

Derycz Scientific Inc
Form 10-K
September 29, 2008

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

FORM 10-K

(Mark One):

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d)
OF THE SECURITIES EXCHANGE ACT OF 1934

For the Fiscal Year Ended June 30, 2008

OR

TRANSITION REPORT UNDER SECTION 13 OR 15(d)
OF THE SECURITIES EXCHANGE ACT OF 1934

**For the Transition Period from to
Commission File Number 333-148392**

DERY CZ SCIENTIFIC, INC.

(Exact Name of Registrant as Specified in Its Charter)

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Nevada
(State or Other Jurisdiction
of Incorporation or Organization)

11-3797644
(I.R.S. Employer
Identification No.)

10990 Wilshire Blvd., Suite 1410, Los Angeles, CA
(Address of Principal Executive Offices)

90024
(Zip Code)

(310) 447-0354

(Registrant's Telephone Number, Including Area Code)

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

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

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

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

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

Indicate by check mark 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 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

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

State the aggregate market value of the voting and non-voting common equity held by non-affiliates computed by reference to the price at which the common equity was last sold, or the average bid and asked price of such common equity, as of the last business day of the registrant's most recently completed second fiscal quarter. The registrant's common stock was not trading publicly as of December 31, 2007, the last business day of the registrant's most recently

completed second fiscal quarter.

Indicate the number of shares outstanding of each of the registrant's classes of common stock, as of the latest practicable date. As of September 25, 2008, there were 12,961,830 shares of the registrant's common stock outstanding.

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PART I

Item 1. Business

Company Overview

Derycz Scientific, Inc. (Derycz, Derycz Scientific, we or the Company) is a privately held holding company with a wholly owned subsidiary, Reprints Desk, Inc. (Reprints or Reprints Desk) and one majority owned subsidiary, Pools Press, Inc. (Pools or Pools Press). Derycz, through Reprints and Pools, provides its customers with copies of published content, such as articles from published journals, in either electronic or hard copy form. Our customers use this content for marketing, regulatory or research purposes. Generally, marketing departments order large quantities of

printed copies that they distribute to their customers. Researchers generally order single copies of the content. Our service alleviates the need for our customers to contact any publisher or obtain permissions themselves. In addition, we ensure that we have obtained the necessary permissions from the owners of the content's copyrights so that the reproduction complies with copyright laws. We also offer a reprints service to publishers, whereby we are responsible for all aspects of reprint production, from taking orders to final shipment. This service eliminates the need for the publishers to establish a dedicated reprints sales force or arrange for delivery of reprinted materials. Pools Press also offers other commercial printing products, such as the production of business cards and newsletters.

We aggregate published materials and charge a fee for copies of them. When possible, we obtain exclusive licenses and discounts from content producers, such as publishers. We have a fixed pricing structure for single copy orders and variable pricing for orders of multiple copies. For single copies of an article we charge a fee above the cost of the article as well as a shipping fee if the article is sent in hard copy form. For multiple copies of an article, we generally obtain a price from the publisher and then add a service fee, which is dependent on the customer, the size of the order, the complexity of the order and other considerations. When possible we obtain the right to print the reprints and we print and ship the reprints. However, many publishers have exclusive agreements with particular printers. By purchasing the reprints or the rights to print from the publisher we are able to ensure our customers that they have proper rights under copyright laws to use the content, provided that they use the content only as specified in the order they placed with us.

During the fiscal year ended June 30, 2007, we began testing our single copy delivery services with a few customers. Our customer base for this service at June 30, 2008 is over 80 customers. After only a few months in the single copy delivery business we were ranked first in all four categories in a customer satisfaction survey published by Outsell, an information industry analyst.

Our overall revenue grew by over 200 percent during fiscal 2008 and we hope to continue that growth while maintaining a high level of customer satisfaction.

Publishers typically produce their content in order to generate subscription and advertising sales. The sale of published content generates additional revenues at little or no additional cost to the publisher. As an example, if an article contains a favorable mention of a chemical compound, the manufacturer of that compound may want to send its customers and potential customers copies of the article. These copies are called reprints. Reprints have traditionally been used primarily in the pharmaceutical, biotechnology and medical device industries both for research purposes and for marketing purposes. We expect that the use of reprints will gain in popularity in other industries due to society's increasing sophistication and desire for information. Published articles are useful marketing and information dissemination tools because they provide a third party, unbiased endorsement of a company, product or service. Articles can effectively describe the science behind a product or its effectiveness better than traditional advertising. Published content is also used effectively for internal corporate training and education, as well as for research and regulatory needs.

During fiscal 2008 we entered into agreements with several publishers which gave us the ability to acquire their content electronically, making it easier and faster for us to deliver the content to our customers.

The Industry

The size of the reprint market is difficult to estimate because it is a small part of the larger publishing industry and it is difficult to obtain financial information relating specifically to the market for reprints. As a new business, we believe we have a small fraction of that market. However, we believe that we are able to

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compete with larger providers based on our customer service and our order processing system. In addition, we have internal printing capability. As a result, we are often able to substantially reduce the time it takes to deliver the reprints to our customers.

Growth Strategy

Organic Growth. The Company attempts to reach customers through the use of targeted selling and marketing campaigns consisting of sales calls on potential customers, supported by aggressive pricing and excellent service.

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 the required number of copies and provide it to the customer within 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. Ideally, we would like to become the exclusive producer of reprints for a publisher, allowing the publisher to eliminate the need for a reprints staff internally.

Acquisitions. The Company may attempt to acquire companies in the industry that bring revenue, profitability, growth potential and additional products and/or services to the Company. The Company has targeted several potential acquisition opportunities. We intend to implement acquisitions primarily through stock transactions, supplemented only when necessary with a cash component. While we have entered into preliminary discussions with two potential targets, we have not entered into any letter of intent or other agreement relating to either target nor have we determined the financial terms of any potential acquisition. We are continuing to evaluate whether or not to pursue either opportunity further.

International Expansion. The Company operates primarily in the U.S. market, but plans to expand internationally through sales to companies located abroad, particularly in Europe, and through partnerships or acquisition opportunities. We have begun selling reprints to a small number of customers in Europe, and we are currently in discussions with the owners of a commercial printer located in France regarding the potential acquisition of their company.

Our Products and Services

Reprints, ePrints and Article Distribution Systems. The Company has developed services that provide reprints, ePrints and single copies of articles to its customers. We accept reprint orders by email or phone, and we have developed an internet-based ordering system that allows customers to initiate, at any time, orders 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. In addition, we have internal printing capability.

Because of this, if we are able to obtain the right from the publisher to print the reprint ourselves, rather than purchasing the printed reprints through the publisher, we are generally able to substantially reduce the time it takes to deliver the reprints to our customers. However, we are currently only able to obtain such print rights on a small portion of our orders.

Publisher Outsourced Reprint Management. Derycz Scientific helps publishers grow and manage their reprints business by providing a reprints service whereby we are responsible for all aspects of reprint production, from taking orders to final shipment. This service eliminates the need for the publishers to establish a dedicated reprints sales force or arrange for delivery of reprinted materials. While we do not charge the publishers for this service, we generate revenue by selling participating publishers' reprints to customers.

Print on Demand. The Company has begun to provide a print on demand service to some customers. By using this service, a customer can print one or more hard copies or send an electronic copy of a frequently used article without having to place a separate order for each use of the article with the publisher. Uses could include article reprints, course-packs, custom books, and other content re-use printing that requires strict adherence to copyright law in the printing process.

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Logistics. The Company is developing a service which will allow a customer to print a large quantity of reprints at one time and store them with us. We will then send them to the customer as they need them. We also have technology which allows us to monitor the number of times an electronic copy of an article has been viewed or printed. This technology allows a customer to order a large quantity of electronic copies and use them as needed while providing assurance to the publisher that the customer will not exceed the number of views that were sold.

Sales and Marketing

Derycz identifies target customers and communicates with them directly, offering our various services through traditional cold-calling efforts. We also attempt to increase our awareness to the market through attendance at publishing industry fairs and conferences.

Item 1A. Risk Factors

Not required.

Item 1B. Unresolved Staff Comments

Not required.

Item 2. Properties

We currently sublease on a month-to-month basis approximately 1,000 square feet of office space at 10990 Wilshire Blvd., Suite 1410, Los Angeles, California from Bristol Capital Advisors, LLC for \$2,740.40 per month. Our Chief Financial Officer is also Counsel to Bristol Capital Advisors, LLC, which is the investment manager of Bristol Investment Fund, Ltd., which holds a significant equity stake in the Company (see section entitled *Certain Relationships and Related Transactions*).

Our majority owned subsidiary, Pools Press, leases 13,000 square feet of office space at 3455-3501 Commercial Avenue, Northbrook, Illinois for \$7,446 per month from an unrelated third party. The lease expires on May 31, 2011. Commencing June 1, 2009, the rent will increase to \$7,750 per month, and commencing June 1, 2010, the rent will increase to \$8,000 per month.

Item 3. Legal Proceedings

Derycz is not presently a party to any pending legal proceedings.

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

No matters were submitted to a vote of security holders during the fourth quarter of the fiscal year ended June 30, 2008.

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PART II

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

Market Information

At this time there is no public trading market for our common stock. As of September 25, 2008, we have a total of 12,961,830 shares of our common stock outstanding.

Holdings

We currently have 32 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.

Item 6. Selected Financial Data

Not required.

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

The following discussion and analysis of our results of operations and financial condition for the years ended June 30, 2008 and 2007 should be read in conjunction with our financial statements and the 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 those set forth under the Business section and elsewhere in this report. 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. (the Company or Derycz) 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. (Reprints). 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 of its common shares to the shareholders. 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. (Pools) of Northbrook, Illinois, a privately held company, pursuant to which the Company acquired 75% of the issued and outstanding common stock of Pools for consideration of \$616,080. Pools is a commercial printer, specializing in reprints of copyrighted articles. The results of Pools Press operations have been included in the consolidated financial statements since March 1, 2007.

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Derycz, through Reprints and Pools, provides copies of published content, such as articles from published journals, in either electronic or hard copy form. Our customers use this content for marketing or research purposes. Generally, marketing departments order large quantities of printed copies that they distribute to their customers. Researchers generally order single copies of the content. Our service alleviates the need for our customers to contact any publisher or obtain permissions themselves. In addition, we ensure that we have obtained the necessary permissions from the owners of the content s copyrights so that the reproduction complies with copyright laws. We also offer reprints service to publishers, whereby we are responsible for all aspects of reprint production, from taking orders to final shipment. This service eliminates the need for the publishers to establish a dedicated reprints sales force or arrange for delivery of reprinted materials. Pools Press also offers other commercial printing products, such as the production of business cards, and newsletters.

Results of Operations

Year Ended June 30, 2008 Compared to the Year Ended June 30, 2007:

Sales and Cost of Goods Sold

We achieved revenues of \$12,209,916 for the year ended June 30, 2008, compared to revenue of \$3,850,746 for the year ended June 30, 2007, an increase of over 200%.

The revenue of our main operating company, Reprints, increased from \$3,307,481 for the year ended June 30, 2007, to \$10,086,255 for the year ended June 30, 2008, an increase of approximately 200%. Pools Press contributed the remainder of the revenue. Approximately \$4,000,000 of the increase at Reprints, or 59%, was attributable to new customers.

Our cost of goods sold increased from \$3,253,120 for the year ended June 30, 2007, to \$10,023,768 for the year ended June 30, 2008, which represents an increase of 208% and was roughly in line with the increase in our revenues. Gross profit as a percentage of net sales increased from 15.3% for the year ending June 30, 2007 to 17.9% for the year ending June 30, 2008 as a result of the introduction of single copy delivery services, which have a higher margin than reprint sales.

We anticipate that our sales will continue to increase during the 2009 fiscal year. Likewise, our cost of goods sold will increase significantly since most of this cost is determined by the publishers on each individual order and they do not generally grant significant discounts.

Operating Expenses

General and Administrative

Our general and administrative expenses increased 121% from \$981,118 for the year ended June 30, 2007 to \$2,172,055 for the year ended June 30, 2008. Pools share of these expenses was \$239,332 for the 2008 fiscal year. These expenses include Reprints salary costs, which were \$642,927 in the 2007 fiscal year and \$1,133,710 in the 2008 fiscal year, an increase of \$490,783 or 76%. These expenses will continue to rise during fiscal 2009 as we continue to add employees to develop our computer systems in order to service increasing sales volume and new products.

Marketing and Advertising

Our marketing and advertising expenses increased from \$23,658 for the year ended June 30, 2007, to \$40,437, an increase of \$16,779 or 71%. Marketing expenses have not been a significant expense for us and have been limited to the cost of our participation in publishing industry trade shows and limited advertising in trade publications and sponsorship of publishing industry programs. However, we intend to expand our marketing efforts during the 2009 fiscal year and we expect our marketing costs will increase to approximately \$250,000 during fiscal 2009.

Depreciation and Amortization

Our depreciation expense increased from \$58,986 for the year ended June 30, 2007, to \$236,724 during the year ended June 30, 2008, an increase of \$177,738 or approximately 300%. Pools share of these expenses was \$61,247 in the 2008 period and included \$56,667 related to the amortization of Pools customer list.

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Other Expenses

Other expenses were \$36,481 for the year ended June 30, 2007, and \$104,741 for the year ended June 30, 2008, an increase of \$68,260 or 187%. These expenses consisted primarily of legal and audit expenses. We expect these costs to continue to increase as our regulatory costs increase when our common stock becomes publicly traded.

Unrealized Loss on Marketable Securities

We recognized unrealized losses on our short-term investments of \$33,660 and \$0 during the years ended June 30, 2008 and 2007, respectively. These investments consist of corporate and municipal debt and preferred stock auction rate securities held in an account with UBS Financial Services, Inc., and the losses were based on valuations by UBS.

We will continue to monitor the market for these securities to determine if they are properly valued and correctly classified. Based on our expected operating cash flows, and our other sources and uses of cash, we do not anticipate that the potential lack of liquidity on these investments will affect our ability to execute our current business plan.

Realized Loss on Sale of Fixed Assets

We recognized losses on the sale of fixed assets of \$5,367 and \$0 during the years ended June 30, 2008 and 2007, respectively. We realized the loss upon the sale of a vehicle used by the previous owner of Pools Press.

Interest Expense

Interest expense was \$6,347 for the year ended June 30, 2007, and \$32,313 for the year ended June 30, 2008, and increase of \$25,966 or approximately 400%. This interest expense is primarily attributable to the interest paid on a credit line with UBS that is secured by marketable securities.

Interest Income

Interest income was \$88,491 for the year ended June 30, 2007, and increased to \$111,336 for the year ended June 30, 2008, an increase of \$22,845 or 26%. This interest income is primarily attributable to the interest earned on investments in marketable securities.

Net Loss

We had a net loss of \$415,491 for the year ended June 30, 2007 compared to a net loss of \$338,321 for the year ended June 30, 2008. We are still in our early stages of development and losses are expected in this period. However, we anticipate that our rapid revenue growth will help reduce our losses, despite the need to invest in our operations to assist in our growth. We hope to achieve a modest profit during the fiscal year ending June 30, 2009.

Liquidity and Capital Resources

Since our inception, we have funded our operations primarily through private sales of equity securities. Reprints Desk's initial investors were Bristol Capital, LLC, which is owned by Paul Kessler and Diana Derycz-Kessler, Bristol Investment Fund, Ltd., over which Paul Kessler has investment and voting control, and three employees of Bristol Capital, LLC, including the current Chief Financial Officer of Derycz, Richard McKilligan. These initial investors purchased 275,000 shares of Reprints Desk for a total of \$275,000. Their 275,000 shares were converted into a total of 4,000,003 common shares of Derycz Scientific in November 2006. Peter Derycz, as the founder of Reprints Desk, paid \$275 for his 275,000 shares of Reprints Desk, which were exchanged for 4,000,000 common shares of Derycz Scientific. On December 22, 2006, we sold units consisting of 4,500,000 shares of common stock and warrants to purchase 2,250,000 shares of common stock at an exercise price of \$1.25 per share to 45 accredited investors in a private transaction. We received \$4,500,000 in proceeds from this transaction.

On July 17, 2008, we sold 400,017 shares of common stock and warrants to purchase 200,009 shares of common stock at an exercise price of \$2.00 per share at anytime prior to July 17, 2011 for an aggregate purchase price of \$600,025. These shares and warrants were sold to a total of 4 investors.

As of June 30, 2008, we had cash of \$849,834.

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Net cash used by operating activities was \$932,306 for the year ended June 30, 2008 compared to net cash used by operating activities of \$649,809 for the year ended June 30, 2007. The \$282,497 increase in cash used by operating activities was due primarily to an increase in accounts receivable of \$1,780,754, partially offset by a decrease in net loss of \$77,170, depreciation and amortization of \$278,485 and \$727,012 in cash provided by an increase in accounts payable.

Net cash used by investing activities was \$3,338,625 for the year ended June 30, 2007 compared to net cash provided by investing activities of \$302,052 for the year ended June 30, 2008. The \$3,640,677 difference in cash flows from investing activities was due to the investment in short term investments of \$2,589,410 in the 2007 period and the purchase in the 2007 fiscal year of a majority interest in Pools Press and investments of \$280,000 in intellectual property licenses and customer lists.

Net cash provided by financing activities was \$4,304,559 for the year ended June 30, 2007 compared to \$1,097,501 for the year ended June 30, 2008. The decrease in cash provided by financing activities was due primarily to the sale of our common stock in December 2006 pursuant to which we received proceeds of \$4,221,784. We made no sales of our common stock during the year ended June 30, 2008.

We believe that our current cash resources will be sufficient to sustain our current operations for at least one year. We may need to obtain additional cash resources during the next year if we are able to acquire complementary businesses or if we add large customers and experience a corresponding increase in our accounts receivable. The need for cash to finance acquisitions will depend on the businesses acquired and we cannot predict those needs with any certainty. In the event such funds are needed, we may engage in additional sales of debt or equity securities. The sale of additional equity or convertible debt securities would result in additional dilution to our shareholders. The issuance of additional debt would result in increased expenses and could subject us to covenants that may have the effect of restricting our operations. We have not made arrangements to obtain additional financing and we can provide no assurance that additional financing will be available in an amount or on terms acceptable to us, if at all.

Critical Accounting Policies

Our discussion and analysis of our financial condition and results of operations are based upon our consolidated financial statements and accompanying notes, which have been prepared in accordance with accounting principles generally accepted in the United States. The preparation of these financial statements requires management 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.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets

and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting periods. Actual results could differ from these estimates.

Revenue Recognition

The Company applies the provisions of the Securities and Exchange Commission (SEC) Staff Accounting Bulletin (SAB) No. 104, Revenue Recognition in Financial Statements, which provides guidance on the recognition, presentation and disclosure of revenue in financial statements filed with the SEC. SAB No. 104 outlines the basic criteria that must be met to recognize revenue and provides guidance for disclosure related to revenue recognition policies. In general, the Company recognizes revenue when (i) persuasive evidence of an arrangement exists, (ii) shipment of products has occurred or services have been rendered, (iii) the sales price charged is fixed or determinable and (iv) collection is reasonably assured.

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The Company recognizes revenues from printing services when services have been rendered and accepted by the customer while revenues from the re-use of published articles and rights management services are recognized upon shipment or electronic delivery to the customer.

Included in revenues are fees charged to customers for shipping, handling and delivery services.

Impairment of Long-Lived Assets

SFAS No. 144, Accounting for the Impairment or Disposal of Long-Lived Assets, requires that long-lived assets to be disposed of by sale, including those of discontinued operations, be measured at the lower of carrying amount or fair value less cost to sell, whether reported in continuing operations or in discontinued operations. SFAS No. 144 broadens the reporting of discontinued operations to include all components of an entity with operations that can be distinguished from the rest of the entity and that will be eliminated from the ongoing operations of the entity in a disposal transaction. SFAS No. 144 also establishes a primary-asset approach to determine the cash flow estimation period for a group of assets and liabilities that represents the unit of accounting for a long-lived asset to be held and used. The Company has no impairment issues to disclose.

Stock Based Compensation

The Company adopted SFAS No. 123 (Revised 2004), Share Based Payment (SFAS No. 123R). SFAS No. 123R requires companies to measure and recognize the cost of employee services received in exchange for an award of equity instruments based on the grant-date fair value. SFAS No. 123R eliminates the ability to account for the award of these instruments under the intrinsic value method prescribed by Accounting Principles Board (APB) Opinion No. 25, Accounting for Stock Issued to Employees, and allowed under the original provisions of SFAS No. 123.

Recent Accounting Pronouncements

In March 2008, the FASB issued SFAS No. 161 (FAS 161), Disclosures About Derivative Instruments and Hedging Activities an amendment of FAS 133. FAS 161 requires qualitative disclosures about objectives and strategies for using derivatives, quantitative disclosures about fair value amounts of gains and losses on derivative instruments, and disclosures about credit-risk-related contingent features in derivative agreements. FAS 161 is effective for fiscal years beginning after November 15, 2008. The Company does not expect the implementation of FAS 161 to have a material

impact on its consolidated financial statements.

In December 2007, the FASB issued FASB Statement No. 141 (R), Business Combinations (FAS 141(R)), which establishes accounting principles and disclosure requirements for all transactions in which a company obtains control over another business. FAS 141(R) applies prospectively to business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after December 15, 2008. Earlier adoption is prohibited.

In December 2007, the FASB issued SFAS No. 160, Noncontrolling Interests in Consolidated Financial Statements, an amendment of ARB No. 51 . SFAS No. 160 establishes accounting and reporting standards that require that the ownership interests in subsidiaries held by parties other than the parent be clearly identified, labeled, and presented in the consolidated statement of financial position within equity, but separate from the parent s equity; the amount of consolidated net income attributable to the parent and to the noncontrolling interest be clearly identified and presented on the face of the consolidated statement of income; and changes in a parent s ownership interest while the parent retains its controlling financial interest in its subsidiary be accounted for consistently. SFAS No. 160 also requires that any retained noncontrolling equity investment in the former subsidiary be initially measured at fair value when a subsidiary is deconsolidated. SFAS No. 160 also sets forth the disclosure requirements to identify and distinguish between the interests of the parent and the interests of the noncontrolling owners. SFAS No. 160 applies to all entities that prepare consolidated financial statements, except not-for-profit organizations, but will affect only those entities that have an outstanding noncontrolling interest in one or more subsidiaries or that deconsolidate a subsidiary. SFAS No. 160 is effective for fiscal years, and interim periods within those fiscal years, beginning on or after December 15, 2008. Earlier adoption is prohibited. SFAS No. 160 must be applied prospectively as of the beginning of the

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fiscal year in which it is initially applied, except for the presentation and disclosure requirements. The presentation and disclosure requirements are applied retrospectively for all periods presented. We do not have a noncontrolling interest in one or more subsidiaries.

We do not believe that the adoption of the above recent pronouncements will have a material effect on our consolidated results of operations, financial position, or cash flows.

Off-Balance Sheet Arrangements

At June 30, 2008, we had no obligations that would require disclosure as off-balance sheet arrangements.

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
Los Angeles, California

We have audited the consolidated balance sheets of Derycz Scientific, Inc. (the Company) and Subsidiaries as of June 30, 2008 and 2007, and the related consolidated statements of operations, stockholders' equity and cash flows for the years then ended. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audits to obtain reasonable assurance 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 financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Derycz Scientific, Inc and Subsidiaries as of June 30, 2008 and 2007 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 15, 2008
Los Angeles, California

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DERYCZ SCIENTIFIC, INC.

CONSOLIDATED BALANCE SHEETS

June 30, 2008	June 30, 2007
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ASSETS

Current assets

Cash and cash equivalents	\$849,834	\$382,587
Short term investments	1,736,630	2,589,410
Accounts receivable	3,119,158	1,338,404
Inventory	15,956	14,885
Prepaid royalties	326,077	312,525
Other current assets	80,739	27,802
Total current assets	6,128,394	4,665,613

Property and equipment, net of accumulated depreciation of \$89,711 and \$15,315

362,807 253,198

Intangible assets

Customer lists, net of accumulated amortization of \$182,222 and \$42,223	92,778	172,777
Other intellectual property, net of amortization of \$64,016 and \$1,964	518,959	163,561
Goodwill	189,185	199,185

Total assets \$7,292,123 \$5,454,334

LIABILITIES AND STOCKHOLDERS' EQUITY

Current liabilities

Accounts payable	\$1,997,233	\$1,270,221
Payable on purchase of Pools Press		162,392

Capital lease obligation, current	16,129	
Outstanding credit line	1,291,855	6,244

Other current liabilities	88,430	
Total current liabilities	3,393,647	1,438,857

Capital lease obligations	61,479	
Minority interest	50,102	51,128

Commitments and contingencies

Stockholders equity

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; 12,561,813 and 12,500,003 shares issued and outstanding	12,562	12,500
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Additional paid-in capital	4,645,364	4,484,559
Accumulated deficit	(871,031)	(532,710)

Total stockholders equity 3,786,895 3,964,349

Total liabilities and stockholders equity \$7,292,123 \$5,454,334

See Notes to Consolidated Financial Statements.

TABLE OF CONTENTS**DERYCZ SCIENTIFIC, INC.****CONSOLIDATED STATEMENTS OF OPERATIONS**

	Years Ended June 30,	
	2008	2007
Net sales	\$12,209,916	\$3,850,746
Cost of sales	10,023,768	3,253,120
Gross profit	2,186,148	597,626
Operating expenses:		
General and administrative	2,172,055	981,118
Marketing and advertising	40,437	23,658
Depreciation and amortization	236,724	58,986
Other expenses	104,741	36,481
Total operating expenses	2,553,957	1,100,243
Loss from operations	(367,809)	(502,617)
Unrealized loss on marketable securities	(33,660)	
Loss on sale of fixed assets	(5,367)	
Interest expense	(32,313)	(6,347)
Interest income	111,336	88,491
Loss before minority interest	(327,813)	(420,473)
Minority interest	(10,508)	4,982
Net loss	\$(338,321)	\$(415,491)
Net loss per share:		
Basic and diluted	\$(0.03)	\$(0.04)
Weighted average shares outstanding:		
Basic and diluted	12,540,226	10,625,003

See Notes to Consolidated Financial Statements.

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DERYCZ SCIENTIFIC, INC.

CONSOLIDATED STATEMENT OF STOCKHOLDERS' EQUITY

For the Years Ended June 30, 2008 and 2007

	Common Stock		Additional	Accumulated	Total
	Shares	Amount	Paid-in Capital	Deficit	Stockholders' Equity
Balance at July 1, 2006	8,000,003	\$ 8,000	\$267,275	\$(117,219)	\$ 158,056
Issuance of common stock for cash	4,500,000	4,500	4,217,284		4,221,784
Net loss for the year				(415,491)	(415,491)
Balance, June 30, 2007	12,500,003	12,500	4,484,559	(532,710)	3,964,349

Issuance of common shares for acquisition of customer list	50,000	50	49,950	50,000
Fair value of vested options issued to employees			99,057	99,057
Fair value of common shares issued as employee bonus	11,810	12	11,798	11,810
Net loss for the year			(338,321)	(338,321)
Balance, June 30, 2008	12,561,813	\$ 12,562	\$ 4,645,364	\$ (871,031) \$ 3,786,895

See Notes to Consolidated Financial Statements.

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DERY CZ SCIENTIFIC, INC.

CONSOLIDATED STATEMENTS OF CASH FLOWS

	Years Ended June 30,	
	2008	2007
Cash flows from operating activities:		
Net loss	\$(338,321)	\$(415,491)
Adjustment to reconcile net loss to net cash used in operating activities:		
Depreciation and amortization	278,485	44,179
Fair value of vested stock options	99,057	
Fair value of common stock issued as a bonus	11,810	
Unrealized loss on investment	33,660	
Loss on sale of fixed assets	5,367	
Changes in assets and liabilities:		
Accounts receivable	(1,780,754)	(605,981)
Accounts payable and accrued expenses	727,012	649,621
Inventory	(1,071)	2,212
Use of prepaid royalties	(13,552)	(312,525)
Other current assets	(52,937)	(19,234)
Accrued interest on notes payable		12,392
Other current liabilities	88,430	
Minority share of earnings (loss)	10,508	(4,982)
Net cash used in operating activities	(932,306)	(649,809)
Cash flows from investing activities:		
Purchase of furniture and equipment	(110,118)	(3,135)
Purchase of Intellectual Property	(417,450)	(280,000)
Proceeds from sale of (investment in) short term investments	819,120	(2,589,410)
Acquisition of Pools Press		