We compete against Scoop Reprint Source and Infotrieve in this category.

- *Customer In-House Services* - While single copy services are more challenging for our customers to provide in house, many existing and potential customers, sometimes or always manage their multiple copy orders internally. If the internal person lacks experience, this can create problems with the physical reprints not meeting the customer's requirements and can waste valuable time.

- *Piracy* - Piracy is, perhaps, our most serious competitor. Many entities use content for commercial purposes without paying the legally required copyright fees. As information becomes more readily available, the opportunity for piracy increases, as do publishers' ability to identify unauthorized use.

Corporate History and Structure

Derycz Scientific, Inc. was incorporated in the State of Nevada on November 2, 2006. In November 2006 the Company entered into a Share Exchange Agreement with Reprints Desk, Inc., a Delaware corporation. At the closing of the transaction contemplated by the Share Exchange Agreement, the Company acquired all of the outstanding shares of Reprints from the shareholders of Reprints and issued 8,000,003 common shares to the former shareholders of Reprints. Following completion of the exchange transaction, Reprints became a wholly-owned subsidiary of the Company.

On February 28, 2007, the Company entered into an agreement with Pools Press, Inc., an Illinois corporation, pursuant to which the Company acquired 75% of the issued and outstanding common stock of Pools for consideration of $616,080. The Company purchased the remaining interest in Pools that it did not already own on August 31, 2010. Pools is a commercial printer, specializing in reprints of copyrighted articles. The results of Pools Press' operations have been included in the Company's consolidated financial statements since March 1, 2007. On January 1, 2012, Pools merged with and into Reprints whereby Reprints assumed all of the rights and properties of Pools, forming one consolidated subsidiary and eliminating the separate legal existence of Pools.

On March 31, 2011, the Company entered into an agreement with Fimmotaag, S.p.A., a privately held company domiciled in France, pursuant to which the Company acquired 100% of the issued and outstanding common stock of TAAG in exchange for 336,921 shares of the Company's common stock in addition to future payments payable at the option of Fimmotaag in cash or the Company's common stock under the terms of the purchase agreement. TAAG is a printing and logistics company located outside of Paris, France.

Item 1A. Risk Factors

The following summarizes material risks that investors should carefully consider before deciding to buy or maintain an investment in our common stock. Any of the following risks, if they actually occur, would likely harm our business, financial condition and results of operations. As a result, the trading price of our common stock could decline, and investors could lose the money they paid to buy our common stock.

Risks Relating to Our Business

We have incurred significant losses, and may never achieve profitability. If we continue to incur losses, we may have to curtail our operations, which may prevent us from successfully operating and expanding our business.

We have a history of significant losses. Historically, we have relied upon cash from financing activities to fund substantially all of the cash requirements of our activities and have incurred significant losses and experienced negative cash flow. As of June 30, 2012, we had an accumulated deficit of $14,184,160. For our fiscal years ended June 30, 2012 and 2011, we incurred a net loss of $6,532,289 and $5,407,606, respectively. We cannot predict when we will become profitable or if we ever will become profitable. We may continue to incur losses for an indeterminate period of time and may never achieve or sustain profitability. An extended period of losses and negative cash flow may prevent us from successfully operating and expanding our business. Even if we are able to achieve profitability, we may be unable to sustain or increase our profitability on a quarterly or annual basis.

We depend on the services of Peter Derycz, and the loss of his services could adversely affect our ability to achieve our business objectives.

Our success depends in part upon the continued service of Peter Derycz, who is our President, Chief Executive Officer, and Chairman. Mr. Derycz is critical to the overall management of the Company as well as to the development of our technologies, our culture and our strategic direction and is instrumental in developing and maintaining close ties with our customer base. Although we have entered into an employment agreement with Mr. Derycz, the agreement does not guarantee the service of Mr. Derycz for a specified period of time. We do not have key man insurance for Mr. Derycz. The loss of Mr. Derycz’s services could significantly delay or prevent the achievement of our business objectives. Consequently, the loss of Mr. Derycz’s services could adversely affect our business, financial condition and results of operations.

We depend on key personnel and we may not be able to operate and grow our business effectively if we lose the services of any of our key personnel or are unable to attract qualified personnel in the future.

We rely heavily on our senior management team because they have substantial experience with our diverse service offerings and business strategies. In addition, we rely on our senior management team to identify internal expansion and external growth opportunities. Our ability to retain senior management and other key personnel is therefore very important to our future success.

We have employment agreements with our senior management, but these employment agreements do not ensure that they will not voluntarily terminate their employment with us. In addition, our key personnel are subject to non-solicitation and confidential information restrictions. We do not have key man insurance for any of our current management or other key personnel. The loss of any key personnel would require the remaining key personnel to divert immediate attention to seeking a replacement. Competition for senior management personnel is intense, and fit is important to us. An inability to find a suitable replacement for any departing executive officer or key employee on a timely basis could adversely affect our ability to operate and grow our business.

We rely on our proprietary software systems, and our web sites and online networks, and a disruption, failure or security compromise of these systems may disrupt our business, damage our reputation and adversely affect our revenues and profitability.

Our proprietary software systems are critical to our business because they enable the efficient and timely service of a large number of customer orders. Similarly, we rely on our web sites, online networks, and email systems to deliver customer orders, and provide timely, relevant and dependable business information to our customers. Therefore, network or system shutdowns caused by events such as computer hacking, dissemination of computer viruses, worms and other destructive or disruptive software, denial of service attacks and other malicious activity, as well as power outages, natural disasters and similar events, could have an adverse impact on our operations, customer satisfaction and revenues due to degradation of service, service disruption or damage to equipment and data.

In addition to shutdowns, our systems are subject to risks caused by misappropriation, misuse, leakage, falsification and accidental release or loss of information, including sensitive data maintained in our proprietary software systems and credit card information of our customers. As a result of the increasing awareness concerning the importance of safeguarding information, ongoing attempts to hack and misuse companies' information, and legislation that continues to be adopted regarding the protection and security of information, information-related costs and risks are increasing.

Disruptions or security compromises of our systems could result in large expenditures to repair or replace such systems, to remedy any security breaches and protect us from similar events in the future. We also could be exposed to negligence claims or other legal proceedings brought by our customers or their clients, and we could incur significant legal expenses and our management's attention may be diverted from our operations in defending ourselves against and resolving lawsuits or claims. In addition, if we were to suffer damage to our reputation as a result of any system failure or security compromise, our revenues and profitability could be adversely affected.

Our failure to comply with the covenants contained in our loan agreement could result in an event of default that could adversely affect our financial condition and ability to operate our business as planned.

We have, and will continue to have, a line of credit. Our loan agreement contains, and any agreements to refinance our debt likely will contain, financial and restrictive covenants. Our failure to comply with these covenants may result in an event of default, which if not cured or waived, could result in the banks preventing us from accessing availability under our line of credit. If this were to occur we may not have sufficient cash resources to be able to continue our operations as planned. In addition, the indebtedness under our loan agreement is secured by a security interest in substantially all of our tangible and intangible assets, and therefore, if we are unable to repay such indebtedness the banks could foreclose on these assets and sell the pledged equity interests, which would adversely affect our ability to operate our business.

Our revenues have traditionally been concentrated among a few customers and if these large repeat customers choose to manage their information logistics needs with their own staff or with another provider and if we are unable to develop new customer relationships, our operating results and the ability to execute our growth strategy may be adversely affected.

Our operating results and ability to execute our growth strategy could be adversely affected if we lose business from our top repeat customers or we are unable to attract additional business from current or new customers for any reason, including any of the following: poor service, the loss of key employees, or the decision of our customers to perform information logistics services with their own staff or with another provider. If any of these were to occur, it could reduce our cash flow and adversely affect the results of our operations.

Government regulations related to the Internet could increase our cost of doing business, affect our ability to grow or may otherwise negatively affect our business.

Governmental agencies and federal and state legislatures have adopted, and may continue to adopt, new laws and regulatory practices in response to the increasing use of the Internet and other online services. These new laws may be related to issues such as online privacy, copyrights, trademarks and service mark, sales taxes, fair business practices, domain name ownership and the requirement that our operating units register to do business as foreign entities or otherwise be licensed to do business in jurisdictions where they have no physical location or other presence. In addition, these new laws, regulations or interpretations relating to doing business through the Internet could increase our costs materially and adversely affect the revenues and results of operations.

Our failure to manage our growth effectively could prevent us from achieving our goals.

Our strategy envisions a period of growth that may impose a significant burden on our administrative, financial and operational resources. The growth of our business will require management’s close attention. Our ability to effectively manage our growth will require us to substantially expand the capabilities of our administrative and operational resources and to attract, train, manage and retain qualified personnel. We may be unable to do so. In addition, our failure to successfully manage our growth could result in our sales not increasing commensurately with our capital investments. If we are unable to successfully manage our growth, we may be unable to achieve our goals.

We are subject to risks related to our foreign operations which could adversely affect our operations and financial performance.

We have a printing facility in France and sell our services worldwide. Foreign operations are subject to various risks which could have a material adverse effect on those operations or our business as a whole, including: exposure to local economic conditions; exposure to local political conditions; currency exchange rate fluctuations; reliance of local management; and additional potential costs of complying with rules and regulations of foreign jurisdictions. Any adverse consequence resulting from the materialization of the foregoing risks would adversely affect our financial performance and results of operations.

Risks Relating to Ownership of Our Common Stock

We cannot predict the extent to which an active public trading market for our common stock will develop or be sustained. If a public trading market does not develop or cannot be sustained, you may be unable to liquidate your investment in our common stock.

We cannot predict the extent to which an active public market for our common stock will develop or be sustained due to a number of factors, including the fact that we are a small company that is relatively unknown to stock analysts, stock brokers, institutional investors, and others in the investment community that generate or influence sales volume, and that even if we came to the attention of such persons, they tend to be risk-averse and would be reluctant to follow an unproven company such as ours or purchase or recommend the purchase of our shares of common stock until such time as we became more seasoned and viable. As a consequence, there may be periods of several days or more when trading activity in our shares is minimal or non-existent, as compared to a seasoned issuer which has a large and steady volume of trading activity that will generally support continuous sales without an adverse effect on share price. We cannot give you any assurance that a public trading market for our common stock will be sustained. If such a market cannot be sustained, you may be unable to liquidate your investment in our common stock.

In addition, the market price for our common stock may be particularly volatile given our status as a relatively small company with a small and thinly-traded “public float” that could lead to wide fluctuations in our share price. You may be unable to sell your common stock at or above your purchase price if at all, which may result in substantial losses to you.

Our common stock may be subject to significant price volatility which may have an adverse effect on your ability to liquidate your investment in our common stock.

The market for our common stock may be characterized by significant price volatility when compared to seasoned issuers, and we expect that our share price will be more volatile than a seasoned issuer for the indefinite future. The potential volatility in our share price is attributable to a number of factors. First, our common shares may be sporadically and/or thinly traded. As a consequence of this lack of liquidity, the trading of relatively small quantities of shares by our stockholders may disproportionately influence the price of those shares in either direction. The price for our shares could, for example, decline precipitously in the event that a large number of our common shares are sold on the market without commensurate demand, as compared to a seasoned issuer that could better absorb those sales without adverse impact on its share price. Secondly, an investment in us is a speculative or “risky” investment due to our lack of meaningful profits to date and uncertainty of future profits. As a consequence of this enhanced risk, more risk-adverse investors may, under the fear of losing all or most of their investment in the event of negative news or lack of progress, be more inclined to sell their shares on the market more quickly and at greater discounts than would be the case with the stock of a seasoned issuer.

Voting power of a significant percentage of our common stock is held by our president, chief executive officer and chairman, and his brother-in-law, who together are able to control or exercise significant influence over the outcome of matters to be voted on by our stockholders.

Peter Derycz, our President, Chief Executive Officer, and Chairman, has voting power equal to approximately 23% of all votes eligible to be cast at a meeting of our stockholders. Paul Kessler, the brother-in-law of Mr. Derycz, exercises investment and voting control over the shares held by Bristol Investment Fund, Ltd., and Bristol Capital, LLC, and has voting power equal to approximately 27% of all votes eligible to be cast at a meeting of our stockholders. As a result of their significant ownership interests, Mr. Derycz and Mr. Kessler together will be able to exercise significant influence with respect to the election of directors, and other matters submitted to a vote of all of our stockholders.

The exercise of outstanding options and warrants to purchase our common stock could substantially dilute your investment.

Under the terms of our outstanding options and warrants to purchase our common stock issued to employees and others, the holders are given an opportunity to profit from a rise in the market price of our common stock that, upon the exercise of the options and/or warrants, could result in dilution in the interests of our other stockholders.

The market price of our common stock and the value of your investment could substantially decline if our warrants or options are exercised and our common stock is issued and resold into the market, or if a perception exists that a substantial number of shares will be issued upon exercise of our warrants and option and then resold into the market.

If the exercise prices of our warrants or options and are lower than the price at which you made your investment, immediate dilution of the value of your investment will occur. In addition, sales of a substantial number of shares of common stock issued upon exercise of our warrants and options, or even the perception that such sales could occur, could adversely affect the market price of our common stock. You could, therefore, experience a substantial decline in the value of your investment as a result of both the actual and potential exercise of our warrants or options.

Because we may be subject to the "Penny Stock" rules, the level of trading activity in our common stock may be reduced.

Our common stock is quoted on the OTC Bulletin Board. The last reported sale price per share of our common stock on September 24, 2012, was $1.25. As a result, our common stock will most likely constitute "Penny Stock."

Broker-dealer practices in connection with transactions in Penny Stocks are regulated by rules adopted by the Securities and Exchange Commission, or SEC. Penny Stocks are generally equity securities with a price per share of less than $5.00 (other than securities registered on certain national exchanges). The Penny Stock rules require a broker-dealer, prior to a transaction in Penny Stocks not exempt from the rules, to deliver a standardized risk disclosure document that provides information about Penny Stocks and the nature and level of risks in the Penny Stock market. The broker-dealer must also provide the customer with current bid and offer quotations for the Penny Stock, the compensation of the broker-dealer and the salesperson in the transaction, and monthly accounting statements showing the market value of each Penny Stock held in the customer's account. In addition, the broker-dealer must make a special written determination that the Penny Stock is a suitable investment for the purchaser and receive the purchaser's written agreement to the transaction. These requirements may have the effect of reducing the level of trading activity in a Penny Stock, such as our common stock, and investors in our common stock may find it difficult to sell their shares.

Because our common stock is not listed on a national securities exchange, you may find it difficult to dispose of or obtain quotations for our common stock.

Our common stock is quoted on the OTC Bulletin Board under the symbol "DYSC." Because our stock is quoted on the OTC Bulletin Board rather than on a national securities exchange, you may find it difficult to either dispose of, or to obtain quotations as to the price of, our common stock.

Failure to achieve and maintain effective internal controls in accordance with Section 404 of the Sarbanes-Oxley Act of 2002 could result in a restatement of our financial statements, cause investors to lose confidence in our financial statements and our company and have a material adverse effect on our business and stock price.

We produce our financial statements in accordance with accounting principles generally accepted in the United States, or GAAP. Effective internal controls are necessary for us to provide reliable financial reports to help mitigate the risk of fraud and to operate successfully as a publicly traded company. As a public company, we are required to document and test our internal control procedures in order to satisfy the requirements of Section 404 of the Sarbanes-Oxley Act of 2002, or Section 404. Further, Section 404 requires annual management assessments of the effectiveness of our internal controls over financial reporting.

Testing and maintaining internal controls can divert our management's attention from other matters that are important to our business. We may not be able to conclude on an ongoing basis that we have effective internal controls over financial reporting in accordance with Section 404. If we are unable to conclude that we have effective internal controls over financial reporting, investors could lose confidence in our reported financial information and our company, which could result in a decline in the market price of our common stock, and cause us to fail to meet our reporting obligations in the future, which in turn could impact our ability to raise additional financing if needed in the future.

Item 1B. Unresolved Staff Comments

Not applicable.

Item 2. Properties

Our executive offices are located at 5435 Balboa Blvd., Suite 202, Encino, California. We lease approximately 3,200 square feet of office space for $4,820 per month from an unrelated third party. The lease expires on May 31, 2015. The rent increases to $4,965 per month on May 1, 2013 and to $5,115 per month on May 1, 2014. Our US operations printing facility is located at 3455-3501 Commercial Avenue, Northbrook, Illinois. We lease approximately 13,000 square feet of office space for $8,250 per month from an unrelated third party. The lease expires on May 31, 2016. The rent increases to $8,500 per month on June 1, 2014.

The printing facility and offices of TAAG (France) are located at 3 rue Olympe de Gouges - ZAC des Radars 91350 Grigny, France. We lease approximately 1,775 square meters of printing facility and 425 square meters of office space for $20,000 (€15,333) per month from an unrelated third party. The lease expires on December 31, 2017. The rent increases to $23,250 (€17,833) per month on January 1, 2013, to $27,000 (€20,833) per month on January 1, 2014, and decreases to $23,250 (€17,833) per month on January 1, 2016. The lease is ultimately guaranteed by Derycz Scientific, Inc.

We believe that our existing facilities are sufficient to meet our present and anticipated needs for the foreseeable future.

Item 3. Legal Proceedings

The Company is involved in legal proceedings in the ordinary course of its business. Although management of the Company cannot predict the ultimate outcome of these legal proceedings with certainty, it believes that the ultimate resolution of the Company’s legal proceedings, including any amounts it may be required to pay, will not have a material effect on the Company’s consolidated financial statements.

Item 4. Mine Safety Disclosures

Not applicable.

PART II

Item 5. Market for Registrant’s Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities

Market Information

Our common stock is quoted on the OTC Bulletin Board ("OTCBB") under the symbol "DYSC." The following table sets forth, for the periods indicated, the reported high and low closing bid quotations for our common stock as reported on the OTCBB. The bid prices reflect inter-dealer quotations, do not include retail markups, markdowns, or commissions, and do not necessarily reflect actual transactions.

Year Ended June 30, 2012:	High Bid	Low Bid
Fourth Quarter (April 1 – June 30)	$1.35	$1.05
Third Quarter (January 1 – March 31)	$1.35	$0.60
Second Quarter (October 1 – December 31)	$1.35	$0.60
First Quarter (July 1 – September 30)	$3.10	$1.25
Year Ended June 30, 2011:		
Fourth Quarter (April 1 – June 30)	$3.40	$2.35
Third Quarter (January 1 – March 31)	$3.65	$2.65
Second Quarter (October 1 – December 31)	$2.60	$0.95
First Quarter (July 1 – September 30)	$1.02	$0.90

As of September 24, 2012, we had a total of 17,087,281 shares of our common stock outstanding and the closing sales price was $1.25 per share on the OTC Bulletin Board.

Holders

We currently have 363 record holders of our common stock.

Dividends

We have not paid any cash dividends and we currently intend to retain any future earnings to fund the development and growth of our business. Any future determination to pay dividends on our common stock will depend upon our results of operations, financial condition and capital requirements, applicable restrictions under any credit facilities or other contractual arrangements and such other factors deemed relevant by our Board of Directors.

Equity Compensation Plan Information

Information relating to compensation plans under which our equity securities are authorized for issuance is set forth in Item 12 of this report under "Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters."

Recent Sales of Unregistered Securities

During the year ended June 30, 2012, we issued the following equity securities of the Company that were not registered under the Securities Act of 1933, as amended (the "Act"), and that were not previously disclosed in a quarterly report on Form 10-Q or on a current report on Form 8-K. In each case, we relied upon the exemption from registration under the Act found in Section 4(2) of the Act because the investors took the securities for investment purposes and without a view distribution and were provided access to information regarding the Company, and because there was no general solicitation or advertising for the purchase of the shares.

On March 5, 2012, we granted options to purchase an aggregate of 263,000 shares of the Company's common stock at $1.30 per share, which expire on March 2, 2022, to five employees for services rendered to the Company.

Item 6. Selected Financial Data

Not required.

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Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations

Cautionary Notice Regarding Forward-Looking Statements

The following discussion and analysis of our financial condition and results of operations for the years ended June 30, 2012 and 2011 should be read in conjunction with our consolidated financial statements and related notes to those financial statements that are included elsewhere in this report.

Our discussion includes forward-looking statements based upon current expectations that involve risks and uncertainties, such as our plans, objectives, expectations and intentions. Actual results and the timing of events could differ materially from those anticipated in these forward-looking statements as a result of a number of factors, including, without limitation:

- *the projected growth or contractions in the industry within which we operate;*
- *our business strategy for expanding, maintaining or contracting our presence in these markets;*
- *anticipated trends in our financial condition and results of operations; and*
- *our ability to distinguish ourselves from our current and future competitors.*

We use words such as "anticipate," "estimate," "plan," "project," "continuing," "ongoing," "expect," "believe," "intend," "may," "will," "should," "could," and similar expressions to identify forward-looking statements. All forward-looking statements included in this report are based on information available to us on the date hereof and, except as required by law, we assume no obligation to update any such forward-looking statements.

Overview

Derycz Scientific, Inc. was incorporated in the State of Nevada on November 2, 2006. In November 2006 the Company entered into a Share Exchange Agreement with Reprints Desk, Inc., a Delaware corporation. At the closing of the transaction contemplated by the Share Exchange Agreement, the Company acquired all of the outstanding shares of Reprints from the shareholders of Reprints and issued 8,000,003 common shares to the former shareholders of Reprints. Following completion of the exchange transaction, Reprints became a wholly-owned subsidiary of the Company.

On February 28, 2007, the Company entered into an agreement with Pools Press, Inc., an Illinois corporation, pursuant to which the Company acquired 75% of the issued and outstanding common stock of Pools for consideration of $616,080. The Company purchased the remaining interest in Pools that it did not already own on August 31, 2010. Pools is a commercial printer, specializing in reprints of copyrighted articles. The results of Pools Press' operations have been included in the Company's consolidated financial statements since March 1, 2007. On January 1, 2012, Pools merged with and into Reprints whereby Reprints assumed all of the rights and properties of Pools, forming one consolidated subsidiary and eliminating the separate legal existence of Pools.

On March 31, 2011, the Company entered into an agreement with Fimmotaag, S.p.A., a privately held company domiciled in France, pursuant to which the Company acquired 100% of the issued and outstanding common stock of Techniques Appliquées aux Arts Graphiques, S.p.A., in exchange for 336,921 shares of the Company's common stock in addition to future payments payable at the option of Fimmotaag in cash or the Company's common stock under the terms of the purchase agreement. TAAG is a printing and logistics company located outside of Paris, France.

Our mission is to provide information logistics solutions that facilitate the flow of information from the publishers of scientific and technical content to enterprise customers in life science and other research intensive industries around the world. We make the hundreds of thousands of new articles each year, in addition to the tens of millions of existing articles that have been published in the past, available to our customers and help them identify the most useful and relevant content for their purposes. We serve both the publishers who own the content rights and the end-users of the content. We utilize web-based platforms as well as traditional delivery channels and are developing products and services that make it easier for our customers to find and use information. During the year ended June 30, 2012, we delivered more than 10 million articles in either hard copy or electronic form to over 1,000 customers in over 100 countries.

We provide three types of solutions to our customers; research solutions; marketing solutions; and publisher solutions.

Research Solutions

Researchers and regulatory personnel generally order single copies of published materials, called “document delivery,” for use in their research activities. In order to use the content, our customers must pay appropriate copyright fees and our services ensure that we have obtained the necessary permissions from the owners of the published content so that our customers’ use of the content complies with applicable copyright laws. We have developed Internet-based interfaces that allow customers to initiate orders and manage transactions, at any time, by specifying the citation or other identifying information related to the particular article they need. In some cases, we are able to fulfill the order without the need for action on the part of our employees. We also help these customers to maximize the information resources they already own or have access to via subscriptions or internal libraries, as well as organize workgroups to collaborate around scientific information. Our services alleviate the need for our customers to develop internal systems or contact multiple publishers in order to obtain the required information.

Marketing Solutions

Generally, marketing departments order large quantities of printed copies of published materials called “reprints” that they distribute to interested parties, including customers and doctors who may prescribe a customer’s products. We print the reprints we deliver to our customers whenever possible and are responsible for any logistics required to distribute such reprints. TAAG also prints other materials that are used for marketing purposes and provides other printing logistics products and services. Electronic copies, called “eprints,” are also used for distribution through the Internet and other electronic mechanisms. We have also developed eprint software systems that increase the efficiency of our customers’ content purchases by transitioning from paper reprints to electronic eprints. Our software systems also help to improve compliance with copyright and promotional regulations within the life sciences industry.

Publisher Solutions

Our publisher solutions include technology solutions and reprint management services, whereby we are responsible for all aspects of reprint and eprint production for a publisher, from taking orders to final delivery. This service eliminates the need for the publishers to establish a dedicated reprints sales force or arrange for delivery of reprinted materials. Our eprint software systems enable publishers to protect their copyrighted content and support the marketing needs of their customers.

Critical Accounting Policies and Estimates

The preparation of our consolidated financial statements in conformity with GAAP requires us to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenue and expenses, and related disclosure of contingent assets and liabilities. When making these estimates and assumptions, we consider our historical experience, our knowledge of economic and market factors and various other factors that we believe to be reasonable under the circumstances. Actual results may differ under different estimates and assumptions.

The accounting estimates and assumptions discussed in this section are those that we consider to be the most critical to an understanding of our financial statements because they inherently involve significant judgments and uncertainties.

Revenue Recognition

The Company’s policy is to recognize revenue when services have been performed, risk of loss and title to the product transfers to the customer, the selling price is fixed or determinable, and collectability is reasonably assured. We generate revenue by providing three types of services to our customers; document delivery; reprints and eprints; and printing and reprint management.

Document Delivery

Our business model for document delivery services is based on charging our customers a copyright fee necessary to obtain permission of use from the content owner (publisher), and a service fee for delivering the content. We have existing non-exclusive arrangements with many publishers that provide us with electronic access to much of these publishers’ content, which allows us to deliver single copies of such content to our customers in a more efficient and timely manner, often in a matter of minutes. The Company recognizes revenue from document delivery services upon electronic delivery to the customer only when the selling price is fixed or determinable, and collectability is reasonably assured.

Reprints and eprints

Our business model for reprints and eprints is based on charging a fee for aggregating and distributing multiple copies of published materials. When possible, we obtain the right to print the reprints from the holder of the copyright and we print and ship the reprints ourselves. We also have built systems that can provide controlled distribution of electronic copies or eprints. The Company recognizes revenue from reprints and eprints services upon shipment or electronic delivery to the customer only when the selling price is fixed or determinable, and collectability is reasonably assured.

Printing and Reprint Management

Our business model for printing is based on charging a fee for providing printing services and delivering hard copy materials to our customers that are generally used for marketing purposes. In addition, we also provide other printing logistics products and services. These services are complementary to our reprints and eprints, and reprint management services. The Company recognizes revenue from printing services when the printed materials have been shipped to the customer only when the selling price is fixed or determinable, and collectability is reasonably assured.

Stock-Based Compensation

The Company periodically issues stock options and warrants to employees and non-employees in capital raising transactions, for services and for financing costs. The Company accounts for share-based payments under the guidance as set forth in the *Share-Based Payment* Topic 718 of the Financial Accounting Standards Board (the "FASB") Accounting Standards Codification, which requires the measurement and recognition of compensation expense for all share-based payment awards made to employees, officers, directors, and consultants, including employee stock options based on estimated fair values. The Company estimates the fair value of share-based payment awards to employees and directors on the date of grant using an option-pricing model, and the value of the portion of the award that is ultimately expected to vest is recognized as expense over the required service period in the Company's Statements of Operations. The Company accounts for stock option and warrant grants issued and vesting to non-employees in accordance with Topic 718 of the FASB Accounting Standards Codification, whereby the value of the stock compensation is based upon the measurement date as determined at either a) the date at which a performance commitment is reached, or b) the date at which the necessary performance to earn the equity instruments is complete. Stock-based compensation is based on awards ultimately expected to vest and is reduced for estimated forfeitures. Forfeitures are estimated at the time of grant and revised, as necessary, in subsequent periods if actual forfeitures differ from those estimates.

Goodwill and Intangible Assets

As required by the FASB, management performs impairment tests of goodwill and indefinite-lived intangible assets at least annually, or whenever an event occurs or circumstances change that indicate impairment has more likely than not occurred.

In accordance with guidance of the FASB, management tests goodwill for impairment at the reporting unit level. The Company has two reportable diverse geographical concentrations. At the time of goodwill impairment testing, management determines fair value through the use of a discounted cash flow valuation model incorporating discount rates commensurate with the risks involved with its reporting unit. If the calculated fair value is less than the current carrying value, impairment of the Company's assets may exist. The use of a discounted cash flow valuation model to determine estimated fair value is common practice in impairment testing in the absence of available domestic and international transactional market evidence to determine the fair value. The key assumptions used in the discounted cash flow valuation model for impairment testing include discount rates, growth rates, cash flow projections and terminal value rates.

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In accordance with guidance of the FASB, the Company reviews intangible assets subject to amortization at least annually to determine if any adverse conditions exist or a change in circumstances has occurred that would indicate impairment or a change in the remaining useful life. If the carrying value of an asset exceeds its undiscounted cash flows, the Company writes down the carrying value of the intangible asset to its fair value in the period identified. If the carrying value of assets is determined not to be recoverable, the Company records an impairment loss equal to the excess of the carrying value over the fair value of the assets. The Company's estimate of fair value is based on the best information available, in the absence of quoted market prices. The Company generally calculates fair value as the present value of estimated future cash flows that the Company expects to generate from the asset using a discounted cash flow income approach as described above. If the estimate of an intangible asset's remaining useful life is changed, the Company amortizes the remaining carrying value of the intangible asset prospectively over the revised remaining useful life.

During the year ended June 30, 2012, the Company determined that the recorded values of goodwill of $1,344,219 and intangible assets with a remaining net book value of $617,757 that arose upon the acquisition of TAAG were impaired. Accordingly, during the year ended June 30, 2012, the Company recorded an impairment loss of $1,602,638 that represents the impairment of the goodwill and the unamortized value of intangible assets as of March 31, 2012, offset by the elimination of the earnout liability of $359,338 which the Company estimates will no longer be payable. In addition, the Company also recorded an income tax benefit of $350,000 to reduce the deferred tax liability created upon the acquisition of TAAG that management determined was no longer necessary.

During the year ended June 30, 2012, the Company determined that the recorded value of goodwill of $233,385 that arose upon the acquisition of Pools Press was impaired. Accordingly, during the year ended June 30, 2012, the Company recorded an impairment loss of $233,385 that represents the impairment of the goodwill.

In addition, during the year ended June 30, 2012, the Company determined that the recorded value of intangible assets related to intellectual property licenses were impaired. Accordingly, during the year ended June 30, 2012, the Company recorded an impairment loss of $688,138 that represents the unamortized value of intangible assets related to intellectual property licenses as of March 31, 2012.

Comparison of the Years Ended June 30, 2012 and 2011

Results of Operations

	Years ended June 30,	
	2012	2011

Revenue	$42,818,541	$33,500,438
Cost of revenue	34,778,307	29,594,012
Gross profit	8,040,234	3,906,426
Operating expenses:		
Selling, general and administrative	10,722,321	8,489,430
Depreciation and amortization	1,456,130	673,881
Impairment loss related to the acquisition of TAAG	1,602,638	-
Impairment loss on intangible assets related to intellectual property licenses	688,138	-
Impairment loss related to the acquisition of Pools Press	223,385	-
Total operating expenses	14,692,612	9,163,311
Loss from operations	(6,652,378)	(5,256,885)
Currency loss	(2,892)	(23,363)
Loss on sale of fixed asset	(315)	-
Other income	20,476	13,480
Interest expense	(220,665)	(144,069)
Interest income	1,379	3,231
Loss before provision for income taxes	(6,854,395)	(5,407,606)
Income tax benefit	322,106	-
Net loss	(6,532,289)	(5,407,606)
Other comprehensive income (loss):		
Foreign currency translation	72,244	(11,590)
Comprehensive loss	$(6,460,045)	$(5,419,196)
Net loss per share:		
Basic and diluted	$(0.38)	$(0.36)
Weighted average shares outstanding:		
Basic and diluted	17,045,824	14,964,504

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Revenue

	Years Ended June 30,			
	2012	2011	2012-2011 $ Change	2012-2011 % Change
Revenue:				
US operations	$31,073,984	$29,694,012	$1,379,972	5.9 %
TAAG (France)	11,744,557	3,806,426	7,938,131	208.5 %
Total revenue	$42,818,541	$33,500,438	$9,318,103	27.8 %

Revenue from US operations increased $1.4 million, or 5.9%, for the year ended June 30, 2012 compared to the prior year, and was primarily due to the acquisition of new customers and increased sales from existing customers. We expect revenue from US operations to continue to increase during the 2013 fiscal year.

Revenue from TAAG was $11.7 million for the year ended June 30, 2012 and $3.8 million for the prior year. The primary reason for the increase was that only three months of revenue from TAAG were included in the prior year. Revenue from TAAG, which has been steadily declining primarily due to disappointing sales efforts and general financial uncertainty in Europe, seems to have stabilized in early 2012.

Cost of Revenue

	Years Ended June 30,			
	2012	2011	2012-2011 $ Change	2012-2011 % Change
Cost of Revenue:				
US operations	$27,677,462	$27,244,893	$432,569	1.6 %
TAAG (France)	7,100,845	2,349,119	4,751,726	202.3 %
Total cost of revenue	$34,778,307	$29,594,012	$5,184,295	17.5 %
As a percentage of revenue:				
US operations	89.1 %	91.8 %	(2.7)%	
TAAG (France)	60.5 %	61.7 %	(1.3)%	
Total	81.2 %	88.3 %	(7.1)%	

The decrease in our cost of revenue as a percentage of revenue from US operations for the year ended June 30, 2012 compared to the prior year, was primarily due to the amendment of a certain publisher agreement that required minimum guaranteed payments and expense reduction measures that reduced our production expenses. For the year ended June 30, 2012 and 2011, we recorded approximately $2,699,676 and $3,447,283, respectively, of revenue, under a certain publisher agreement that required minimum guaranteed payments, while recording approximately $3,965,708 and $4,375,311, respectively, of costs, which caused our cost of revenue to increase significantly relative to the revenue levels and therefore significantly reduced our gross margin from US operations. We also expect an increase in our gross margin from US operations in the future from this publisher agreement amendment, and as a result of expense reduction measures that reduced our production expenses during the year ended June 30, 2012.

Cost of revenue from TAAG was $7.1 million for the year ended June 30, 2012 and $2.3 million for the prior year. The primary reason for the increase was that only three months of cost of revenue from TAAG were included in the prior year.

Gross Profit

	Years Ended June 30, 2012	2011	2012-2011 $ Change	2012-2011 % Change
Gross Profit:				
US operations	$3,396,522	$2,449,119	$947,403	38.7 %
TAAG (France)	4,643,712	1,457,307	3,186,405	218.7 %
Total gross profit	$8,040,234	$3,906,426	$4,133,808	105.8 %
As a percentage of revenue:				
US operations	10.9 %	8.2 %	2.7 %	
TAAG (France)	39.5 %	38.3 %	1.3 %	
Total	18.8 %	11.7 %	7.1 %	

Operating Expenses

	Years Ended June 30, 2012	2011	2012-2011 $ Change	2012-2011 % Change
Operating Expenses:				
US Operations:				
Selling, general and administrative	$5,519,289	$5,671,436	$(152,147)	(2.7)%
Depreciation and amortization	364,547	258,755	105,792	40.9 %
Stock-based compensation expense	203,540	1,494,492	(1,290,952)	(86.4)%
Impairment loss on intangible assets related to intellectual property licenses	688,138	-	688,138	- %
Impairment loss related to the acquisition of Pools Press	223,385	-	223,385	- %
Total US operations	6,998,899	7,424,683	(425,784)	(5.7)%
TAAG (France):				
Selling, general and administrative	4,999,492	1,323,502	3,675,990	277.7 %
Depreciation and amortization	1,091,583	415,126	676,457	163.0 %
Impairment loss related to the acquisition of TAAG	1,602,638	-	1,602,638	- %
Total TAAG (France) operations	7,693,713	1,738,628	5,955,085	342.5 %
Total operating expenses	$14,692,612	$9,163,311	$5,529,301	60.3 %

Selling, General and Administrative

Selling, general and administrative expenses from US operations were $5.5 million for the year ended June 30, 2012 and $5.7 million for the prior year. The primary reason for the decrease was that during the year ended June 30, 2012, we instituted expense reduction measures that reduced our compensation, marketing, investor relations and legal expenses. We also expect a reduction in our selling, general and administrative expenses in the future because of these expense reduction measures.

During the year ended June 30, 2012, the Company determined that the value of intangible assets related to intellectual property licenses and intangible assets related to the acquisition of TAAG were impaired. Accordingly, the Company recorded an impairment loss of $688,138 that represents the unamortized value of intangible assets related to intellectual property licenses as of March 31, 2012.

During the year ended June 30, 2012, the Company determined that the recorded value of goodwill of $233,385 that arose upon the acquisition of Pools Press was impaired. Accordingly, during the year ended June 30, 2012, the Company recorded an impairment loss of $233,385 that represents the impairment of the goodwill.

Selling, general and administrative expenses from TAAG was $5 million for the year ended June 30, 2012 and $1.3 million for the prior year. The primary reason for the increase was that only three months of selling, general and administrative expenses from TAAG were included in the prior year.

During the year ended June 30, 2012, the Company determined that the value of goodwill and intangible assets related to the acquisition of TAAG were impaired. Accordingly, the Company recorded an impairment loss of $1,602,638 that represents goodwill and the unamortized value of intangible assets, offset by the earnout related to the acquisition of TAAG as of March 31, 2012.

Depreciation and Amortization

Depreciation and amortization for the year ended June 30, 2012, amounted to $1,524,788, with $68,658 recorded under cost of revenue.

The amounts recorded for US operations consist mostly of amortization of intellectual property licenses and customer lists. We expect a significant reduction in amortization expense for US operations next year as the carrying value of the intangible assets related to intellectual property licenses have been impaired and reduced to $0 in the current year. We expect depreciation expense for US operations to remain at current levels during the 2013 fiscal year.

The amounts recorded for TAAG are split between depreciation of mostly printing equipment and amortization of the customer list and covenant not to compete. We expect depreciation expense for TAAG to decrease next year as certain printing equipment has been fully depreciated. We also expect no amortization expense for TAAG next year as the carrying value of the intangible assets related to the acquisition of TAAG have been impaired and reduced to $0 in the current year.

Interest Expense

Interest expense was $220,665 for the year ended June 30, 2012 and $144,069 for the prior year, an increase of $76,596. The increase was primarily attributable to the interest paid on capital leases for printing equipment by TAAG and on a credit line for US operations with Silicon Valley Bank which provides a $4 million revolving line of credit secured by all of the assets of the Company, excluding TAAG’s assets. We expect interest expense to remain at current levels during the 2013 fiscal year.

Income Tax Benefit

During the year ended June 30, 2012, the Company also recorded an income tax benefit of $350,000 to reduce the deferred tax liability recorded upon the acquisition of TAAG that was related to the intangible assets of TAAG written off in 2012.

Net Income (Loss)

	Years Ended June 30,			
	2012	2011	2012-2011 $ Change	2012-2011 % Change
Net Income (Loss):				
US Operations	$(3,543,159)	$(5,082,923)	$1,539,764	(30.3)%
TAAG (France)	(2,989,130)	(324,683)	(2,664,447)	820.6%
Total net loss	$(6,532,289)	$(5,407,606)	$(1,124,683)	20.8%

The decrease in our net loss from US operations for the year ended June 30, 2012 compared to the prior year, was primarily due to an increase in gross profit and decrease in operating expenses as described above. We expect our net loss from US operations to decrease in the future as we increase our gross margins and reduce operating expenses as described above.

Our net loss from TAAG was $3 million for the year ended June 30, 2012 and $324,683 for the prior year. The primary reason for the increase was that only three months of results from TAAG were included in the prior year.

Liquidity and Capital Resources

	Years Ended June 30,	
Consolidated Statements of Cash Flow Data:	2012	2011
Net cash provided by (used) in operating activities	$1,968,462	$(5,093,021)
Net cash used in investing activities	$(409,957)	$(161,600)
Net cash provided by (used) in financing activities	$(1,488,373)	$6,282,240

Since our inception, we have funded our operations primarily through private sales of equity securities and the exercise of warrants, which have provided aggregate net cash proceeds to date of approximately $10,350,000, none of which was raised in the fiscal year ended June 30, 2012.

As of June 30, 2012, we had cash and cash equivalents of $3,150,978 compared to $2,868,260 as of June 30, 2011, an increase $282,718. This increase is primarily attributable to an increase in accounts payable of $2,509,219, a decrease of prepaid royalties of $830,533 and a decrease of accounts receivable of $591,191, partially offset by payments of capital lease obligations of $868,006 and payments under line of credit of $748,673.

We have a history of significant losses. Historically, we have relied upon cash from financing activities to fund substantially all of the cash requirements of our activities and have incurred significant losses and experienced negative cash flow. As of June 30, 2012, we had an accumulated deficit of **$**14,184,160. For our fiscal years ended June 30, 2012 and 2011, we incurred a net loss of $6,532,289 and $5,407,606, respectively. We cannot predict when we will become profitable or if we ever will become profitable. We may continue to incur losses for an indeterminate period of time and may never achieve or sustain profitability. An extended period of losses and negative cash flow may prevent us from successfully operating and expanding our business. Even if we are able to achieve profitability, we may be unable to sustain or increase our profitability on a quarterly or annual basis.

· ***US Operations (Reprints)***

The Company believes that its current cash resources and cash flow from US operations will be sufficient to sustain current US operations for the next twelve months. The Company expects to continue to produce cash from US operating activities; however, there are no assurances that such results will be achieved. Cash provided by US operations was $155,580 and $379,705 for the years ended June 30, 2012 and 2011, respectively.

· ***TAAG (France)***

The Company believes that its current cash resources and cash flow from TAAG may not be sufficient to sustain TAAG operations for the next twelve months. During the year ended June 30, 2012, TAAG incurred a net loss from operations of $3,000,000, and at June 30, 2012, had a working capital deficiency of $2,300,000. In addition, $200,000 of payroll and VAT taxes were delinquent at June 30, 2012. The Company's line of credit with Silicon Valley Bank limits the amount of funding of TAAG to $50,000 and no additional financing for TAAG is in place. Revenue from TAAG seems to have stabilized in early 2012, however, continuing net losses have been incurred. Our overall strategy is to improve TAAG's revenue, operations, and profitability. As a result, we have, and continue to, perform financial and operational analysis on TAAG. We have replaced all executive and accounting management at TAAG and hired a new executive manager and engaged a professional accounting services firm to ensure these improvements, however, there is no assurance that such results will be achieved. In the event that TAAG liquidates our exposure to creditors in France is limited to the assets of TAAG, with the exception of the property lease which is ultimately guaranteed by Derycz Scientific, Inc. In the event that TAAG liquidates we could lose a significant percentage of revenue, or all revenue, from TAAG. As a result, during the year ended June 30, 2012, the Company determined that the recorded values of goodwill of $1,344,219 and intangible assets with a remaining net book value of $617,757 that arose upon the acquisition of TAAG were impaired. Accordingly, during the year ended June 30, 2012, the Company recorded an impairment loss of $1,602,638 that represents the impairment of the goodwill and the unamortized value of intangible assets, offset by the elimination of the earnout liability of $359,338 which we estimate will no longer be payable. In addition, the Company also recorded an income tax benefit of $350,000 to reduce the deferred tax liability recorded upon the acquisition of TAAG that was related to the intangible assets of TAAG written off in 2012.

Operating Activities

Our net cash provided by operating activities was $1,968,462 for the year ended June 30, 2012 and resulted primarily from an increase in accounts payable of $2,509,219, non-cash depreciation and amortization of $1,529,222, non-cash impairment losses of $2,514,161, a decrease of prepaid royalties of $830,533 and a decrease of accounts receivable of $591,191, partially offset by a decrease in deferred income tax liability of $350,000 as well as the net loss of $6,532,289 for the period.

Our net cash used in operating activities was $5,093,021 for the year ended June 30, 2011 and resulted primarily from the net loss of $5,407,606 for the period, a decrease of accounts payable of $922,159 and an increase of prepaid royalties of $531,585, partially offset by non-cash stock compensation of $1,494,492 and non-cash depreciation and amortization of $750,190.

Investing Activities

Our net cash used in investing activities was $409,957 for the year ended June 30, 2012 and resulted primarily from the purchase of intangible assets and property and equipment.

Our net cash used in investing activities was $161,600 for the year ended June 30, 2011 and resulted primarily from the cash acquired upon the acquisition of TAAG, partially offset by the purchase of the remaining interest in Pools Press and the purchase of intangible assets and property and equipment.

Financing Activities

Our net cash used in financing activities was $1,488,373 for the year ended June 30, 2012 and resulted primarily from payments of capital lease obligations of $868,006 and payments under line of credit of $748,673.

Our net cash provided by financing activities was $6,282,240 for the year ended June 30, 2011 and resulted primarily from issuance of shares upon the exercise of warrants of $2,484,187, issuance of common shares and warrants of $2,784,032, and advances under the line of credit of $1,436,233.

The Company entered into a Loan and Security Agreement with Silicon Valley Bank (“SVB”) on July 23, 2010, which as amended, provides for a $4,000,000 revolving line of credit that matures on October 31, 2013. The SVB line of credit bears interest at the prime rate plus 2.5% for periods in which the Company maintains an account balance with SVB (less all indebtedness owed to SVB) of at least $800,000 at all times during the prior calendar month (the “Streamline Period”), and at the prime rate plus 4.5% when a Streamline Period is not in effect. The interest rate on the line of credit was 6.5% as of June 30, 2012. The line of credit is secured by all of the Company’s and its subsidiaries’ assets, excluding TAAG’s assets.

The line of credit is subject to certain financial and performance covenants which the Company was in compliance with as of June 30, 2012. The balance outstanding as of June 30, 2012 and June 30, 2011 was $1,000,000 and $1,436,233, respectively. As of June 30, 2012 and 2011, approximately $1,875,000 and $202,000, respectively, of available credit was unused under the line of credit.

The Company, through TAAG, has factoring agreements with ABN Amro ("ABN") and Credit Cooperatif for working capital and credit administration purposes. Under the agreements, the factors purchase trade accounts receivable assigned to them by the Company. The accounts are sold at the invoice amount subject to a factor commission and other miscellaneous fees. Trade accounts receivable not sold remain in the Company's custody and control and the Company maintains all credit risk on those accounts.

Under the agreement with ABN, the Company can borrow up to approximately $1.3 million (Euro 1,000,000), limited to 40% of its trade accounts. The factor fee is 0.26% of the customer invoice including VAT and interest is charged on the amount financed at the one month Euribor interest rate plus 1.2%. The interest rate under the agreement was 1.72% per annum at June 30, 2012. As of June 30, 2012 and 2011, $197,039 and $356,540 was due from ABN, respectively.

Under the agreement with Credit Cooperatif, the Company can borrow up to approximately $325,000 (Euro 250,000). The factor fee is determined on a case by case basis and is not specified in the agreement. The fee charged for the obligations outstanding as of June 30, 2012 was approximately 5%. As of June 30, 2012 and 2011, $256,636 and $312,440 was due to Credit Cooperatif, respectively.

Off-Balance Sheet Arrangements

The Company does not have any off-balance sheet arrangements.

Recently Issued Accounting Pronouncements

For information about recently issued accounting standards, refer to Note 2 to our Consolidated Financial Statements.

Item 7A. Quantitative and Qualitative Disclosures About Market Risk

Not required.

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Item 8. Financial Statements and Supplementary Data

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors

Derycz Scientific, Inc. and Subsidiaries

Encino, California

We have audited the accompanying consolidated balance sheets of Derycz Scientific, Inc. (the "Company") and Subsidiaries as of June 30, 2012 and 2011, and the related consolidated statements of operations and other comprehensive loss, stockholders' equity (deficiency) and cash flows for the years then ended. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement. The Company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. Our audit included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall consolidated financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Derycz Scientific, Inc. and Subsidiaries as of June 30, 2012 and 2011 and the consolidated results of their operations and their cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Weinberg and Company, P.A

September 28, 2012

Los Angeles, California

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Derycz Scientific, Inc. and Subsidiaries

Consolidated Balance Sheets

	June 30, 2012	June 30, 2011
Assets		
Current assets:		
Cash and cash equivalents	$3,150,978	$2,868,260
Accounts receivable:		
Trade receivables, net of allowance of $163,455 and $223,298 , respectively	6,099,471	6,690,662
Due from factor	197,039	356,540
Inventory	363,641	759,507
Prepaid expenses	157,139	298,927
Prepaid royalties	415,339	1,245,872
Other current assets	18,084	18,320
Total current assets	10,401,691	12,238,088
Property and equipment, net of accumulated depreciation of $1,369,782 and $724,004 , respectively	1,294,517	1,666,462
Intangible assets, net of accumulated amortization of $189,783 and $641,698 , respectively	65,510	1,883,660
Goodwill	-	1,567,604
Deposits and other assets	244,202	308,721
Total assets	$12,005,920	$17,664,535
Liabilities and Stockholders’ Equity (Deficiency)		
Current liabilities:		
Accounts payable and accrued expenses	$9,554,754	$7,045,535
Capital lease obligations, current	640,116	663,973
Notes payable, current	53,452	53,252
Due to factor	256,636	312,440
Due to related parties	-	71,902
Line of credit	1,000,000	1,436,233
Deferred revenue	68,901	158,240
Total current liabilities	11,573,859	9,741,575
Notes payable, long term	53,452	110,080
Capital lease obligations, long term	813,173	1,281,600
Liability for estimated earnout	-	359,338
Deferred tax liability	-	350,000
Total liabilities	12,440,484	11,842,593
Commitments and contingencies		
Stockholders’ equity (deficiency):		

Preferred stock; $0.001 par value; 20,000,000 shares authorized; no shares issued and outstanding	-	-
Common stock; $0.001 par value; 100,000,000 shares authorized; 17,069,437 and 16,822,509 shares issued and outstanding, respectively	17,069	16,823
Accumulated other comprehensive income (loss)	60,654	(11,590)
Additional paid-in capital	13,671,873	13,468,580
Accumulated deficit	(14,184,160)	(7,651,871)
Total stockholders' equity (deficiency)	(434,564)	5,821,942
Total liabilities and stockholders' equity (deficiency)	$ 12,005,920	$ 17,664,535

See notes to consolidated financial statements

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Derycz Scientific, Inc. and Subsidiaries

Consolidated Statements of Operations and Other Comprehensive Loss

	Years ended June 30, 2012	2011
Revenue	$42,818,541	$33,500,438
Cost of revenue	34,778,307	29,594,012
Gross profit	8,040,234	3,906,426
Operating expenses:		
Selling, general and administrative	10,722,321	8,489,430
Depreciation and amortization	1,456,130	673,881
Impairment loss related to the acquisition of TAAG	1,602,638	-
Impairment loss on intangible assets related to intellectual property licenses	688,138	-
Impairment loss related to the acquisition of Pools Press	223,385	-
Total operating expenses	14,692,612	9,163,311
Loss from operations	(6,652,378)	(5,256,885)
Currency loss	(2,892)	(23,363)
Loss on sale of fixed asset	(315)	-
Other income	20,476	13,480
Interest expense	(220,665)	(144,069)
Interest income	1,379	3,231
Loss before provision for income taxes	(6,854,395)	(5,407,606)
Income tax benefit	322,106	-
Net loss	(6,532,289)	(5,407,606)
Other comprehensive income (loss):		
Foreign currency translation	72,244	(11,590)
Comprehensive loss	$(6,460,045)	$(5,419,196)
Net loss per share:		
Basic and diluted	$(0.38)	$(0.36)
Weighted average shares outstanding:		
Basic and diluted	17,045,824	14,964,504

See notes to consolidated financial statements

Derycz Scientific, Inc. and Subsidiaries

Consolidated Statement of Stockholders' Equity (Deficiency)

For the Years Ended June 30, 2012 and 2011

	Common Stock Shares	Amount	Additional Paid-in Capital	Accumulated Deficit	Noncontrolling Interest	Other Comprehensive Income	Total Stockholders' Equity
Balance, July 1, 2010	13,001,830	$13,002	$5,510,620	$(2,244,265)	$34,904	$-	$3,314,261
Acquisition of remaining interest in Pools Press	-	-	(120,000)	-	-	-	(120,000)
Adjustment for noncontrolling interest in Pools Press	-	-	34,904	-	(34,904)	-	-
Fair value of common shares issued for services	38,565	39	76,084	-	-	-	76,123
Fair value of options issued to employees	-	-	121,643	-	-	-	121,643
Common shares issued upon exercise of warrants	2,170,193	2,170	2,482,017	-	-	-	2,484,187
Fair value of common shares issued for customer list	75,000	75	71,175	-	-	-	71,250
Fair value of warrants issued for services	-	-	1,175,748	-	-	-	1,175,748
Fair value of warrants issued to directors for	-	-	120,978	-	-	-	120,978

services							
Common shares issued for cash	1,200,000	1,200	2,782,832	-	-	-	2,784,032
Common shares issued for acquisition of TAAG	336,921	337	1,212,579	-	-	-	1,212,916
Net loss for the period	-	-	-	(5,407,606)	-	-	(5,407,606)
Foreign currency translation	-	-	-	-	-	(11,590)	(11,590)
Balance, June 30, 2011	16,822,509	16,823	13,468,580	(7,651,871)	-	(11,590)	5,821,942
Fair value of options issued to employees	-	-	175,951	-	-	-	175,951
Common shares issued upon exercise of warrants	246,928	246	(246)	-	-	-	-
Fair value of warrants issued for services	-	-	210,712	-	-	-	210,712
Adjustment to fair value of warrants granted to consultants	-	-	(447,838)	-	-	-	(447,838)
Fair value of warrant extensions	-	-	264,714	-	-	-	264,714
Net loss for the period	-	-	-	(6,532,289)	-	-	(6,532,289)
Foreign currency translation	-	-	-	-	-	72,244	72,244
Balance, June 30, 2012	17,069,437	$ 17,069	$ 13,671,873	$ (14,184,160)	$ -	$ 60,654	$ (434,564)

See notes to consolidated financial statements

Derycz Scientific, Inc. and Subsidiaries

Consolidated Statements of Cash Flows

	Years Ended June 30, 2012	2011
Cash flow from operating activities:		
Net loss	$(6,532,289)	$(5,407,606)
Adjustment to reconcile net loss to net cash provided by (used in) operating activities:		
Depreciation and amortization	1,529,222	750,190
Fair value of vested stock options	175,951	121,643
Fair value of warrants issued for services, net of adjustment	(237,126)	1,296,726
Fair value of common shares issued for services	-	76,123
Fair value of warrant extensions	264,714	-
Impairment loss related to the acquisition of TAAG	1,602,638	-
Impairment loss on intangible assets related to intellectual property licenses	688,138	-
Impairment loss related to the acquisition of Pools Press	223,385	-
Deferred income tax liability	(350,000)	-
Loss on sale of fixed asset	315	-
Changes in assets and liabilities:		
Accounts receivable	591,191	(167,479)
Inventory	395,866	130,792
Due from factor	159,501	(71,932)
Prepaid expenses	141,788	(68,339)
Prepaid royalties	830,533	(531,585)
Other assets	64,755	(2,562)
Accounts payable and accrued expenses	2,509,219	(922,159)
Deferred revenue and other current liabilities	(89,339)	(296,233)
Income taxes payable	-	(600)
Net cash provided by (used in) operating activities	1,968,462	(5,093,021)
Cash flow from investing activities:		
Purchase of property and equipment	(183,108)	(121,058)
Purchase of intangible assets	(227,599)	(245,925)
Cash acquired upon acquisition of TAAG	-	325,383
Acquisition of remaining interest in Pools Press	-	(120,000)
Proceeds from sale of fixed asset	750	-
Net cash used in investing activities	(409,957)	(161,600)
Cash flow from financing activities:		
Issuance of shares upon exercise of warrants	-	2,484,187
Issuance of common shares and warrants	-	2,784,032
Advances (payments) to factor	256,636	-

Payment of notes payable	(56,428)	-
Payment of bank loans	-	(277,892)
Payment of capital lease obligations	(868,006)	(144,320)
Payment of related parties	(71,902)	-
Advances (payments) under line of credit	(748,673)	1,436,233
Net cash provided by (used in) financing activities	(1,488,373)	6,282,240
Effect of exchange rate changes	212,586	(11,590)
Net increase in cash and cash equivalents	282,718	1,016,029
Cash and cash equivalents, beginning of period	2,868,260	1,852,231
Cash and cash equivalents, end of period	$3,150,978	$2,868,260

See notes to consolidated financial statements

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Derycz Scientific, Inc. and Subsidiaries

Consolidated Statements of Cash Flows (continued)

	Years Ended June 30, 2012	2011
Supplemental disclosures of cash flow information:		
Cash paid for income taxes	$27,894	$ -
Cash paid for interest		