Derycz Scientific Inc
Form 10-Q
November 13, 2012

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

(Mark One)

S **QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
For the quarterly period ended: September 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)

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

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 (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes þ No ¨

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

Large accelerated filer ¨	Accelerated filer ¨
Non-accelerated filer ¨ (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

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 November 2, 2012**
Common Stock, $0.001 par value	17,087,281

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PART 1 — FINANCIAL INFORMATION

Item 1. Condensed Financial Statements

Derycz Scientific, Inc. and Subsidiaries

Condensed Consolidated Balance Sheets

	September 30, 2012 (unaudited)	June 30, 2012
Assets		
Current assets:		
Cash and cash equivalents	$ 2,175,437	$ 3,150,978
Accounts receivable:		
Trade receivables, net of allowance of $193,831 and $163,455 , respectively	5,808,315	6,099,471
Due from factor	53,334	197,039
Inventory	292,592	363,641
Prepaid expenses	336,641	157,139
Prepaid royalties	72,875	415,339
Other current assets	25,558	18,084
Total current assets	8,764,752	10,401,691
Property and equipment, net of accumulated depreciation of $1,477,432 and $1,369,782 , respectively	1,204,945	1,294,517
Intangible Assets, net of accumulated amortization of $254,217 and $189,783 , respectively	1,076	65,510
Deposits and other assets	238,666	244,202
Total assets	$ 10,209,439	$ 12,005,920
Liabilities and Stockholders' Deficiency		
Current Liabilities:		
Accounts payable and accrued expenses	$ 8,758,553	$ 9,554,754
Capital lease obligation, current	655,188	640,116
Notes payable, current	54,647	53,452
Due to factor	197,086	256,636
Line of credit	250,000	1,000,000
Deferred revenue	59,054	68,901
Total current liabilities	9,974,528	11,573,859
Notes payable, long term	43,717	53,452
Capital lease obligation, long term	665,266	813,173

Total liabilities	10,683,511	12,440,484
Commitments and contingencies		
Stockholders' 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; 17,087,281 and 17,069,437 shares issued and outstanding, respectively	17,087	17,069
Accumulated other comprehensive income	33,007	60,654
Additional paid-in capital	13,714,027	13,671,873
Accumulated deficit	(14,238,193)	(14,184,160)
Total stockholders' deficiency	(474,072)	(434,564)
Total liabilities and stockholders' deficiency	$ 10,209,439	$ 12,005,920

See notes to condensed consolidated financial statements

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Derycz Scientific, Inc. and Subsidiaries

Condensed Consolidated Statements of Operations and Other Comprehensive Loss

(Unaudited)

	Three Months Ended September 30, 2012	2011
Revenue	$9,541,999	$9,861,219
Cost of revenue	7,385,155	8,388,742
Gross profit	2,156,844	1,472,477
Operating expenses:		
Selling, general and administrative	1,990,710	2,627,444
Depreciation and amortization	186,658	486,001
Total operating expenses	2,177,368	3,113,445
Loss from operations	(20,524)	(1,640,968)
Gain on sale of fixed assets	6,879	-
Interest expense	(36,837)	(51,694)
Other income (expense)	(2,958)	1,097
Loss before provision for income taxes	(53,440)	(1,691,565)
Provision for income tax	(593)	-
Net loss	(54,033)	(1,691,565)
Other comprehensive income (loss):		
Foreign currency translation	(27,647)	19,603
Comprehensive loss	$(81,680)	$(1,671,962)
Net loss per share:		
Basic and diluted	$0.00	$(0.10)
Weighted average shares outstanding:		
Basic and diluted	17,083,596	16,977,178

See notes to condensed consolidated financial statements

Derycz Scientific, Inc. and Subsidiaries

Condensed Consolidated Statement of Stockholders' Deficiency

For the Three Months Ended September 30, 2012

(Unaudited)

	Common Stock		Additional Paid-in	Accumulated	Other Comprehensive	Total Stockholders'
	Shares	Amount	Capital	Deficit	Income	Deficiency
Balance, July 1, 2012	17,069,437	$17,069	$13,671,873	$(14,184,160)	$ 60,654	$ (434,564)
Fair value of options issued to employees	-	-	42,172	-	-	42,172
Common shares issued upon exercise of stock options	17,844	18	(18)	-	-	-
Net loss for the period	-	-	-	(54,033)	-	(54,033)
Foreign currency translation	-	-	-		(27,647)	(27,647)
Balance, September 30, 2012	17,087,281	$17,087	$13,714,027	$(14,238,193)	$ 33,007	$ (474,072)

See notes to condensed consolidated financial statements

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Derycz Scientific, Inc. and Subsidiaries

Condensed Consolidated Statements of Cash Flows

(Unaudited)

	Three Months ended September 30, 2012	2011
Cash flow from operating activities:		
Net loss	$(54,033)	$(1,691,565)
Adjustment to reconcile net loss to net cash provided by operating activities:		
Depreciation and amortization	199,602	505,108
Fair value of vested stock options	42,172	37,084
Fair value of warrants issued for services, net of adjustment	-	(398,899)
Fair value of warrant extensions	-	264,714
Gain on sale of fixed assets	(6,879)	-
Changes in assets and liabilities:		
Accounts receivable	291,156	(163,790)
Inventory	71,049	201,945
Due from factor	143,705	215,302
Prepaid expenses	(179,502)	55,313
Prepaid royalties	342,464	524,291
Other assets	(1,938)	27,155
Accounts payable and accrued expenses	(796,201)	1,386,378
Deferred revenue and other current liabilities	(9,847)	(141,434)
Net cash provided by operating activities	41,748	821,602
Cash flow from investing activities:		
Purchase of property and equipment	(35,463)	(30,680)
Purchase of intangible assets	-	(27,836)
Proceeds from sale of fixed assets	16,357	-
Net cash used in investing activities	(19,106)	(58,516)
Cash flow from financing activities:		
Advances (payments) to factor	(59,550)	7,004
Payment of notes payable	(8,540)	(13,085)
Payment of capital lease obligation	(132,835)	(258,196)
Payment of related parties	-	(51,531)
Payments under line of credit	(750,000)	(354,225)
Net cash used in financing activities	(950,925)	(670,033)
Effect of exchange rate changes	(47,258)	83,962
Net increase (decrease) in cash and cash equivalents	(975,541)	177,015
Cash and cash equivalents, beginning of period	3,150,978	2,868,260

Cash and cash equivalents, end of period	$2,175,437	$3,045,275
Supplemental disclosures of cash flow information:		
Cash paid for income taxes	$593	$-
Cash paid for interest	$36,837	$51,694

See notes to condensed consolidated financial statements

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DERYCZ SCIENTIFIC, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

September 30, 2012 and 2011 (Unaudited)

Note 1 — Organization, Nature of Business and Basis of Presentation

Organization

Derycz Scientific, Inc. (the "Company") was incorporated in the State of Nevada on November 2, 2006. Derycz Scientific is a publicly traded holding company with three wholly owned subsidiaries: Reprints Desk, Inc., a Delaware corporation ("Reprints" or "Reprints Desk"); Reprints Desk Latin America S. de R.L. de C.V, an entity organized under the laws of Mexico; and Techniques Appliquées aux Arts Graphiques, S.p.A. ("TAAG"), an entity organized under the laws of France.

Nature of Business

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.

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.

Liquidity

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. For the three months ended September 30, 2012, the Company recorded a net loss of $54,033, however, cash provided by operating activities was $41,748 during this period. As of September 30, 2012, the Company had negative working capital of $1,209,776 and shareholders’ deficiency of $474,072. 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.

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 three months ended September 30, 2012, TAAG incurred a net loss from operations of $69,371, and at September 30, 2012, had a working capital deficiency of $1,653,239. In addition, approximately $800,000 of payroll and VAT taxes were delinquent at September 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 performed, 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.

Basis of Presentation

The accompanying condensed consolidated financial statements are unaudited. These unaudited interim condensed consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States ("GAAP") and applicable rules and regulations of the Securities and Exchange Commission ("SEC") regarding interim financial reporting. Certain information and note disclosures normally included in the financial statements prepared in accordance with GAAP have been condensed or omitted pursuant to such rules and regulations. Accordingly, these interim condensed consolidated financial statements should be read in conjunction with the consolidated financial statements and notes thereto contained in the Company's Annual Report on Form 10-K for the fiscal year ended June 30, 2012 filed with the SEC. The condensed consolidated balance sheet as of June 30, 2012 included herein was derived from the audited consolidated financial statements as of that date, but does not include all disclosures, including notes, required by GAAP.

In the opinion of management, the accompanying unaudited condensed consolidated financial statements contain all adjustments necessary to fairly present the Company's financial position and results of operations for the interim periods reflected. Except as noted, all adjustments contained herein are of a normal recurring nature. Results of operations for the fiscal periods presented herein are not necessarily indicative of fiscal year-end results.

Reclassification

In presenting the Company’s condensed consolidated statement of operations and other comprehensive income for the three months ended September 30, 2011, the Company presented $188,414 of marketing and advertising expenses. In presenting the Company’s condensed consolidated statement of operations and other comprehensive income for the three months ended September 30, 2012, the Company has reclassified marketing and advertising expenses to selling, general and administrative expenses.

Note 2 — Summary of Significant Accounting Policies

Principles of Consolidation

The accompanying financial statements are consolidated and include the accounts of the Company and its wholly owned subsidiaries. Intercompany balances and transactions have been eliminated in consolidation.

Use of Estimates

The preparation of financial statements in conformity with GAAP 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.

These estimates and assumptions include estimates for reserves of uncollectible accounts, inventory obsolescence, analysis of impairments of recorded goodwill and intangibles, accruals for potential liabilities and assumptions made in valuing equity instruments issued for services or acquisitions.

Concentration of Credit Risk

Financial instruments, which potentially subject the Company to concentrations of credit risk, consist of cash and cash equivalents and accounts receivable. The Company places its cash with high quality financial institutions and at times may exceed the FDIC $250,000 insurance limit. The Company does not anticipate incurring any losses related to these credit risks. The Company extends credit based on an evaluation of the customer's financial condition, generally without collateral. Exposure to losses on receivables is principally dependent on each customer's financial condition. The Company monitors its exposure for credit losses and intends to maintain allowances for anticipated losses, as required.

Cash denominated in Euros with a US Dollar equivalent of $403,980 and $763,462 at September 30, 2012 and June 30, 2012, respectively, was held in accounts at financial institutions located in Europe.

As of September 30, 2012, no customer accounted for more than 10% of accounts receivable, and one customer accounted for approximately 18% of accounts receivable at June 30, 2012. For the three months ended September 30, 2012 and 2011, no customer accounted for more than 10% of revenue.

During the three months ended September 30, 2012, two vendors accounted for 15% and 11% of the Company’s content costs, and two vendors accounted for 19% and 12% of content costs during the three months ended September 30, 2011.

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 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.

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Foreign Currency Translation

The accompanying condensed consolidated financial statements are presented in United States dollars, the functional currency of the Company. Capital accounts of foreign subsidiaries are translated into US Dollars from foreign currency at their historical exchange rates when the capital transactions occurred. Assets and liabilities are translated at the exchange rate as of the balance sheet date. Income and expenditures are translated at the average exchange rate of the period. Although the majority of our revenue and costs are in US dollars, the revenues and costs of TAAG are in Euros. As a result, currency exchange fluctuations may impact our revenue and the costs of our operations. We currently do not engage in any currency hedging activities.

Net Income (Loss) Per Share

Current accounting guidance requires presentation of basic earnings per share and diluted earnings per share. Basic net income (loss) per share is computed by dividing the net income (loss) by the weighted average number of common shares outstanding for the period. Diluted income (loss) per share is computed similar to basic income (loss) per share except that the denominator is increased to include the number of additional common shares that would have been outstanding if the potential common shares had been issued and if the additional common shares were dilutive.

Loss per common share is computed by dividing net loss by the weighted average number of shares of common stock outstanding during the respective periods. Basic and diluted loss per common share is the same for all periods presented because all warrants and stock options outstanding are anti-dilutive.

The following potentially dilutive securities have been excluded from the calculation of diluted net loss per share as they would be anti-dilutive because the Company had net losses for the periods below:

	As of September 30,	
Potentially Dilutive Securities	2012	2011
Warrants	2,376,173	2,437,182
Stock options	1,342,000	1,439,000
	3,718,173	3,876,182

Recently Issued Accounting Pronouncements

In December 2011, the Financial Accounting Standard Board (FASB) issued Accounting Standards Update (ASU) No. 2011-11, “Balance Sheet (Topic 210): Disclosures about Offsetting Assets and Liabilities.” This ASU requires an entity to disclose information about offsetting and related arrangements to enable users of its financial statements to understand the effect of those arrangements on its financial position. ASU No. 2011-11 will be applied retrospectively and is effective for annual and interim reporting periods beginning on or after January 1, 2013. The Company does not expect adoption of this standard to have a material impact on its consolidated financial statement disclosures.

In July 2012, the FASB issued ASU No. 2012-02, Intangibles-Goodwill and Other (Topic 350): Testing Indefinite-Lived Intangible Assets for Impairment (ASU 2012-02) , allowing entities the option to first assess qualitative factors to determine whether it is necessary to perform the quantitative impairment test. If the qualitative assessment indicates it is more-likely-than-not that the fair value of an indefinite-lived intangible asset is less than its carrying amount, the quantitative impairment test is required. Otherwise, no testing is required. ASU 2012-02 is effective for the Company in the period beginning January 1, 2013. The Company does not expect the adoption of this update to have a material effect on the consolidated financial statements.

Other recent accounting pronouncements issued by the FASB (including its Emerging Issues Task Force), the AICPA, and the Securities Exchange Commission (the "SEC") did not or are not believed by management to have a material impact on the Company's present or future consolidated financial statements.

Note 3 — Line of Credit

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. On February 8, 2012, the Company entered into an Amendment to the Loan and Security Agreement pursuant to which SVB waived our failure to comply with the minimum tangible net worth financial covenant set forth in the Loan Agreement for the compliance period ended December 31, 2011, the parties agreed to amend the minimum tangible net worth required for various periods in calendar year 2012, and the parties agreed that the principal amount outstanding under the revolving line shall accrue 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 September 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 September 30, 2012. The balance outstanding as of September 30, 2012, and June 30, 2012 was $250,000 and $1,000,000, respectively. As of September 30, 2012, approximately $1,825,000 of available credit was unused under the line of credit.

Note 4 – Factor Agreements

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 (with recourse) 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 1.84% per annum at September 30, 2012. As of September 30, 2012 and June 30, 2012, $53,334 and $197,039 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 September 30, 2012 was approximately 5%. As of September 30, 2012 and June 30, 2012, $197,086 and $256,636 was due to Credit Cooperatif, respectively, that relate to funds paid to the Company not yet returned to the factor.

Note 5 — Stockholders’ Equity

Stock Options

On December 21, 2007, the Company established the 2007 Equity Compensation Plan (the “Plan”). The Plan was approved by our Board of Directors and security holders holding a majority of the shares of our common stock outstanding. The total amount of shares subject to the Plan is 1,500,000 shares. The majority of awards issued under the Plan vest immediately or over three years, and have a term of ten years. There were 84,667 shares available for grant under the Plan as of September 30, 2012. Stock-based compensation cost is measured at the grant date, based on the fair value of the award, and recognized over the requisite service period, which is generally the vesting period.

The following table summarizes vested and unvested options activity:

	All Options		Vested Options		Unvested Options	
	Shares	Weighted Average Exercise Price	Shares	Weighted Average Exercise Price	Shares	Weighted Average Exercise Price
Outstanding at June 30, 2012	1,471,167	$ 1.27	1,141,666	$ 1.27	329,500	$ 1.29
Granted	-	-	-	-	-	-
Options vesting	-	-	48,334	1.25	(48,334)	1.25
Exercised	(73,333)	1.01	(73,333)	1.01	-	-
Forfeited/Cancelled	(55,834)	1.45	(55,834)	1.45	-	-
Outstanding at September 30, 2012	1,342,000	$ 1.28	1,060,833	$ 1.28	281,166	$ 1.30

There were no options granted during the three months ended September 30, 2012 and 2011.

The weighted average remaining contractual life of all options outstanding as of September 30, 2012 was 7.14 years. The remaining contractual life for options vested and exercisable at September 30, 2012 was 6.65 years. Furthermore, the aggregate intrinsic value of all options outstanding as of September 30, 2012 was $186,520, and the aggregate intrinsic value of options vested and exercisable at September 30, 2012 was $166,290, in each case based on the fair value of the Company's common stock on September 30, 2012. The total fair value of options vested during the three months ended September 30, 2012 was $42,172 and is included in selling, general and administrative expenses in the accompanying statement of operations. As of September 30, 2012, the amount of unvested compensation related to these options was $339,765 which will be recorded as an expense in future periods as the options vest.

On July 20, 2012, a former employee exercised options to purchase 73,333 shares of the Company's common stock on a cashless basis. The Company issued 17,844 shares of common stock as a result of the exercise.

Additional information regarding stock options outstanding and exercisable as of September 30, 2012 is as follows:

Option Exercise Price	Options Outstanding	Remaining Contractual Life (in years)	Options Exercisable
$ 1.00	352,000	6.66	352,000
1.02	289,000	7.83	216,750
1.30	263,000	9.43	65,750
1.50	385,000	5.31	385,000
2.65	25,000	8.69	25,000
3.00	15,000	8.29	8,750
3.05	10,000	8.37	5,833
3.65	3,000	8.48	1,750
Total	1,342,000		1,060,833

Warrants

The following table summarizes warrant activity:

	Number of Warrants	Weighted Average Exercise Price
Outstanding, June 30, 2012	2,576,182	$ 2.06
Granted	-	-
Exercised	-	-
Expired	(200,009)	2.00
Outstanding, September 30, 2012	2,376,173	$ 2.06
Exercisable, June 30, 2012	2,576,182	$ 2.06
Exercisable, September 30, 2012	2,376,173	$ 2.06

The intrinsic value for all warrants outstanding as of September 30, 2012 was $24,000, based on the fair value of the Company's common stock on September 30, 2012.

Additional information regarding warrants outstanding and exercisable as of September 30, 2012 is as follows:

Warrant Exercise Price

		Warrants Outstanding	Remaining Contractual Life (in years)	Warrants Exercisable
$	1.19	150,000	9.23	150,000
	1.25	150,000	2.10	150,000
	1.75	333,331	2.14	333,331
	2.00	1,081,175	1.08	1,081,175
	2.25	266,667	2.22	266,667
	3.00	390,000	1.38	390,000
	3.50	2,500	3.75	2,500
	4.00	2,500	3.75	2,500
	Total	2,376,173		2,376,173

Note 6 — Geographical Information

As of September 30, 2012, the Company had two reportable diverse geographical concentrations: US Operations and TAAG, which operates in France. Information related to these operating segments, net of eliminations, consists of the following for the periods below:

	Three Months Ended September 30, 2012	
	US Operations	TAAG (France)
Revenue	$7,103,159	$2,438,840
Cost of revenue	5,837,189	1,547,966
Selling, general and administrative expenses	1,122,847	867,863
Depreciation and amortization	94,276	92,382
Income (loss) from operations	$48,847	$(69,371)

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	As of September 30, 2012		As of June 30, 2012	
	US Operations	TAAG (France)	US Operations	TAAG (France)
Current assets	$ 6,099,714	$ 2,665,038	$ 7,765,816	$ 2,635,878
Property and equipment, net	289,509	915,436	300,831	993,686
Intangible assets, net and goodwill	1,076	-	65,510	-
Other non-current assets	16,770	221,896	27,155	217,047
Total assets	$ 6,407,069	$ 3,802,370	$ 8,159,309	$ 3,846,611
Current liabilities	$ 5,656,251	$ 4,318,277	$ 7,468,482	$ 4,105,377
Long term liabilities	-	708,983	-	866,625
Total liabilities	$ 5,656,251	$ 5,027,260	$ 7,468,482	$ 4,972,002

Note 7 — Subsequent Events

On October 15, 2012, the Company granted to two employees options to purchase an aggregate of 53,898 shares of the Company's common stock at an exercise price of $1.07 per share. 33,898 options vested immediately, and 20,000 options vest quarterly over a three year period. All of the options expire on October 15, 2022. The fair value of the options, pursuant to the Black-Scholes pricing model is approximately $40,000, and approximately $3,000 is to be charged to stock-based compensation expense for the three months ended December 31, 2012.

On October 17, 2012, the Company purchased a customer list for 182,244 shares of common stock valued at approximately $200,000, and an earn out of up to 6.5% of revenue derived from the customer list over a two year period. The customer list will be amortized over an estimated useful life of 2 years.

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

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 should be read in conjunction with our condensed consolidated financial statements and related notes appearing elsewhere in this Quarterly Report on Form 10-Q and our June 30, 2012 Annual Report on Form 10-K.

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.

On July 24, 2012 the Company formed Reprints Desk Latin America S. de R.L. de C.V, an entity organized under the laws of Mexico.

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.

Results of Operations

Comparison of the Three Months Ended September 30, 2012 and 2011

	Three Months Ended September 30,	
	2012	2011
Revenue	$9,541,999	$9,861,219
Cost of revenue	7,385,155	8,388,742

Gross profit	2,156,844	1,472,477
Operating expenses:		
Selling, general and administrative	1,948,538	2,724,544
Stock-based compensation expense	42,172	(97,100)
Depreciation and amortization	186,658	486,001
Total operating expenses	2,177,368	3,113,445
Loss from operations	(20,524)	(1,640,968)
Gain on sale of fixed assets	6,879	-
Interest expense	(36,837)	(51,694)
Other income (expense)	(2,958)	1,097
Loss before provision for income taxes	(53,440)	(1,691,565)
Provision for income tax	(593)	-
Net loss	(54,033)	(1,691,565)
Other comprehensive income (loss):		
Foreign currency translation	(27,647)	19,603
Comprehensive loss	$(81,680)	$(1,671,962)
Net loss per share:		
Basic and diluted	$0.00	$(0.10)
Weighted average shares outstanding:		
Basic and diluted	17,083,596	16,977,178

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Revenue

	Three Months Ended September 30,			
	2012	2011	2012-2011 $ Change	2012-2011 % Change
Revenue:				
US operations	$7,103,159	$6,806,885	$296,274	4.4 %
TAAG (France)	2,438,840	3,054,334	(615,494)	(20.2)%
Total revenue	$9,541,999	$9,861,219	$(319,220)	(3.2)%

Revenue from US operations increased $296,274 or 4.4%, for the three months ended September 30, 2012 compared to the three months ended September 30, 2011, primarily due to the acquisition of new customers. We expect revenue from US operations to continue to increase during the 2013 fiscal year.

Revenue from TAAG decreased $615,794 or 20.2%, for the three months ended September 30, 2012 compared to the three months ended September 30, 2011, primarily due to disappointing sales efforts and general financial uncertainty in Europe. The Company has replaced the local management of TAAG as part of our overall strategy for improving revenue, operations, and profitability; however, there is no assurance that such results will be achieved, or that revenue will continue to decrease.

Cost of Revenue

	Three Months Ended September 30,			
	2012	2011	2012-2011 $ Change	2012-2011 % Change
Cost of Revenue:				
US operations	$5,837,189	$6,420,410	$(583,221)	(9.1)%
TAAG (France)	1,547,966	1,968,332	(420,366)	(21.4)%
Total cost of revenue	$7,385,155	$8,388,742	$(1,003,587)	(12.0)%
As a percentage of revenue:				
US operations	82.2 %	94.3 %	(12.1)%	
TAAG (France)	63.5 %	64.4 %	(1.0)%	
Total	77.4 %	85.1 %	(7.7)%	

Cost of revenue as a percentage of revenue from US operations decreased 12.1%, for the three months ended September 30, 2012 compared to the three months ended September 30, 2011, primarily due to reductions in production expenses and decreased payments to publishers.

Cost of revenue as a percentage of revenue from TAAG decreased 1%, for the three months ended September 30, 2012 compared to the three months ended September 30, 2011, primarily due to reductions in production expenses.

Gross Profit

	Three Months Ended September 30,			
	2012	2011	2012-2011 $ Change	2012-2011 % Change
Gross Profit:				
US operations	$1,265,970	$386,476	$879,494	227.6 %
TAAG (France)	890,874	1,086,001	(195,127)	(18.0)%
Total gross profit	$2,156,844	$1,472,477	$684,367	46.5 %
As a percentage of revenue:				
US operations	17.8 %	5.7 %	12.1 %	
TAAG (France)	36.5 %	35.6 %	1.0 %	
Total	22.6 %	14.9 %	7.7 %	

Gross profit as a percentage of revenue increased 7.7%, for the three months ended September 30, 2012 compared to the three months ended September 30, 2011, primarily due to reductions in production expenses and decreased payments to publishers.

Operating Expenses

	Three Months Ended September 30,			
	2012	2011	2012-2011 $ Change	2012-2011 % Change
Operating Expenses:				
US Operations:				
Selling, general and administrative	$1,080,675	$1,591,263	$(510,588)	(32.1)%
Depreciation and amortization	94,276	79,895	14,381	18.0%
Stock-based compensation expense	42,172	(97,100)	139,272	(143.4)%
Total US operations	1,217,123	1,574,058	(356,935)	(22.7)%
TAAG (France):				
Selling, general and administrative	867,863	1,133,281	(265,418)	(23.4)%
Depreciation and amortization	92,382	406,106	(313,724)	(77.3)%
Total TAAG (France) operations	960,245	1,539,387	(579,142)	(37.6)%
Total operating expenses	$2,177,368	$3,113,445	$(936,077)	(30.1)%

Selling, General and Administrative

Selling, general and administrative expenses from US operations decreased $510,588 or 32.1%, for the three months ended September 30, 2012 compared to the three months ended September 30, 2011, primarily due to reductions in compensation and professional service fees.

Selling, general and administrative expenses from TAAG decreased $265,418 or 23.4%, for the three months ended September 30, 2012 compared to the three months ended September 30, 2011, primarily due to reductions in compensation.

Depreciation and Amortization

Depreciation and amortization for the three months ended September 30, 2012, amounted to $199,602 with $12,944 recorded under cost of revenue.

The amounts recorded for US operations consist mostly of amortization of customer lists. We expect depreciation expense for US operations to remain at current levels during the 2013 fiscal year.

The amounts recorded for TAAG consist mostly of depreciation on printing equipment. We expect depreciation expense for TAAG to remain at current levels during the 2013 fiscal year.

Interest Expense

Interest expense was $36,837 for the three months ended September 30, 2012, compared to $51,694 for the three months ended September 30, 2011, a decrease of $14,857. The decrease was primarily attributable to the decreased borrowing on the 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.

Net Income (Loss)

	Three Months Ended September 30,			
	2012	2011	2012-2011 $ Change	2012-2011 % Change
Net Income (Loss):				
US Operations	$42,943	$(1,210,003)	$1,252,946	103.5 %
TAAG (France)	(96,976)	(481,562)	384,586	79.9 %
Total net loss	$(54,033)	$(1,691,565)	$1,637,532	96.8 %

Net income from US operations increased $1,252,946 or 103.5%, for the three months ended September 30, 2012 compared to the three months ended September 30, 2011, primarily due to increased gross profit and decreased selling, general and administrative expenses as described above.

The net loss from TAAG decreased $384,586 or 79.9%, for the three months ended September 30, 2012 compared to the three months ended September 30, 2011, primarily due to increased gross profit and decreased selling, general and administrative expenses as described above.

Liquidity and Capital Resources

	Three Months Ended September 30,	
Consolidated Statements of Cash Flow Data:	2012	2011
Net cash provided by in operating activities	$ 41,748	$ 821,602
Net cash used in investing activities	$ (19,106)	$ (58,516)
Net cash used in financing activities	$ (950,925)	$ (670,033)

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, of which $5,250,000 was raised in the fiscal year ended June 30, 2011.

As of September 30, 2012, we had cash and cash equivalents of $2,175,437 compared to $3,150,978 as of June 30, 2012, a decrease of $975,541. This decrease is primarily attributable to a decrease in accounts payable and accrued expenses of $796,201, an increase of prepaid expenses of $179,502, and payments under the line of credit of $750,000, partially offset by a decrease in accounts receivable of $291,156.

We believe that our current cash resources and future cash flows will be sufficient to sustain current operations for the next twelve months.

US Operations

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.

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 three months ended September 30, 2012, TAAG incurred a net loss from operations of $69,371, and at September 30, 2012, had a working capital deficiency of $1,653,239. In addition, approximately $800,000 of payroll and VAT taxes were delinquent at September 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 performed, 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.

Operating Activities

Our net cash provided by operating activities was $41,748 for the three months ended September 30, 2012 and resulted primarily from a decrease in accounts receivable of $291,156, non-cash depreciation and amortization of $199,602, and a decrease in due from factor of $143,705, partially offset by a decrease in accounts payable and accrued expenses of $796,201 as well as the net loss of $54,033 for the period.

Our net cash used in operating activities was $821,602 for the three months ended September 30, 2011 and resulted primarily from a decrease in accounts payable and accrued expenses of $1,386,378, a decrease in prepaid royalties of $524,291, and non-cash depreciation and amortization of $505,108, partially offset by an increase in accounts receivable of $163,790 as well as the net loss of $1,691,565 for the period.

Investing Activities

Our net cash used in investing activities was $19,106 for the three months ended September 30, 2012 and resulted primarily from the purchase of property and equipment.

Our net cash provided by investing activities was $58,516 for the three months ended September 30, 2011 and resulted primarily from the purchase of intangible assets and property and equipment.

Financing Activities

Our net cash used in financing activities was $950,925 for the three months ended September 30, 2012 and resulted primarily from payments under the line of credit of $750,000 and payment of capital lease obligations of $132,835.

Our net cash used in financing activities was $670,033 for the three months ended September 30, 2011 and resulted primarily from payments under the line of credit of $354,225 and payment of capital lease obligations of $258,196.

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 September 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 September 30, 2012. The balance outstanding as of September 30, 2012, and June 30, 2012 was $250,000 and $1,000,000, respectively. As of September 30, 2012, approximately $1,825,000 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 (with recourse) 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 1.84% per annum at September 30, 2012. As of September 30, 2012 and June 30, 2012, $53,334 and $197,039 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 September 30, 2012 was approximately 5%. As of September 30, 2012 and June 30, 2012, $197,086 and $256,636 was due to Credit Cooperatif, respectively, that relate to funds paid to the Company not yet returned to the factor.

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 Condensed Consolidated Financial Statements.

Item 3. Quantitative and Qualitative Disclosures About Market Risk

As a smaller reporting company, the Company is not required to provide the information required by this item.

Item 4. Controls and Procedures

Disclosure Controls and Procedures

The Company’s management, with the participation of its Chief Executive Officer and Chief Financial Officer, evaluated the effectiveness of the Company’s disclosure controls and procedures as of the end of the period covered by this Quarterly Report on Form 10-Q. For purposes of this section, the term *disclosure controls and procedures* means controls and other procedures of an issuer that are designed to ensure that information required to be disclosed by the issuer in the reports that it files or submits under the Securities Exchange Act of 1934, as amended (the “Exchange Act”), is recorded, processed, summarized and reported within the time periods specified in the SEC’s rules and forms. Disclosure controls and procedures include, without limitation, controls and procedures designed to ensure that information required to be disclosed by an issuer in the reports that it files or submits under the Exchange Act is accumulated and communicated to the issuer's management, including its principal executive and principal financial officers, or persons performing similar functions, as appropriate to allow timely decisions regarding required disclosure.

Based on this evaluation, the Company’s Chief Executive Officer and Chief Financial Officer have concluded that as of September 30, 2012, the Company’s disclosure controls and procedures were effective to ensure that information it is required to disclose in reports that it files or submits under the Exchange Act is accumulated and communicated to the Company’s management, including its principal executive and principal financial officers, as appropriate to allow timely decisions regarding required disclosure, and that such information is recorded, processed, summarized and reported within the time periods specified in SEC rules and forms.

Inherent Limitations on the Effectiveness of Controls

Management does not expect that our disclosure controls and procedures or our internal control over financial reporting will prevent or detect all errors and all fraud. A control system, no matter how well conceived and operated, can provide only reasonable, not absolute, assurance that the objectives of the control systems are met. Further, the design of a control system must reflect the fact that there are resource constraints, and the benefits of controls must be considered relative to their costs. Because of the inherent limitations in a cost-effective control system, no evaluation of internal control over financial reporting can provide absolute assurance that misstatements due to error or fraud will not occur or that all control issues and instances of fraud, if any, have been or will be detected.

These inherent limitations include the realities that judgments in decision-making can be faulty and that breakdowns can occur because of a simple error or mistake. Controls can also be circumvented by the individual acts of some persons, by collusion of two or more people, or by management override of the controls. The design of any system of controls is based in part on certain assumptions about the likelihood of future events, and there can be no assurance that any design will succeed in achieving its stated goals under all potential future conditions. Projections of any evaluation of controls effectiveness to future periods are subject to risks. Over time, controls may become inadequate because of changes in conditions or deterioration in the degree of compliance with policies or procedures.

Changes in Internal Control Over Financial Reporting

In addition, our management with the participation of our principal executive officer and principal financial officer have determined that no change in our internal control over financial reporting (as that term is defined in Rules 13(a)-15(f) and 15(d)-15(f) of the Exchange Act) occurred during the quarter ended September 30, 2012 that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

PART II — OTHER INFORMATION

Item 6. Exhibits

See “Exhibit Index” on the page immediately following the signature page hereto for a list of exhibits filed as part of this report, which is incorporated herein by reference.

SIGNATURES

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

	DERYCZ SCIENTIFIC, INC.
	By: /s/ Peter Derycz
Date: November 13, 2012	Peter Derycz Chief Executive Officer
	By: /s/ Alan Urban
Date: November 13, 2012	Alan Urban Chief Financial Officer

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EXHIBIT INDEX

Exhibit Number	Description
31.1	Rule 13a-14(a)/15d-14(a) Certification of Chief Executive Officer
31.2	Rule 13a-14(a)/15d-14(a) Certification of Chief Financial Officer
32.1	Section 1350 Certification of Chief Executive Officer
32.2	Section 1350 Certification of Chief Financial Officer
101.INS	XBRL Instance Document **
101.SCH	XBRL Taxonomy Extension Schema **
101.CAL	XBRL Taxonomy Extension Calculation Linkbase **
101.DEF	XBRL Taxonomy Extension Definition Linkbase**
101.LAB	XBRL Taxonomy Extension Label Linkbase **
101.PRE	XBRL Taxonomy Extension Presentation Linkbase **

** Furnished herewith