Microbot Medical Inc.
Form SC 13G
December 01, 2016

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

SCHEDULE 13G

UNDER THE SECURITIES EXCHANGE ACT OF 1934

(AMENDMENT NO. ___)

MICROBOT MEDICAL, INC.

F/K/A STEMCELLS, INC.

(Name of Issuer)

COMMON STOCK

(Title of Class of Securities)

(CUSIP Number)

November 28, 2016

(DATE OF EVENT WHICH REQUIRES FILING OF THIS STATEMENT)

Check the appropriate box to designate the rule pursuant to which this Schedule is filed: Rule 13d-1(c)

*The remainder of this cover page shall be filled out for a reporting person's initial filing on this form with respect to the subject class of securities, and for any subsequent amendment containing information which would alter the disclosures provided in a prior cover page.

The information required in the remainder of this cover page shall not be deemed to be "filed" for the purpose of Section 18 of the Securities Exchange Act of 1934 ("Act") or otherwise subject to the liabilities of that section of the Act but shall be subject to all other provisions of the Act (however, see the Notes).

(Continued on following page(s)

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1. NAMES OF REPORTING PERSON

S.S. OR I.R.S. IDENTIFICATION NO. OF ABOVE PERSON

Lane Ventures Inc.

2. CHECK THE APPROPRIATE BOX IF A MEMBER OF A GROUP:

(a)

(b)

3. SEC USE ONLY

4. CITIZENSHIP OR PLACE OF ORGANIZATION

New York

5. SOLE VOTING POWER, NUMBER OF SHARES BENEFICIALLY OWNED BY EACH REPORTING PERSON – 1,950,650 *

6. SHARED VOTING POWER - None

7. SOLE DISPOSITIVE POWER – 1,950,650 *

8. SHARED DISPOSITIVE POWER – None

9. AGGREGATE AMOUNT BENEFICIALLY OWNED BY EACH REPORTING PERSON - 1,950,650 *

10. CHECK BOX IF THE AGGREGATE AMOUNT IN ROW (9) EXCLUDES

CERTAIN SHARES

11. PERCENT OF CLASS REPRESENTED BY AMOUNT IN ROW 9

5.38% * (based on 36,254,240 total outstanding shares of common stock)

12. TYPE OF REPORTING PERSON

CO

* The number of shares owned by Lane Ventures Inc. does not include any shares issued to Alpha Capital Anstalt. Lane Ventures Inc. disclaims beneficial ownership of any shares issued to Alpha Capital Anstalt.

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ITEM 1 (a) NAME OF ISSUER: Microbot Medical, Inc. f/k/a StemCells, Inc.

ITEM 1 (b) ADDRESS OF ISSUER'S PRINCIPAL EXECUTIVE OFFICES:

5 HaMada Street, Yokneam 2069204, Israel

ITEM 2 (a) NAME OF PERSON FILING: Lane Ventures Inc.

ITEM 2 (b) ADDRESS OF PRINCIPAL BUSINESS OFFICE OR, IF NONE, RESIDENCE:

740 Central Avenue, Woodmere, New York 11598

ITEM 2 (c) CITIZENSHIP: New York

ITEM 2 (d) TITLE OF CLASS OF SECURITIES: Common Stock

ITEM 2 (e) CUSIP NUMBER:

ITEM 3 IF THIS STATEMENT IS FILED PURSUANT TO RULE 13D-1(B) OR 13D-2(B): Not applicable

ITEM 4 OWNERSHIP

(a) AMOUNT BENEFICIALLY OWNED: 1,950,650 *

(b) PERCENT OF CLASS: 5.38% *

(c) NUMBER OF SHARES AS TO WHICH SUCH PERSON HAS:

(i) SOLE POWER TO VOTE OR DIRECT THE VOTE

1,950,650 *

(ii) SHARED POWER TO VOTE OR DIRECT THE VOTE

0 Shares

(iii) SOLE POWER TO DISPOSE OR TO DIRECT THE DISPOSITION OF

1,950,650 *

(iv) SHARED POWER TO DISPOSE OR TO DIRECT THE DISPOSITION OF

0 Shares

ITEM 5 OWNERSHIP OF FIVE PERCENT OR LESS OF A CLASS

Not applicable

ITEM 6 OWNERSHIP OF MORE THAN FIVE PERCENT ON BEHALF OF ANOTHER PERSON

Not applicable

ITEM 7 IDENTIFICATION AND CLASSIFICATION OF THE SUBSIDIARY WHICH ACQUIRED THE SECURITY BEING REPORTED ON BY THE PARENT HOLDING COMPANY

Not applicable

ITEM 8 IDENTIFICATION AND CLASSIFICATION OF MEMBERS OF A GROUP

Not applicable

ITEM 9 NOTICE OF DISSOLUTION OF GROUP

Not applicable

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SIGNATURE

After reasonable inquiry and to the best of my knowledge and belief, I certify that the information set forth in this statement is true, complete and correct.

December 1, 2016
(Date)

/s/ Joseph Hammer
(Signature)

Joseph Hammer, President
(Name/Title)

does the demand to expand this supply into new cities, industrial parks and other provinces. Heating water in China is generated by local power plants which pump emitted hot water from the power plant through a closed loop system to a water heating company and then through a network of pipes up to a distance of 50 kilometers. These systems of heating stations and sub-stations utilize numerous PHEs and PHE Units, which provide a dual purpose: a cooling system for the power plants and a heat source for residents and factories.

Heightened Environmental Awareness. In March 2006, China announced its 11th Five-Year Plan that set new pollution reduction standards, targeting a 20% reduction in energy consumption per unit of GDP and a 10% reduction in industry expulsion of pollutant particles by 2010. The implementation of PHEs and PHE Units in new construction facilities, and as replacements for legacy shell-and-tube heat exchangers, can help meet these goals because of their increased energy efficiency.

Urbanization. According to the CIA World Factbook, 43% of China s population lived in urban settings in 2008. Additionally, according to the National Bureau of Statistics of China, 15 cities near and around SmartHeat s sales and service centers have a population of more than five million and eight Chinese cities are among the world s fastest growing, increasing at an annual rate of 2.5% or more. China s urbanization and city population growth have lead to new infrastructure development and existing infrastructure improvements that require ongoing investment in heating solutions.

Government Stimulus. On November 5th, 2008, China s State Council approved a $586 billion plan to invest in infrastructure and social welfare. On March 6th, 2009, China s National Development and Reform Commission announced a revision of the stimulus. The new revision includes $31 billion, a portion of which will be allocated to energy-saving projects, and $59 billion to affordable housing. These funds must be spent by the end of 2010.

Emerging Wealth. The rapidly expanding middle class is demanding access to quality heating during the winter months, and the source of such heating is often from hot water supplied from a power station and district heating network utilizing a system of PHEs and PHE Units.

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Our Competitive Strengths

We believe we have the following competitive strengths:

Provider of Key Elements Used to Improve Energy Efficiencies and Reduce Coal Pollution. We offer a full line of PHEs, PHE Units and heat meters. The primary advantages of plate heat exchanger technology, compared to traditional shell and tube heat exchanger technology, are efficiency, compact design and ease of customization. PHEs have larger heat transfer surface areas and therefore greater thermal conductivity. As a result, PHEs can transfer the same amount of heat as a traditional shell and tube heat exchanger with a smaller size unit.

Established Leader and Brand Name in the Growing China Heating Industry. We have established a leading brand name in the fragmented Chinese heating industry and we seek to utilize this awareness to become the leading Chinese supplier of PHEs, PHE Units and related products to the rapidly growing Chinese market. We are a leading domestic producer of PHE Units under the Taiyu brand, with a 2007 market share of approximately 8% in China according to the China District Heating Association. We believe the Taiyu brand name is recognized for quality and efficiency, which we can leverage to improve our reputation as a leading seller of high quality PHE Units in China.

Quality Engineering, Research and Development. We emphasize efficiency, durability and quality engineering in all of our products. All of our products utilize the latest technologies, and our designs are created using advanced software systems. We have eight registered patents in China for PHE products and heat meters. We have two patents for our plate heat exchangers, one for our heat transfer system for space heating and domestic hot water, one for a heat meter cleaning pipe, two for our heat meter testing system, one for an integrated heat transfer system and one for an efficient-heat testing bench. Five of our patents expire in 2014, one expires in 2016 and two expire in 2017. To maintain our competitive edge in the marketplace and keep pace with new technologies, we fund research and development on an on-going basis to find improved efficiencies in design, cost and energy capture. Research and development costs for 2007 and 2008 were $343,800 and $1,020,000, respectively. We plan to continue to invest in research and development to identify new industry applications for PHEs, improve our product lines, develop multifunctional PHE Units and modify PHE designs to meet the current market demand.

Strong Technical Support. The selection of PHEs and PHE Units requires technical knowledge regarding the operating temperature, pressure, corrosivity, viscosity and purity of the fluid as well as the pressure loss within the system. Our unique design software enables us to provide high quality and timely technical support to ensure our customers receive the right equipment for each project. We also provide a streamlined and error free installation process to minimize project complications.

Enterprise-Wide Design, Production and Control Systems for Efficient Pricing and Streamlined Manufacturing. Our technologically advanced CAD design systems are integrated with our real-time enterprise resource planning (ERP) and finance systems. This advanced, integrated platform allows our field salespeople to input orders, obtain draft models, access quotes and confirm delivery dates within minutes. The platform also enables inventory and production personnel to accurately schedule and reduce lead production times to five days for PHEs and ten days for PHE Units. We believe these lead times are some of the best in the industry and create a differentiated level of customer service.

Focus on Quality. We have a National Safety Certification for our PHE products, and are an ISO 9001 certified manufacturer.

First Rate Customer Service and Reliable Product Delivery. We believe that our employees provide first rate customer service, technical expertise and product knowledge to streamline the selection, design and

installation processes. We provide after sale service through our local service centers and deliver products on time to meet tight project deadlines. Our focus on delivering premium service separates us from our competitors and has been critical in helping us win a number of projects for various multinational companies and local governments.

Diversified End Markets and Customers. Our PHEs and PHE Units are broadly used across a variety of industrial end markets including the energy (i.e., conventional and nuclear power plants), HVAC, petroleum refining, petrochemicals, metallurgy, food and beverage and chemical processing end markets. We also benefit from a diverse customer mix. For the fiscal year ended December 31, 2008, our ten largest customers accounted for 32% of sales and our largest customer accounted for approximately 6% of sales. In addition, in 2008, 48% of our sales were from existing customers. This end market and customer diversification helps to insulate us from sales volatility that would occur if we concentrated in specific industries. The bulk of our customers are utilities, engineering and construction companies and industrial companies.

Proven Ability to Identify and Acquire Strategic Targets. Over the past 12 months, we have completed two strategic acquisitions. Each acquisition has accelerated our strategic plan by: (i) adding manufacturing capacity; (ii) broadening our product offering to include multiple heat exchange systems; (iii) facilitating access into new geographic regions throughout China; (iv) improving our cost structure; (v) enhancing our engineering capabilities; or (vi) helping us enter new and higher growth end markets. We have proven our ability to complete successful acquisitions and believe there are additional acquisition opportunities which we may potentially pursue.

Experienced Management Team. Our senior management team has extensive business and industry experience. Mr. Jun Wang, our president and CEO, was the founder of Taiyu in 2002. He was a sales manager for Honeywell International Inc. from 1996 to 1999 and was a sales manager for Alfa Laval from 1994 to 1996. Mr. Wang obtained his Master s degree in Engineering from Tsinghua University in 1989. Ms. Zhijuan Guo, our CFO, has 14 years of finance and accounting experience and has been with the Company since its inception in 2002. Mr. Wen Sha, our VP of marketing, has extensive sales experience and industry contacts. He joined SmartHeat as a Regional Sales Manager in 2005. Prior to that, he served as the General Manager of Nanjing Hui Dun Ltd. and as sales director of APV Accessen in Shanghai, a leading international PHE firm. Mr. Feng Chen, Ph.D., our CTO, joined SmartHeat in 2008 as part of our SanDeKe acquisition. Prior to founding SanDeKe, he served in a leading engineering position in China with Alfa Laval.

Our Growth Strategy

Our goal is to further penetrate the many market segments throughout China for PHEs, PHE Units and related accessories, expand our PHE Unit sales, promote the sale of heat meters and execute strategic acquisitions that are accretive and synergistic to our business.

Pursue High Growth Chinese End Markets. We are targeting our sales efforts on a number of high growth Chinese end markets such as power and petrochemical. We currently have a presence in these segments but believe there are significant opportunities to improve our market share by leveraging our premium product quality and high quality service. Our solutions are commonly used in many of these industries and customers continue to assess the cost savings and positive environmental attributes of PHEs.

Capitalize upon Strong Industry Dynamics in China. Continued economic growth in China, coupled with evolving government policy and increasing environmental consciousness, present us with significant future growth opportunities. The 11th Five-Year Plan targeted a 20% reduction in energy consumption per unit of GDP and a 10% reduction in industry expulsion of pollutant particles by 2010. We believe that this mandate will force whole industries to allocate major portions of their infrastructure and energy investments into energy efficient, green technologies such as PHEs and PHE Units. Management believes this growth will be accelerated as significant investments in district heating systems and co-generation power plants come on-line in the next few years.

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Continue Organic Growth Initiatives. We believe that the current PHE market is fragmented and represents an excellent opportunity for us to gain additional market share from our competitors. We intend to open new sales offices, hire additional sales personnel, expand into new distribution channels and improve the quality of our products. We also intend to leverage our strong brand, quality customer service, engineering and reliable product delivery to gain incremental business with our existing clients. Finally, we believe that as we continue to grow, economies of scale and improved cost control measures will drive stronger profitability across all product lines.

Continue to Expand PHE Unit Sales. The production and sale of PHE Units has been vital to our growth. PHE Units require a high level of technical skill and knowledge of the applications in which they are used, allowing for premium pricing and creating a barrier to entry for competitors attempting to enter the market. Less than five years after entering the market, we have emerged as a leading domestic producer of PHE Units, with a 2007 market share of approximately 8% according to the China District Heating Association. We are focused on continuing to pursue sales of higher value-added PHE Units and, as a recognized brand, believe we are well-positioned to capture incremental market share in a category that is projected to grow 70% per year through 2010 by the China District Heating Association.

Promote Heat Meters. In response to rising energy costs and an increased focus on energy efficiency, the Chinese government and local utility companies have made the use of heat meters compulsory in China. As of July 2003, heat meters were required nationally by law for new buildings installed with central heating and the law was extended in April of 2008 by the Energy Conservation Law, Article 38, to buildings being retrofitted. We plan to work with the various government entities to establish a national heating standard and intend to leverage the Taiyu brand and our superior quality to gain market share in this market.

Execute Strategic Acquisitions. We intend to continue to selectively acquire domestic targets that would enable us to enter new customer segments or gain entry into new industries. For instance, the recent acquisition of the plant and machinery and land use rights from Siping Beifang provided us with an entrance into the petrochemical and high pressure chemical end markets, which were previously immaterial segments for us. Due to the high pressure and heat tolerance demands of the petrochemical industry, we have also acquired valuable engineering expertise that may help us address the nuclear energy segment in a meaningful way. We will continue to identify and review targets that are accretive to our earnings, easily integrated into our existing infrastructure and synergistic to our operations.

Risk Factors

Please see Risk Factors starting on page S-11 to read about factors you should consider carefully before deciding to invest in shares of our common stock.

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The Offering

Common stock offered by us	7,246,087 shares
Common stock to be outstanding immediately after this offering	31,451,162 shares
NASDAQ Global Market symbol	HEAT
Use of proceeds	For general corporate purposes, including expansion of our product offerings, capital expenditures and to meet working capital needs. See Use of Proceeds on page S-18.

The total number of shares of common stock outstanding after this offering is based on 24,205,075 shares outstanding as of September 17, 2009. This number excludes an aggregate of up to 367,825 shares of our common stock issuable upon exercise of warrants outstanding as of September 17, 2009 at an exercise price of $6.00 per share and stock options outstanding to purchase 20,000 shares of common stock at an exercise price of $4.60 per share.

See Description of Common Stock in the accompanying prospectus for information regarding our common stock, our articles of incorporation and related Nevada law matters.

Unless we indicate otherwise, the information in this prospectus supplement assumes that the underwriters will not exercise their over-allotment option to purchase up to 1,086,913 additional shares of common stock from us.

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SUMMARY CONSOLIDATED FINANCIAL DATA

The following table sets forth our summary financial data for the periods indicated. You should read this information together with Management s Discussion and Analysis of Financial Condition and Results of Operations and the financial statements and related notes incorporated by reference into this prospectus supplement. Historical financial information may not be indicative of our future performance and the results for the six months ended June 30, 2009 are not necessarily indicative of the results that may be expected for the full fiscal year.

Consolidated Statement of Income Data:

	Six months ended June 30,		Year ended December 31,	
	2009	2008	2008	2007
	(unaudited)			
Net sales	$ 18,705,898	$ 8,637,283	$ 32,676,082	$ 13,273,151
Cost of sales	11,874,903	6,228,156	21,717,735	8,667,353
Gross profit	6,830,995	2,409,127	10,958,347	4,605,798
Total operating expenses	2,499,664	1,054,498	3,416,670	2,369,090
Income from operations	4,331,331	1,354,629	7,541,677	2,236,708
Total (other expenses) other income	(12,081)	115,074	93,289	24,957
Income before provision for income taxes	4,319,250	1,469,703	7,634,966	2,261,665
Provision for income taxes	680,432	266,028	1,293,660	175,647
Minority interest			5,966	(1,873)
Net income	$ 3,638,818	$ 1,203,675	$ 6,335,340	$ 2,087,891
Other comprehensive income foreign currency translation adjustments	13,143	410,896	510,770	333,449
Comprehensive income	3,651,961	1,614,571	6,846,110	2,421,340
Weighted average number of common shares basic	24,179,900	20,213,419	22,176,322	18,500,000
Weighted average number of common shares diluted	24,191,063	20,213,419	22,176,432	18,500,000
Earnings per share basic	$ 0.15	$ 0.06	$ 0.29	$ 0.11
Earnings per share diluted	$ 0.15	$ 0.06	$ 0.29	$ 0.11

Consolidated Balance Sheet Data:

	As of June 30, 2009
Cash & cash equivalents	$ 2,408,714
Total assets	38,934,858
Total liabilities	17,389,455
Total stockholders equity	21,545,403

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RISK FACTORS

An investment in our common stock involves a high degree of risk. In addition to the following risk factors, you should carefully consider the risks, uncertainties and assumptions discussed under Risk Factors in the accompanying prospectus as well as those described in Item 1A of our annual report on Form 10-K for the fiscal year ended December 31, 2008, as amended, and in other documents that we subsequently file with the SEC that update, supplement or supersede such information for which documents are incorporated by reference into this prospectus supplement, see Where You Can Find More Information. Additional risks not presently known to us or which we consider immaterial based on information currently available to us may also materially adversely affect us. If any of the events anticipated by the risks described herein occur, our business, cash flow, results of operations and financial condition could be adversely affected which could result in a decline in the market price of our common stock, causing you to lose all or part of your investment.

Risks Related to this Offering and Ownership of our Common Stock

The market price for our common stock may be volatile.

The trading price of our common stock may fluctuate widely in response to various factors, some of which are beyond our control. These factors include, in addition to the risk factors incorporated by reference herein, our quarterly operating results or the operating results of other companies in our industry, announcements by us or our competitors of acquisitions, new products, product improvements, commercial relationships, intellectual property, legal, regulatory or other business developments and changes in financial estimates or recommendations by stock market analysts regarding us or our competitors. In addition, the stock market in general, and the market for companies based in China in particular, has experienced extreme price and volume fluctuations. This volatility has had a significant effect on the market prices of securities issued by many companies for reasons unrelated or disproportionate to their operating performance. These broad market fluctuations may have a material adverse effect on our stock price, regardless of our operating results. Further, the market for our common stock is limited and we cannot assure you that a larger market will ever be developed or maintained. We cannot predict the effect that this offering listing will have on the volume or trading price of our common stock. We cannot provide assurance that the market price of our common stock will not fall below the public offering price or that, following the offering, a stockholder will be able to sell shares acquired in this offering at a price equal to or greater than the offering price. Market fluctuations and volatility, as well as general economic, market and political conditions, could reduce our market price. As a result, these factors may make it more difficult or impossible for you to sell our common stock for a positive return on your investment.

Our quarterly results may be volatile.

Our operating results have varied on a quarterly basis during our operating history and are likely to fluctuate significantly in the future. Many factors, including the risk factors incorporated by reference herein, could cause our revenues and operating results to vary significantly in the future. Many of these factors are outside of our control. Accordingly, we believe that quarter-to-quarter comparisons of our operating results are not necessarily meaningful. Investors should not rely on the results of one quarter as an indication of our future performance. If our results of operations in any quarter do not meet analysts expectations, our stock price could materially decrease.

Future sales of our stock could depress the market price of our common stock.

Future sales of shares of our common stock could adversely affect the prevailing market price of our stock. If our significant stockholders sell a large number of shares, or if we issue a large number of shares, the market price of our stock could significantly decline. Moreover, the perception in the public market that stockholders might sell shares of our stock could depress the market for our shares.

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Purchasers in this offering will experience immediate and substantial dilution in net tangible book value.

The assumed public offering price will be substantially higher than the net tangible book value per share of our outstanding shares of common stock. As a result, investors purchasing shares of our common stock in this offering will incur immediate dilution of $6.40 per share, based on the public offering price of $9.00 per share and our tangible net book value per share as of June 30, 2009. Investors purchasing shares of our common stock in this offering will pay a price per share that substantially exceeds the book value of our assets after subtracting our liabilities.

Our management has broad discretion as to the use of the net proceeds from this offering and may allocate the net proceeds of this offering in ways that you or other stockholders may not approve.

We have not determined the specific amounts we plan to spend on any of the uses described in Use of Proceeds or the timing of these expenditures. Failure by our management to apply these funds effectively could adversely affect our ability to maintain and expand our business. In the event management does not apply these funds effectively, your investment in our common stock may not result in a favorable return.

Our principal stockholder has the ability to exert significant control in matters requiring a stockholder vote and could delay, deter or prevent a change of control in our company.

As of June 30, 2009, Mr. Jun Wang, our Chief Executive Officer and our largest stockholder, beneficially owned more than 14.1% of our outstanding shares. Following completion of this offering, Mr. Wang will beneficially own approximately 10.8% of our outstanding shares (10.5% if the underwriters over-allotment option is exercised in full). Mr. Wang possesses significant influence over us, giving him the ability, among other things, to effectively control the election of all or a majority of the Board of Directors and to approve significant corporate transactions. Such stock ownership and control may also have the effect of delaying or preventing a future change in control, impeding a merger, consolidation, takeover or other business combination, or discouraging a potential acquirer from making a tender offer or otherwise attempting to obtain control of our company. Without the consent of Mr. Wang, we could be prevented from entering into potentially beneficial transactions if they conflict with our major stockholder s interests. The interests of this stockholder may differ from the interests of our other stockholders.

We have provisions in our articles of incorporation that substantially eliminate the personal liability of members of our board of directors for violations of their fiduciary duty of care as a director and that allow us to indemnify our officers and directors. This could make it very difficult for you to bring any legal actions against our directors for such violations or could require us to pay any amounts incurred by our directors in any such actions.

Pursuant to our articles of incorporation, members of our board of directors will have no liability for violations of their fiduciary duty of care as a director, except in limited circumstances. This means that you may be unable to prevail in a legal action against our directors even if you believe they have breached their fiduciary duty of care. In addition, our certificate of incorporation allows us to indemnify our directors from and against any and all expenses or liabilities arising from or in connection with their serving in such capacities with us. This means that if you were able to enforce an action against our directors or officers, in all likelihood we would be required to pay any expenses they incurred in defending the lawsuit and any judgment or settlement they otherwise would be required to pay.

Risks Related to Our Business

Our relationship with Sondex has substantially contributed to our business and its growth.

We are the sole authorized dealer of Sondex PHE plates in northern China. Sondex is one of the world s leading PHE and PHE plate manufacturers. We currently sell PHEs under our own Taiyu brand or upon demand under the Sondex brand, and our PHE Units are sold under our own Taiyu brand only. We believe our

ability to provide Sondex-branded PHEs has contributed to our reputation for high quality products. Prior to our acquisition of Siping Beifang, we sourced all of our PHE plates, important raw elements used in both PHEs and PHE Units, from Sondex. However, our recent acquisition of the plant and machinery and land use rights Siping Beifang, along with our internal R&D efforts, now enable us to produce our own plates for our heat exchangers, which we believe will significantly reduce our reliance on Sondex-supplied plates. We cannot assure you that our products will be as well-received in the marketplace or that we will be able to produce sufficient quantities to meet demand. If our relationship with Sondex were to terminate, we would be required to either manufacture plates ourselves and/or procure plates from other third-party sources, of which we believe there are several alternate suppliers that meet our volume and quality standards. Currently we cannot guarantee our ability to manufacture sufficient plates or that we will be able to secure supply of plates from third-party sources on acceptable terms and in a timely fashion. Accordingly, termination of our Sondex relationship may present risks to our business, revenues and operations until we secure alternate and comparable sources of supply.

The markets we serve are subject to seasonality and cyclical demand, which could harm our business and make it difficult to project long-term performance.

Demand for our products depends in large part upon the level of capital and maintenance expenditures of our customers and the end users. These expenditures have historically been cyclical in nature and vulnerable to economic downturns. Decreased capital and maintenance spending by our customers could have a material adverse effect on the demand for our products and our business, financial condition and results of operations. In particular, an economic slowdown in the domestic economy may result in reduced orders for PHEs from the steel processing and petrochemical sectors and lower orders for PHE Units from the HVAC sector. To date, the Company has not been adversely affected by these trends and given the current demand visibility we do not currently foresee weakening in the demand for our products in the next year. However, the historically cyclical nature of the demand for our products limits our ability to make accurate long-term predictions about our performance. Changing world economic and political conditions may also reduce the willingness of our customers and prospective customers to purchase our products and services. The seasonality of our business results in significant operational challenges to our production and inventory control functions.

We derive a substantial part of our revenues from several major customers. If we lose any of these customers or they reduce the amount of business they do with us, our revenues may be seriously affected.

Our ten largest customers accounted for 32% of our revenues for the fiscal year ended December 31, 2008. Our largest customer accounted for 6% of our revenues in the fiscal year ended December 31, 2008. These customers may not maintain the same volume of business with us in the future. If we lose any of these customers or they reduce the amount of business they do with us, our revenues and profitability may be seriously affected.

Our accounts receivables remain outstanding for a significant period of time which has a negative impact on our cash flow and liquidity.

Our agreements with our customers generally provide that 30% of the purchase price is due upon the placement of an order, 30% is due upon delivery and 30% is due upon installation and acceptance of the equipment after customer testing. As a common practice in the heating manufacturing business in China, payment of the final 10% of the purchase price is due no later than the termination date of the standard warranty period which ranges from 3 to 24 months from the acceptance date. We may experience payment delays from time to time which range from 1 month to 3 months from the due date. While these payment delays are very common in the heating manufacturing industry in China and historically our collections have been reasonably assured, such delays cause capital to be tied up in inventories which may result in pressure on our cash flows and liquidity. In 2008, we had accounts receivable turnover of 3.6, with days sales outstanding of 136 and inventory turnover of 3.1 on an annualized basis. For the six months ended June 30, 2009, we had accounts receivable turnover of 3.16, with days sales outstanding of 112 and inventory turnover of 3.32 on an annualized basis.

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We acquire most of the components for the manufacture of our products from a limited number of suppliers.

We acquire most of the components for the manufacture of our products from a limited number of suppliers. In order for us to have our products manufactured, these components must be available when needed, at the right level of quality, and at the right price. If we are unable to so obtain these components, we would experience delays in manufacturing our products and our financial results could be adversely affected. Suppliers of some of these components require us to place orders with significant lead-time to assure supply in accordance with our requirements. Certain of these suppliers are currently the sole source of one or more components upon which we are dependent and alternative sources would not be available for those components unless we were to redesign our products. Other components could be obtained from alternate suppliers without redesign, but only at higher prices than we currently pay or for delivery later than required by our production schedule. We maintain a relatively small inventory of component parts for resale and our parts services business would suffer if the supply of replacement parts was reduced or terminated by our suppliers. If suppliers are not able to provide these critical components on the dates and at the prices scheduled, we may not be able to promptly and cost-effectively manufacture our products to meet customer orders which could harm our credibility and the market acceptance and sales of our products. Increased costs associated with supplied materials or components could increase our costs and reduce our profitability if we are unable to pass these cost increases on to our customers.

We are a major purchaser of certain goods and raw materials that we use in the manufacturing process of our products, and price changes for the commodities we depend on may adversely affect our profitability.

Our profitability generally depends upon the margin between the cost to us of certain goods used in the manufacturing process, such as plates, pumps, water tanks, sensors, controlling systems and other raw materials as well as our fabrication costs associated with converting such goods and raw materials compared to the selling price of our products, and the overall supply of raw materials. It is our intention to base the selling prices of our products upon the associated raw materials costs to us. However, we may not be able to pass all increases in raw material costs and ancillary acquisition costs associated with taking possession of the raw materials through to our customers. Although we are currently able to obtain adequate supplies of raw materials, it is impossible to predict future availability or cost. With the rapid growth of China s economy, the demand for certain raw materials is great while the supply may be more limited. This may affect our ability to secure the necessary raw materials in a cost-effective manner for production of our products at the volume of purchase orders that we anticipate receiving. The inability to offset price increases of raw materials by sufficient product price increases, and our inability to obtain raw materials, would have a material adverse effect on our consolidated financial condition, results of operations and cash flows.

We may experience material disruptions to our manufacturing operations.

While we seek to operate our facilities in compliance with applicable rules and regulations and take measures to minimize the risks of disruption at our facilities, a material disruption at one of our manufacturing facilities could prevent us from meeting customer demand, reduce our sales and/or negatively impact our financial results. Any of our manufacturing facilities, or any of our machines within an otherwise operational facility, could cease operations unexpectedly due to a number of events, including:

- prolonged power failures;
- equipment failures;
- disruptions in the transportation infrastructure including roads, bridges, railroad tracks;
- fires, floods, earthquakes or other catastrophes; and
- other operational problems.

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PRC regulations relating to mergers, offshore companies and Chinese stockholders, if applied to us, may limit our ability to operate our business as we see fit.

PRC regulations govern the process by which we may participate in an acquisition of assets or equity interests. Depending on the structure of the transaction, these regulations require Chinese parties to make a series of applications and supplemental applications to various government agencies. In some instances, the application process may require the presentation of economic data concerning a transaction, including appraisals of the target business and evaluations of the acquirer, which are designed to allow the government to assess the transaction. Government approvals will have expiration dates by which a transaction must be completed and reported to the government agencies. Compliance with the new regulations is likely to be more time consuming and expensive than in the past and the government can now exert more control over the combination of two businesses. Accordingly, due to PRC regulations, our ability to engage in business combination transactions in China through our Chinese subsidiaries has become significantly more complicated, time consuming and expensive, and we may not be able to negotiate transactions that are acceptable to us or sufficiently protective of our interests.

We must comply with the Foreign Corrupt Practices Act.

We are required to comply with the United States Foreign Corrupt Practices Act, which prohibits U.S. companies from engaging in bribery or other prohibited payments to foreign officials for the purpose of obtaining or retaining business. Foreign companies, including some of our competitors, are not subject to these prohibitions. Corruption, extortion, bribery, pay-offs, theft and other fraudulent practices occur from time-to-time in mainland China. If our competitors engage in these practices, they may receive preferential treatment from personnel of some companies, giving our competitors an advantage in securing business or from government officials who might give them priority in obtaining new licenses, which would put us at a disadvantage. Although we inform our personnel that such practices are illegal, we can not assure you that our employees or other agents will not engage in such conduct for which we might be held responsible. If our employees or other agents are found to have engaged in such practices, we could suffer severe penalties.

If the China Securities Regulatory Commission, or CSRC, or another PRC regulatory agency determines that its approval is required in connection with this offering, this offering may be delayed or cancelled, or we may become subject to penalties.

On August 8, 2006, six PRC regulatory agencies, including the CSRC, promulgated the Regulation on Mergers and Acquisitions of Domestic Companies by Foreign Investors, or the M&A Rule, which became effective on September 8, 2006. The M&A Rule, among other things, has certain provisions that require offshore special purpose vehicles, or SPVs, formed for the purpose of acquiring PRC domestic companies and controlled by PRC individuals, to obtain the approval of the CSRC prior to listing their securities on an overseas stock exchange. We believe, based on the opinion of our PRC legal counsel, the Beijing Rondos Law Firm, that while the CSRC generally has jurisdiction over overseas listings of SPVs like us, CSRC s approval is not required for the offerings of our securities because our current corporate structure was established before the new regulation became effective. However, there remains some uncertainty as to how this regulation will be interpreted or implemented in the context of an overseas offering. If the CSRC or another PRC regulatory agency subsequently determines that its approval is required for our public offerings, we may face sanctions by the CSRC or another PRC regulatory agency. If this happens, these regulatory agencies may impose fines and penalties on our operations in the PRC, limit our operating privileges in the PRC, delay or restrict the repatriation of the proceeds from this offering or other of our offerings into the PRC, restrict or prohibit payment or remittance of dividends by our PRC subsidiaries to us or take other actions that could have a material adverse effect on our business, financial condition, results of operations, reputation and prospects, as well as the trading price of our ordinary shares. The CSRC or other PRC regulatory agencies may also take actions requiring us, or making it advisable for us, to delay or cancel this offering before settlement and delivery of the ordinary shares being offered by us.

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We operate in the PRC through our Wholly Foreign Owned Enterprise (WFOE) status initially approved by the local office of the PRC Ministry of Commerce (MOFCOM). However, we cannot warrant that such approval procedures have been completely satisfied due to a number of reasons, including changes in laws and government interpretations. If we lose our WFOE status for any reason, our business in China may be negatively impacted.

Our operating entities in the PRC have received initial MOFCOM approval as WFOEs and there may be conditions subsequent to complete and maintain such status. We believe we have satisfied MOFCOM s approval procedures for having obtained such status. However, MOFCOM s approval procedures or interpretations of its approval procedures may be different from our understanding or may change. As a result, if we lose our WFOE status for any reason, there may be a material adverse effect on our business, financial condition, results of operations, reputation and prospects, as well as the trading price of our shares.

If we fail to satisfy enlarged contribution of capital requirement at our PRC subsidiaries, our business in China will be adversely affected.

We are required to contribute RMB 53 million as additional contribution of capital to our PRC subsidiaries by July 2010. Under PRC laws, shareholders of a foreign-invested enterprise are required to contribute capital to satisfy the registered capital requirement of the foreign-invested enterprise within a period of not more than two years from the date when the foreign-invested enterprise s license to conduct business is initially granted. The relevant PRC government agencies may grant an additional three-month grace period. If the shareholders are unable to complete the capital contribution within the grace period, the business license of the foreign-invested enterprise may be revoked by the PRC government. Further, until such contribution of capital is satisfied, the foreign-invested enterprise is not allowed to repatriate profits to its shareholders, unless otherwise approved by the State Administration for Foreign Exchange (SAFE).

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PRICE RANGE OF COMMON STOCK AND DIVIDEND POLICY

On April 22, 2008, our common stock became eligible for quotation on the OTCBB under the symbol SMHT. The following table sets forth the range of the high and low bid prices per share of our common stock for each quarter (or portion thereof) beginning on April 22, 2008 and ending on June 30, 2009 as reported by the OTC Bulletin Board for the period beginning on April 22, 2008 to January 28, 2009 and as reported on the Nasdaq Stock Market from January 29, 2009 to March 9, 2009 and on the Nasdaq Global Market thereafter. These quotations represent inter-dealer prices, without retail mark-up, markdown, or commission and may not represent actual transactions.

	High	Lo
econd uarter 2008 pril 22, 008 June 30, 008)	$ 4.60	$ 2.
hird Quarter 008 (through eptember 30, 008)		

Net cash used in financing activities was $707,960 for the year ended June 30, 2009 compared to net cash used in financing activities of $26,922 for the year ended June 30, 2010. The decrease in cash used in financing activities was due primarily to our repayment of our credit line associated with our short term investments of $1,291,855 during the 2009 period. We made no sales of our common stock during the years ended June 30, 2010 or June 30, 2009.

We believe that our current cash resources will be sufficient to sustain our current operations for at least one year. However, we may need to obtain additional cash resources during the next year if we are able to acquire complementary businesses. 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. Should we need to raise additional debt or equity capital, 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's primary source of revenue is from information and printing services. The Company recognizes revenue when the sales process is deemed complete and associated revenue has been earned. 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 and determinable and collectability 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.

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.

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

Impairment of Long-lived Assets

The Company reviews and evaluates its long-lived assets for impairment when events or changes in circumstances indicate that the related carrying amounts may not be recoverable. Impairment is considered to exist if the total estimated future cash flows on an undiscounted basis are less than the carrying amount of the assets, including goodwill, if any. An impairment loss is measured and recorded based on discounted estimated future cash flows. In estimating future cash flows, assets are grouped at the lowest level for which there are identifiable cash flows that are largely independent of future cash flows from other asset groups.

Based upon management's assessment, there were no indicators of impairment of the Company's long lived assets as of June 30, 2010 or 2009.

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 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 the authoritative guidance whereas 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.

We estimate the fair value of stock options using the Black-Scholes option-pricing model, which was developed for use in estimating the fair value of options that have no vesting restrictions and are fully transferable. This model requires the input of subjective assumptions, including the expected price volatility of the underlying stock and the expected life of stock options. Projected data related to the expected volatility of stock options is based on the average volatility of the trading prices of comparable companies and the expected life of stock options is based

upon the average term and vesting schedules of the options. Changes in these subjective assumptions can materially affect the fair value of the estimate, and therefore the existing valuation models do not provide a precise measure of the fair value of our employee stock options.

Goodwill and Intangible Assets

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

The Company accounts for acquisition of a business in accordance with guidance issued by the FASB, which may result in the recognition of goodwill. Goodwill is related to the Company's acquisition of 75% majority interest in Pools Press in February 2007. Goodwill is not amortized. Rather, goodwill is assessed for impairment at least annually. Management tests goodwill for impairment at the reporting unit level. The Company has two reporting units. The Company tests goodwill by using a two-step process. In the first step, the fair value of the reporting unit is compared with the carrying amount of the reporting unit, including goodwill. If the carrying amount of the reporting unit exceeds its fair value, goodwill is considered impaired and a second step is performed to measure the amount of impairment loss, if any.

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

Based upon management's assessment, there were no indicators of impairment of the Company's goodwill or intangible assets as of June 30, 2010 or 2009.

Recent Accounting Pronouncements

In April 2010, the FASB issued new accounting guidance in applying the milestone method of revenue recognition to research or development arrangements. Under this guidance management may recognize revenue contingent upon the achievement of a milestone in its entirety, in the period in which the milestone is achieved, only if the milestone meets all the criteria within the guidance to be considered substantive. This standard is effective on a prospective basis for research and development milestones achieved in fiscal years, beginning on or after June 15, 2010. Early adoption is permitted; however, adoption of this guidance as of a date other than January 1, 2011 will require the Company to apply this guidance retrospectively effective as of January 1, 2010 and will require disclosure of the effect of this guidance as applied to all previously reported interim periods in the fiscal year of adoption. As the Company plans to implement this standard prospectively, the effect of this guidance will be limited to future transactions. The Company does not expect adoption of this standard to have a material impact on its financial position or results of operations as it has no material research and development arrangements which will be accounted for under the milestone method.

In January 2010, the FASB issued new accounting guidance which requires new disclosures regarding transfers in and out of Level 1 and Level 2 fair value measurements, as well as requiring presentation on a gross basis of information about purchases, sales, issuances and settlements in Level 3 fair value measurements. The guidance also clarifies existing disclosures regarding level of disaggregation, inputs and valuation techniques. The new guidance is effective for interim and annual reporting periods beginning after December 15, 2009. Disclosures about purchases, sales, issuances and settlements in the roll forward of activity in Level 3 fair value measurements are effective for fiscal years beginning after December 15, 2010. As this guidance requires only additional disclosure, there should be no impact on the consolidated financial statements of the Company upon adoption.

In October 2009, a new accounting consensus was issued for multiple-deliverable revenue arrangements. This consensus amends existing revenue recognition accounting standards. This consensus provides accounting principles and application guidance on whether multiple deliverables exist, how the arrangement should be separated and the consideration allocated. This guidance eliminates the requirement to establish the fair value of undelivered products and services and instead provides for separate revenue recognition based upon management's estimate of the selling price for an undelivered item when there is no other means to determine the fair value of that undelivered item. Previously the existing accounting consensus required that the fair value of the undelivered item be the price of the item either sold in a separate transaction between unrelated third parties or the price charged for each item when the item is sold separately by the vendor. Under the existing accounting consensus, if the fair value of all of the elements in the arrangement was not determinable, then revenue was deferred until all of

the items were delivered or fair value was determined. This new approach is effective prospectively for revenue arrangements entered into or materially modified in fiscal years beginning on or after June 15, 2010. The Company is in the process of evaluating whether the adoption of this standard will have a material effect on its financial position, results of operations or cash flows.

Other recent accounting pronouncements issued by the FASB (including its Emerging Issues Task Force), the AICPA, and 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.

The Company does not believe that the adoption of the above recent pronouncements will have a material effect on the Company’s consolidated results of operations, financial position, or cash flows.

Off-Balance Sheet Arrangements

At June 30, 2010, we had no obligations that would require disclosure as off-balance sheet arrangements.

Item 7A. Quantitative and Qualitative Disclosures About Market Risk.

Not required.

Item 8. Financial Statements.

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors
Derycz Scientific, Inc. and Subsidiaries
Santa Monica, California

We have audited the consolidated balance sheets of Derycz Scientific, Inc. (the "Company") and Subsidiaries as of June 30, 2010 and 2009, 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 consolidated 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 consolidated financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Derycz Scientific, Inc. and Subsidiaries as of June 30, 2010 and 2009 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 27, 2010
Los Angeles, California

Derycz Scientific, Inc.
Consolidated Balance Sheets

	June 30, 2010	June 30, 2009
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	$ 1,852,231	$ 1,854,093
Accounts receivable, net of allowance of $59,061 and $35,000, respectively	4,448,269	3,499,848
Inventory	6,628	10,188
Prepaid royalties	714,287	217,980
Other current assets	84,470	37,890
TOTAL CURRENT ASSETS	7,105,885	5,619,999
PROPERTY AND EQUIPMENT, net of accumulated depreciation of $317,629 and $188,266	372,868	340,776
INTANGIBLE ASSETS		
Customer lists, net of accumulated amortization of $50,000 and $43,056	-	6,944
Intellectual property licenses, net of accumulated amortization of $297,887 and $163,209	674,779	600,887
GOODWILL	223,385	223,385
TOTAL ASSETS	$ 8,376,917	$ 6,791,991
LIABILITIES AND STOCKHOLDERS' EQUITY		
CURRENT LIABILITIES		
Accounts payable	$ 4,887,636	$ 3,036,615
Capital lease obligation, current	33,682	17,861
Income tax payable	600	3,659
Other current liabilities	97,224	116,769
TOTAL CURRENT LIABILITIES	5,019,142	3,174,904
CAPITAL LEASE OBLIGATIONS, LONG TERM	43,514	43,617
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; 13,001,830 and 12,961,830 shares issued and outstanding	13,002	12,962
Additional paid-in capital	5,510,620	5,450,223
Accumulated deficit	(2,244,265)	(1,937,072)

TOTAL STOCKHOLDERS' EQUITY	3,279,357	3,526,113
NONCONTROLLING INTEREST	34,904	47,357
TOTAL EQUITY	3,314,261	3,573,470
TOTAL LIABILITIES AND EQUITY	$ 8,376,917	$ 6,791,991

See notes to consolidated financial statements

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Derycz Scientific, Inc.
Consolidated Statements of Operations

	Years ended June 30, 2010	Years ended June 30, 2009
NET SALES	$ 24,935,473	$ 14,653,374
COST OF SALES	21,019,225	12,142,967
GROSS PROFIT	3,916,248	2,510,407
OPERATING EXPENSES:		
General and administrative	3,590,933	3,289,642
Marketing and advertising	439,877	158,524
Depreciation and amortization	206,616	235,660
TOTAL OPERATING EXPENSES	4,237,426	3,683,826
LOSS FROM OPERATIONS	(321,178)	(1,173,419)
Gain on marketable securities	-	33,668
Other Income	5,415	98,605
Interest expense	(6,919)	(34,993)
Interest income	4,169	39,527
LOSS BEFORE INCOME TAXES AND NONCONTROLLING INTEREST	(318,513)	(1,036,612)
PROVISION FOR INCOME TAXES	(1,133)	(32,174)
NET LOSS	(319,646)	(1,068,786)
NET LOSS ATTRIBUTABLE TO NONCONTROLLING INTEREST	12,453	2,745
NET LOSS ATTRIBUTABLE TO DERYCZ SCIENTIFIC, INC.	$ (307,193)	$ (1,066,041)
NET LOSS PER SHARE:		
BASIC AND DILUTED	$ (0.02)	$ (0.08)
WEIGHTED AVERAGE SHARES OUTSTANDING:		
BASIC AND DILUTED	12,966,830	12,945,163

See notes to consolidated financial statements

Derycz Scientific, Inc.

Consolidated Statement of Stockholders' Equity
For the years ended June 30, 2010 and 2009

	Common stock		Additional paid-in	Accumulated	Noncontrolling	Total stockholders'
	Shares	Amount	capital	Deficit	Interest	equity
Balance, July 1, 2008	12,561,813	$ 12,562	$ 4,645,364	$ (871,031)	$ 50,102	$ 3,836,997
Fair value of vested options issued to employees	-	-	161,271	-		161,271
Issuance of warrant for services			43,963	-		43,963
Issuance of common stock for cash	400,017	400	599,625	-		600,025
Net loss for the period				(1,066,041)	(2,745)	(1,068,786)
Balance, July 1, 2009	12,961,830	12,962	5,450,223	(1,937,072)	47,357	3,573,470
Fair value of shares issued for services	40,000	40	45,960			46,000
Fair value of warrants issued for services			14,437			14,437
Net loss for the period				(307,193)	(12,453)	(319,646)
Balance, June 30, 2010	13,001,830	$ 13,002	$ 5,510,620	$ (2,244,265)	$ 34,904	$ 3,314,261

See notes to consolidated financial statements

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Derycz Scientific, Inc.

Consolidated Statements of Cash Flows

	Years ended June 30, 2010	2009
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net loss	$ (319,646)	$ (1,068,786)
Adjustment to reconcile net loss to net cash provided by operating activities:		
Depreciation and amortization	270,981	283,583
Fair value of vested stock options	14,437	161,271
Fair value of common stock warrant issued for services	46,000	43,963
Realized gain on investment	-	(33,668)
Changes in assets and liabilities:		
Accounts receivable	(948,421)	(380,690)
Inventory	3,560	5,768
Prepaid royalties	(496,307)	108,097
Other current assets	(46,581)	42,850
Accounts payable and accrued expenses	1,851,021	1,039,382
Other current liabilities	(19,544)	28,338
Income taxes payable	(3,059)	3,659
Net cash provided by operating activities	352,441	233,767
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchase of furniture and equipment	(118,811)	(76,524)
Purchase of Intellectual Property licenses	(208,570)	(181,122)
Additional investment in Pools Press	-	(34,200)
Proceeds from sale of short term investments	-	1,770,298
Net cash provided by (used in) investing activities	(327,381)	1,478,452
CASH FLOWS FROM FINANCING ACTIVITIES:		
Proceeds from the issuance of common stock	-	600,025
Capital lease obligation	(26,922)	(16,130)
Payments on line of credit	-	(1,291,855)
Net cash used in financing activities	(26,922)	(707,960)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(1,862)	1,004,259
CASH AND CASH EQUIVALENTS, Beginning of period	1,854,093	849,834
CASH AND CASH EQUIVALENTS, End of period	$ 1,852,231	$ 1,854,093

SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION:				
Taxes paid	$	32,174	$	-
Interest paid	$	6,919	$	34,500
SUPPLEMENTAL DISCLOSURES OF NON-CASH INVESTING AND FINANCING ACTIVITIES:				
Minority share of losses in subsidiary	$	12,453		2,745
Capital lease obligation	$	42,640		-

DERYCZ SCIENTIFIC, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
For the Years Ended June 30, 2010 and 2009

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

(a) Organization

Derycz Scientific, Inc. was incorporated in the State of Nevada on November 2, 2006. On November 2, 2006 the Company entered into a Share Exchange Agreement with Reprints Desk, Inc., a Delaware corporation formed on January 6, 2006. Derycz was formed to facilitate a holding company structure. At the closing of the transaction contemplated by the Share Exchange Agreement, the Company acquired all of the 550,000 outstanding shares of Reprints from the shareholders of Reprints and issued 8,000,003 of its common shares to the shareholders of Reprints. As the intention behind forming Derycz was the creation of a holding company structure and Derycz had no appreciable assets prior to the acquisition of Reprints, the exchange ratio was determined arbitrarily and was not based on any determination of the value of shares of Derycz common stock as compared to Reprints shares acquired. As each former Reprints shareholder acquired a percentage interest in Derycz equal to the percentage interest such shareholder held in Reprints immediately prior to the transaction, there was no dilution of the interest of any former Reprints shareholder. Following completion of the exchange transaction, Reprints became a wholly owned subsidiary of the Company. The transaction was accounted as a statutory merger of companies under common control. As such, the historical financial statements of the Company are combined with the operations of Reprints since its inception, and the merger shares are accounted for as a stock split as of the inception of Reprints for financial reporting purposes.

(b) Nature of business

Reprints is a content repurposing and rights management company, with a focus on content re-use services and products. The Company operates within the periodicals publishing industry which is a large and growing market. The Company has developed products in the following areas:

- Reprints, ePrints and Article Distribution Systems
- Commercial Printing Services
- Publisher Outsourced Reprint Management
- Print-on-Demand Services for copyright and regulatory sensitive documents

(c) Basis of Presentation

The accompanying financial statements are consolidated and include the accounts of the Company and its wholly and majority owned subsidiaries. The consolidated accounts include 100% of assets and liabilities of our majority owned subsidiary, and the ownership interests of minority investors are recorded as a minority interest. Intercompany balances and transactions have been eliminated in consolidation.

Note 2 — Summary of Significant Accounting Policies

(a) 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.

The more significant items subject to such estimates and assumptions include fair value of our equity securities, carrying amount and useful lives of property and equipment, goodwill, other intangible assets, valuations of accounts receivable and accounting for income taxes.

(b) Fair value of financial instruments

Effective January 1, 2008, fair value measurements are determined by the Company's adoption of authoritative guidance issued by the Financial Accounting Standards Board (the "FASB"), with the exception of the application of the statement to non-recurring, non-financial assets and liabilities as permitted. The adoption of the authoritative guidance did not have a material impact on the Company's fair value measurements. Fair value is defined in the authoritative guidance as the price that would be received to sell an asset or paid to transfer a liability in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants at the measurement date. A fair value hierarchy was established, which prioritizes the inputs used in measuring fair value into three broad levels as follows:
Level 1 – Quoted prices in active markets for identical assets or liabilities.
Level 2 – Inputs, other than the quoted prices in active markets, are observable either directly or indirectly.

Level 3 – Unobservable inputs based on the Company's assumptions.

The Company is required to use observable market data if such data is available without undue cost and effort. The Company has no fair value items required to be disclosed as of June 30, 2010 or 2009.

(c) Cash and cash equivalents

For purposes of the statements of cash flows, the Company defines cash equivalents as all highly liquid debt instruments purchased with a maturity of three months or less.

(d) Allowance for doubtful accounts

The Company regularly reviews the accounts receivable aging and applies various expected loss percentages to certain accounts receivable categories based upon historical bad debt experience in order to determine whether an allowance for doubtful accounts resulting from the inability, failure or refusal of customers to make required payments, is appropriate. The Company established an allowance for doubtful accounts of $59,061 and $35,000 as of June 30, 2010 and June 30, 2009, respectively.

(e) Concentration of credit risk

Financial instruments, which potentially subject the Company to concentrations of credit risk, consist of cash and cash equivalents and accounts receivables. 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.

One customer accounted for 22% of the revenues for the year ended June 30, 2010 and one customer accounted for 16% of the revenue for the year ended June 30, 2009.

As of June 30, 2010, three customers accounted for 14%, 13% and 12% of accounts receivable, and two customers accounted for 15% and 14% of accounts receivable at June 30, 2009.

During the years ended June 30, 2010 and 2009 the Company's purchases from one vendor represented 23% and 16%, respectively, of our content costs.

(f) Property and equipment

Property and equipment are stated at cost and are depreciated using the straight-line method over their estimated useful lives of 3-5 years. Expenditures for maintenance and repairs are charged to operations as incurred while renewals and betterments are capitalized. Gains and losses on disposals are included in the results of operations.

(g) Intellectual property licenses

The Company has purchased licenses to use certain intellectual property. These licenses are amortized on the straight-line method over their estimated useful lives of 7 years.

(h) Customer lists

From time to time, the Company purchases customer lists. These lists are amortized using an accelerated method that management presently estimates matches the utilization of those lists over an estimated useful life of 2 years.

(i) Revenue recognition

The Company's primary source of revenue is from the re-use of published articles and rights management services as well as printing services. The Company recognizes revenue from printing services when the sales process is deemed complete and associated revenue has been earned which occurs when services have been rendered and the printed materials have been delivered to the customer. 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 and determinable and collectability is reasonably assured.

The Company recognizes revenues from the re-use of published articles and rights management services are recognized upon shipment or electronic delivery to the customer.

(j) Impairment of long-lived assets

The Company reviews and evaluates its long-lived assets for impairment when events or changes in circumstances indicate that the related carrying amounts may not be recoverable. Impairment is considered to exist if the total estimated future cash flows on an undiscounted basis are less than the carrying amount of the assets, including goodwill, if any. An impairment loss is measured and recorded based on discounted estimated future cash flows. In estimating future cash flows, assets are grouped at the lowest level for which there are identifiable cash flows that are largely independent of future cash flows from other asset groups.

Based upon management's assessment, there were no indicators of impairment of the Company's long lived assets as of June 30, 2010 or 2009.

(k) 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 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 the authoritative guidance whereas 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.

(l) Goodwill and intangible assets

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

The Company accounts for acquisition of a business in accordance with guidance issued by the FASB, which may result in the recognition of goodwill. Goodwill is related to the Company's acquisition of 75% majority interest in Pools Press in February 2007. Goodwill is not amortized. Rather, goodwill is assessed for impairment at least annually. Management tests goodwill for impairment at the reporting unit level. The Company has two reporting units. The Company tests goodwill by using a two-step process. In the first step, the fair value of the reporting unit is compared with the carrying amount of the reporting unit, including goodwill. If the carrying amount of the reporting unit exceeds its fair value, goodwill is considered impaired and a second step is performed to measure the amount of impairment loss, if any.

The Company reviews intangible assets subject to amortization at least annually to determine if any adverse conditions exist or a change in circumstances has occurred that would indicate impairment or a change in the remaining useful life. If the carrying value of an asset exceeds its undiscounted cash flows, the Company writes down the carrying value of the intangible asset to its fair value in the period identified. If the carrying value of assets is determined not to be recoverable, the Company records an impairment loss equal to the excess of the

carrying value over the fair value of the assets. The Company's estimate of fair value is based on the best information available, in the absence of quoted market prices. The Company generally calculates fair value as the present value of estimated future cash flows that the Company expects to generate from the asset using a discounted cash flow income approach as described above. If the estimate of an intangible asset's remaining useful life is changed, the Company amortizes the remaining carrying value of the intangible asset prospectively over the revised remaining useful life.

Based upon management's annual assessment at June 30, there were no indicators of impairment of the Company's goodwill or intangible assets as of June 30, 2010 or 2009.

(m) Shipping and handling costs

The Company includes shipping and handling charges billed to its customers in its revenues, and classifies shipping and handling costs of the sale of its products as a component of cost of sales. Those costs were approximately $323,107 and $151,544, respectively, for the years ended June 30, 2010 and 2009.

(n) Income taxes

The Company accounts for income taxes using the asset and liability method whereby deferred tax assets are recognized for deductible temporary differences, and deferred tax liabilities are recognized for taxable temporary differences. Temporary differences are the differences between the reported amounts of assets and liabilities and their tax bases. Deferred tax assets are reduced by a valuation allowance when, in the opinion of management, it is more likely than not that some portion or all of the deferred tax assets will be realized. Deferred tax assets and liabilities are adjusted for the effects of changes in tax laws and rates on the date of enactment.

(o) Net Income (Loss) per share

The FASB requires presentation of basic earnings per share ("Basic EPS") and diluted earnings per share ("Diluted EPS"). Basic net income (loss) per share is computed by dividing the net income (loss) by the weighted average number of common shares available. Weighted average number of shares outstanding reflects the equivalent number of shares received as a result of the exchange transaction as if these shares had been outstanding as of the beginning of the earliest period presented. 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. Warrants to purchase 2,855,009 and 2,800,009 shares of common stock have been excluded from the calculation of diluted net loss per share for the years ended June 30, 2010 and 2009, respectively, and options to purchase 1,022,000 shares of common stock outstanding as of June 30, 2010 and June 30, 2009, have been excluded from the calculation as the effect would have been anti-dilutive.

(p) Marketing and advertising expenses

Marketing and advertising expenses are expensed as incurred and consist primarily of various forms of media purchased from Internet-based marketers and search engines. Marketing and advertising expense amounted to $439,877 and $158,524 for the years ended June 30, 2010 and 2009, respectively.

(q) Reclassifications

The Company has reclassified $729,423 of costs previously included in general administrative costs in 2009 to costs of sales to conform to 2010 presentation.

(r) Recently issued accounting pronouncements

In April 2010, the FASB issued new accounting guidance in applying the milestone method of revenue recognition to research or development arrangements. Under this guidance management may recognize revenue contingent upon the achievement of a milestone in its entirety, in the period in which the milestone is achieved, only if the milestone meets all the criteria within the guidance to be considered substantive. This standard is effective on a prospective basis for research and development milestones achieved in fiscal years, beginning on or after June 15, 2010. Early adoption is permitted; however, adoption of this guidance as of a date other than January 1, 2011 will require the Company to apply this guidance retrospectively effective as of January 1, 2010 and will require disclosure of the effect of this guidance as applied to all previously reported interim periods in the fiscal year of adoption. As the Company plans to implement this standard prospectively, the effect of this guidance will be limited to future transactions. The Company does not expect adoption of this standard to have a material impact on its financial position or results of operations as it has no material research and development arrangements which will be accounted for under the milestone method.

In January 2010, the FASB issued new accounting guidance which requires new disclosures regarding transfers in and out of Level 1 and Level 2 fair value measurements, as well as requiring presentation on a gross basis of information about purchases, sales, issuances and settlements in Level 3 fair value measurements. The guidance also clarifies existing disclosures regarding level of disaggregation, inputs and valuation techniques. The new guidance is effective for interim and annual reporting periods beginning after December 15, 2009. Disclosures about purchases, sales, issuances and settlements in the roll forward of activity in Level 3 fair value measurements are effective for fiscal years beginning after December 15, 2010. As this guidance requires only additional disclosure, there should be no impact on the consolidated financial statements of the Company upon adoption.

In October 2009, a new accounting consensus was issued for multiple-deliverable revenue arrangements. This consensus amends existing revenue recognition accounting standards. This consensus provides accounting principles and application guidance on whether multiple deliverables exist, how the arrangement should be separated and the consideration allocated. This guidance eliminates the requirement to establish the fair value of undelivered products and services and instead provides for separate revenue recognition based upon management's estimate of the selling price for an undelivered item when there is no other means to determine the fair value of that undelivered item. Previously the existing accounting consensus required that the fair value of the undelivered item be the price of the item either sold in a separate transaction between unrelated third parties or the price charged for each item when the item is sold separately by the vendor. Under the existing accounting consensus, if the fair value of all of the elements in the arrangement was not determinable, then revenue was deferred until all of the items were delivered or fair value was determined. This new approach is effective prospectively for revenue arrangements entered into or materially modified in fiscal years beginning on or after June 15, 2010. The Company is in the process of evaluating whether the adoption of this standard will have a material effect on its financial position, results of operations or cash flows.

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

The Company does not believe that the adoption of the above recent pronouncements will have a material effect on the Company's consolidated results of operations, financial position, or cash flows.

Note 3 — Property and Equipment

Property and equipment consists of the following as of June 30, 2010 and 2009:

	June 30, 2010	June 30, 2009
Computer equipment	$ 122,687	$ 68,640
Software	176,586	112,570
Printing equipment	329,092	286,452
Furniture and fixtures	58,132	57,380
Autos and vans	4,000	4,000
	690,497	529,042
Less accumulated depreciation	(317,629)	(188,266)
	$ 372,868	$ 340,776

Printing equipment includes $91,792 of equipment under capital lease and related accumulated depreciation of $53,545 and $35,187 as of June 30, 2010 and June 30, 2009, respectively.

Depreciation expense for the years ended June 30, 2010 and 2009 was $129,363 and $98,555, respectively.

Note 4 — Intangible Assets

Intangible assets consist of the following at June 30, 2010 and 2009:

June 30,	June 30,

	2010	2009
Customer list	$ -	$ 50,000
Intellectual property licenses	972,666	764,096
Accumulated amortization	(297,887)	(206,265)
	$ 674,779	$ 607,831

Customer lists are amortized using an accelerated method that management presently estimates matches the utilization of those lists over an estimated useful life of 2 years.

The Company has purchased licenses to use certain intellectual property, including computer software. These licenses are depreciated using the straight-line method over their estimated useful lives of 7 years.

Future annual amortization under these intangible assets at June 30, 2010 is as follows:

Year ending June 30,		Amount
2011	$	140,356
2012		136,606
2013		136,606
2014		134,641
Thereafter		126,570
	$	674,779

Note 5 — Leases

The Company leases space in Northbrook, Illinois in accordance with the terms of a non-cancelable operating lease agreement. The lease requires monthly payments between $7,750 and $8,000 through May 2011 and is being accounted for by the Company on a straight-line basis over the term of the lease. In addition to monthly rentals, the lease requires the payment of real estate taxes and maintenance. Rent, including real estate taxes, for the years ended June 30, 2010 and 2009 was $141,339 and $143,727, respectively.

The Company leases space in Santa Monica, California in accordance with the terms of a non-cancelable operating lease agreement. The lease requires monthly payments between $5,200 and $5,517 through May 2012 and is being accounted for by the Company on a straight-line basis over the term of the lease. In addition to monthly rentals, after June 1, 2010, the lease requires the payment of any increases in real estate taxes. The Company also leases space in North Hollywood, California and Bethesda, Maryland, in accordance with the terms of non-cancelable operating lease agreements which require monthly payments of $1,200 and $625, respectively, through January 31, 2011, and April 1, 2012, respectively. Rent, including real estate taxes, for the years ended June 30, 2010 and 2009 was $94,563 and $5,200, respectively.

The Company also has two non-cancelable leases for machinery and equipment that are accounted for as capital leases that require monthly payments of $1,945 including interest at a rate of 10.25% per annum through July 2012 and $1,275 including interest at a rate of 5.13% per annum through October 2012, respectively. Annual future minimum rentals under operating and capital leases as of June 30, 2010 are as follows:

Fiscal Year		Operating Leases		Capital Leases
2011	$	155,806	$	38,640
2012		152,433		38,640
2013		60,687		7,045
Total minimum lease payments	$	368,926	$	84,325
Amounts representing interest				(7,129)
Total				77,196
Less current portion				(33,682)
Long term			$	43,514

Note 6 — 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. On December 21, 2007, we granted options to purchase 530,000 shares of common stock at $1.50 per share to eight employees and one consultant, which expire on December 21, 2017. The options were valued at $112,000 using a Black-Scholes valuation model and will be amortized over the vesting period. The exercise price for the options was $1.50 per share and was based on the fair value of the shares on the date of issuance. For the Black-Scholes calculation, the Company assumed no dividend yield, a risk free interest rate of 4.18%, expected volatility of 25% and an expected term for the options of 7 years.

On May 28, 2009, we granted options to purchase 492,000 shares of common stock at $1.00 per share to nine employees, which expire on May 28, 2019. The options were valued at $148,327 using a Black-Scholes valuation model and were expensed on the grant date as the options all vested immediately. The exercise price for the options was $1.00 per share and was based on the fair value of the shares on the date of issuance. For the Black-Scholes calculation, the Company assumed no dividend yield, a risk free interest rate of 3.67%, expected volatility of 83% and an expected term for the options of 10 years.

Stock-based compensation expense of $0 and $161,271 was recognized during the years ended June 30, 2010 and 2009, respectively, relating to the vesting of such options. No future compensation expense related to these options remains as of June 30, 2010. As of June 30, 2010, these options have no intrinsic value.

At June 30, 2010 options outstanding are as follows:

	Number of Options		Weighted Average Exercise Price
Balance at July 1, 2008	530,000	$	1.50
Granted	492,000	$	1.00
Exercised	—		—
Cancelled	—	$	—
Balance at June 30, 2009	1,022,000	$	1.26
Granted	—	$	—
Exercised	—		—
Cancelled	—	$	—
Balance at June 30, 2010	1,022,000	$	1.26

Additional information regarding options outstanding as of June 30, 2010 is as follows:

	Options Outstanding			Options Exercisable
Weighted Average Exercise Price	Number Outstanding	Weighted Average Remaining Contractual Life (Years)	Weighted Average Exercise Price	Number Exercisable
$ 1.26	1,022,000	8	$ 1.26	1,022,000

Warrants

At June 30, 2010 warrants outstanding are as follows:

	Number of Warrants	Weighted Average Exercise Price
Balance at July 1, 2008	2,450,000	$ 1.25
Granted	350,009	2.00
Exercised	—	
Cancelled	—	
Balance, June 30, 2009	2,800,009	$ 1.34
Granted	55,000	$ 2.00
Exercised	-	
Balance at June 30, 2010	2,855,009	$ 1.34

On July 1, 2008, the Company issued warrants to acquire 150,000 shares of our stock at an exercise price of $2.00 per share and a life of five years to a consultant. The warrants were valued at $43,693 using a Black-Scholes pricing model with the following assumptions; no dividend yield, risk free interest rate of 4.5%, expected volatility of 25%, and an expected term of the warrants of five years.

On October 8, 2009, the Company issued warrants to acquire 55,000 shares of our stock to a consultant at an exercise price of $1.50 per share and with a life of five years and which vest over a period of one year. The fair market value of the warrants amortized during the year was $14,437 using a Black-Scholes pricing model with the following assumptions; no dividend yield, risk free interest rate of 4.5%, expected volatility of 25%, and an expected term of the warrants of five years.

The above warrants are fully vested, except for the 55,000 warrants issued on October 8, 2009, and have a five year contractual life. There was no intrinsic value to these warrants as of June 30, 2010 and 2009 based on the trading price of the Company's common stock on June 30, 2010 and 2009.

Shares issued for services

During the year ended June 30, 2010, the Company issued 40,000 shares of its common stock valued at $46,000 based on the trading price of the Company's common stock on the date of the grant to a consultant. Such costs are included in operating expenses in our accompanying statement of operations for the year ended June 30, 2010.

Note 7 — Contingencies and Commitments

The Company has long-term contractual commitments with several vendors to purchase content during the next several fiscal years. These commitments total in aggregate $4,650,000, $4,350,000, $4,650,000, $5,000,000, $5,400,000, and $2,800,000 for the fiscal years ending June 30, 2011, 2012, 2013, 2014, 2015 and 2016, respectively.

Note 8 — Related Party Transactions

The Company leased furniture and office space on a month-to-month basis from a stockholder of the Company until May 31, 2009. The total rent expense paid to the stockholder for the years ended June 30, 2010 and 2009 was $0 and $27,404, respectively.

Note 9 — Income Taxes

The provision for income taxes consists of the following for the years ended June 30, 2010 and 2009:

	June 30, 2010	June 30, 2009
Current		
Federal	$ 326	$ 21,007
State	807	11,167
Deferred		
Federal		
State	—	—
Provision for income tax expense	$ 1,133	$ 32,174

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The reconciliation of the effective income tax rate to the federal statutory rate is as follows:

	Years Ended June 30,	
	2010	2009
Federal income tax rate	(34.00)%	(34.00)%
State tax, net of federal benefit	(9.57)%	(3.00)%
Permanent differences	2.12%	5.53%
Change in valuation allowance	43.85%	33.98%
Other	(1.97)%	0.59%
Effective income tax rate	0.43%	3.10%

Deferred income taxes reflect the net tax effects of temporary differences between the carrying amounts of assets and liabilities for financial statement purposes and the amounts used for income tax purposes. Significant components of the Company's deferred tax assets and liabilities at June 30, 2010 and 2009 are as follows:

	June 30, 2010	June 30, 2009
Deferred tax assets:		
Federal net operating loss	$ 496,900	$ 458,540
State net operating loss	62,845	45,139
Intangibles	105,655	79,976
Stock based compensation	22,566	16,345
Other	13,602	845
Total deferred tax assets	701,568	600,845
Deferred tax liability		
Fixed asset depreciation	(76,056)	(91,778)
Net deferred tax assets	625,512	509,067
Less valuation allowance	(624,604)	(509,067)
	$ 908	$ —

The Company has provided a valuation allowance on the deferred tax assets at June 30, 2010 and 2009 to reduce such asset to $908 and zero, respectively, since there is no assurance that the Company will generate future taxable income to utilize such asset. Management will review this valuation allowance requirement periodically and make adjustments as warranted. The net change in the valuation allowance for the year ended June 30, 2010 was an increase of $115,537.

At June 30, 2010 and 2009, the Company had federal net operating loss (“NOL”) carryforwards of approximately $1,461,470 and $1,349,000, respectively, and state NOL carryforwards of approximately $1,093,932 and $792,000, respectively. Federal NOLs could, if unused, expire in 2030. State NOLs, if unused, could expire in 2020.

Effective January 1, 2007, the Company adopted FASB guidelines that address the determination of whether tax benefits claimed or expected to be claimed on a tax return should be recorded in the financial statements. Under this guidance, we may recognize the tax benefit from an uncertain tax position only if it is more likely than not that the tax position will be sustained on examination by the taxing authorities, based on the technical merits of the position. The tax benefits recognized in the financial statements from such a position should be measured based on the largest benefit that has a greater than fifty percent likelihood of being realized upon ultimate settlement. This guidance also provides guidance on derecognition, classification, interest and penalties on income taxes,

accounting in interim periods and requires increased disclosures. At the date of adoption, and as of June 30, 2010 and 2009, the Company did not have a liability for unrecognized tax benefits, and no adjustment was required at adoption.

The Company files income tax returns in the U.S. federal jurisdiction and various states. The Company is subject to U.S. federal or state income tax examinations by tax authorities for years after 2006.

The Company's policy is to record interest and penalties on uncertain tax provisions as income tax expense. As of June 30, 2010 and 2009, the Company has no accrued interest or penalties related to uncertain tax positions. Additionally, tax years 2006 through 2010 remain open to examination by the major taxing jurisdictions to which the Company is subject.

Note 10 — Subsequent events

On July 27, 2010, the Company issued options to purchase 379,000 shares of the Company's common stock to several employees under the 2007 Equity Compensation Plan, at an exercise price of $1.02. These option vest over 3 years, with one-twelfth of the grant vesting on the last day of each calendar quarter though September 30, 2013.

On August 13, 2010, the Company granted 19,393 shares of the Company's common stock valued at $17,648 to a consultant in exchange for services.

On August 31, 2010, the Company purchased the remaining 20% of Pools Press, Inc. that it did not already own for a purchase price of $120,000.

Item 9. Changes in and Disagreements With Accountants on Accounting and Financial Disclosure.

There were no changes in or disagreements with our accountants on accounting and financial disclosure during the last two fiscal years.

Item 9A. Controls and Procedures.

Evaluation of 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 Annual Report on Form 10-K. 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 June 30, 2010, 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.

Management’s Report on Internal Control over Financial Reporting

Our management is responsible for establishing and maintaining adequate internal control over financial reporting. Internal control over financial reporting is defined in Rule 13a-15(f) or 15d-15(f) promulgated under the Securities Exchange Act of 1934 as a process designed by, or under the supervision of, the company's principal executive and principal financial officers and effected by the company's board of directors, management and other personnel, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with accounting principles generally accepted in the United States of America and includes those policies and procedures that:

* Pertain to the maintenance of records that in reasonable detail accurately and fairly reflect the transactions and dispositions of the assets of the company;
* Provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with accounting principles generally accepted in the United States of America and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and
* Provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate. All internal control systems, no matter how well designed, have inherent limitations. Therefore, even those systems determined to be effective can provide only reasonable assurance with respect to financial statement preparation and presentation. Because of the inherent limitations of internal control, there is a risk that material misstatements may not be prevented or detected on a timely basis by internal control over financial reporting. However, these inherent limitations are known features of the financial reporting process. Therefore, it is possible to design into the process safeguards to reduce, though not eliminate, this risk.

As of June 30, 2010 management assessed the effectiveness of our internal control over financial reporting based on the criteria for effective internal control over financial reporting established in Internal Control—Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission ("COSO") and SEC guidance on conducting such assessments. Based on that evaluation, they concluded that, during the period covered by this Annual Report, such internal controls and procedures were not effective to detect the inappropriate application of US GAAP rules as more fully described below. This was due to deficiencies that existed in the design or operation of our internal controls over financial reporting that adversely affected our internal controls and that may be considered to be material weaknesses.

The matters involving internal controls and procedures that our management considered to be material weaknesses under the standards of the Public Company Accounting Oversight Board were the lack of a functioning audit committee due to a lack of a majority of independent members and a lack of a majority of outside directors on our board of directors, resulting in ineffective oversight in the establishment and monitoring of required internal controls and procedures. This material weakness was identified by our Chief Executive Officer in connection with the review of our financial statements as of June 30, 2010.

Management believes that the lack of a functioning audit committee and the lack of a majority of outside directors on our board of directors results in ineffective oversight in the establishment and monitoring of required internal controls and procedures, which could result in a material misstatement in our financial statements in future periods.

Management's Remediation Initiatives

In an effort to remediate the identified material weaknesses and other deficiencies and enhance our internal controls, we are in the process of seeking outside directors and we expect to have appointed outside directors to our board before December 31, 2010. We also intend to appoint outside directors to a fully functioning audit committee which will undertake the oversight in the establishment and monitoring of required internal controls and procedures such as reviewing and approving estimates and assumptions made by management.

Management believes that the appointment of outside directors, who shall be appointed to a fully functioning audit committee, will remedy the lack of a functioning audit committee and a lack of a majority of outside directors on our Board.

Changes in Internal Controls Over Financial Reporting

There has been no change in our internal control over financial reporting (as defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act) during the most recently completed fiscal quarter that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

Item 9B. Other Information.

None.

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PART III

Item 10. Directors, Executive Officers and Corporate Governance

The following table identifies our current executive officers and directors, their respective offices and positions, and their respective dates of election or appointment:

Name	Age	Position	Date of Appointment
Peter Derycz	48	Chief Executive Officer, President and Chairman of the Board	January 6, 2006
Richard McKilligan	47	Chief Financial Officer, Secretary and General Counsel	January 1, 2007
Scott Ahlberg	47	Director, Head of Corporate Services of Reprints Desk	February 6, 2006
Jan Peterson	62	Director, Head of Publisher Relations of Reprints Desk	July 1, 2006

All directors hold office until the next annual meeting of stockholders and the election and qualification of their successors. Officers are elected annually by the Board of Directors and serve at the discretion of the Board.

Business Experience Descriptions

Peter Derycz – Chief Executive Officer, President and Chairman

Peter Derycz founded Reprints as its President in 2006. Mr. Derycz was a founder of Infotrieve, Inc. in 1989 and served as its President from February 2003 until September 2003. He served as the Chief Executive Officer of Puerto Luperon, Ltd. (Bahamas) from January 2004 until December 2005. In January 2006, he was appointed to, and currently serves as a member of, the board of directors of Insignia Systems, Inc. Mr. Derycz received a B.A. in Psychology from the University of California at Los Angeles.

Richard McKilligan – Chief Financial Officer, Secretary and General Counsel

Richard McKilligan earned his law degree from Cornell Law School, his MBA from the University of Chicago and his undergraduate degree in Accountancy from the University of Illinois at Urbana-Champaign. He joined Derycz in January 2007. Mr. McKilligan is also a director of Bristol Investment Fund, Ltd., which holds a significant equity stake in the Company, and Chief Financial Officer and a director of Genesis Biopharma, Inc., of which Bristol Investment Fund, Ltd. also holds a significant equity stake. He was an associate with Morgan, Lewis & Bockius, LLP in their New York and London offices from 2000 until January 2006. He is a member of the State Bar of California, the New York State Bar Association and the Florida Bar.

Scott Ahlberg – Head of Corporate Services of Reprints Desk

Scott Ahlberg has degrees from Stanford University (BA, 1984) and the University of London (MA, 1990). Mr. Ahlberg was Vice President of Infotrieve, Inc. from 1991 until 2001 and Executive Vice President from 2001 until May 2005. From May 2005 until February 2006, Mr. Ahlberg provided consulting services to ventures in professional networking and medical podcasting. He joined Reprints Desk in 2006.

Jan Peterson – Head of Publisher Relations of Reprints Desk

Jan Peterson was Vice President for Content Development at Infotrieve, Inc. from 2000 to 2006 and Vice President for Publisher Relations and Content Development at RoweCom, formerly Faxon/Dawson, from 1997 to

2000. Ms. Peterson was at Academic Press (now Elsevier) for 14 years, where her last position was Fulfillment Director. Ms. Peterson is Past Chair of the Board of Directors for the National Information Standards Organization (NISO), and she is the past chair of the International Committee for EDI in Serials (ICEDIS). She has a degree in History from Whittier College and an M.A. in Asian Studies from California State College, San Diego. She joined Reprints in 2006.

Family Relationships

There are no family relationships among any of our executive officers or directors.

Involvement in Certain Legal Proceedings

None of the directors or executive officers have, during the past ten years:

- Had any petition under the federal bankruptcy laws or any state insolvency law filed by or against, or had a receiver, fiscal agent, or similar officer appointed by a court for the business or property of such person, or any partnership in which he was a general partner at or within two years before the time of such filing, or any corporation or business association of which he was an executive officer at or within two years before the time of such filing;

- Been convicted in a criminal proceeding or a named subject of a pending criminal proceeding (excluding traffic violations and other minor offenses);

- Been the subject of any order, judgment, or decree, not subsequently reversed, suspended, or vacated, of any court of competent jurisdiction, permanently or temporarily enjoining him from, or otherwise limiting, the following activities:

(i) Acting as a futures commission merchant, introducing broker, commodity trading advisor, commodity pool operator, floor broker, leverage transaction merchant, any other person regulated by the Commodity Futures Trading Commission, or an associated person of any of the foregoing, or as an investment adviser, underwriter, broker or dealer in securities, or as an affiliated person, director or employee of any investment company, bank, savings and loan association or insurance company, or engaging in or continuing any conduct or practice in connection with such activity;

(ii) Engaging in any type of business practice; or

(iii) Engaging in any activity in connection with the purchase or sale of any security or commodity or in connection with any violation of federal or state securities laws or federal commodities laws;

- Been the subject of any order, judgment, or decree, not subsequently reversed, suspended, or vacated, of any federal or state authority barring, suspending, or otherwise limiting for more than 60 days the right of such person to engage in any activity described in (i) above, or to be associated with persons engaged in any such activity;

- Been found by a court of competent jurisdiction in a civil action or by the SEC to have violated any federal or state securities law, where the judgment in such civil action or finding by the SEC has not been subsequently reversed, suspended, or vacated ;

- Been found by a court of competent jurisdiction in a civil action or by the Commodity Futures Trading Commission to have violated any federal commodities law, where the judgment in such civil action or finding by the Commodity Futures Trading Commission has not been subsequently reversed, suspended, or vacated;

- Been the subject of, or a party to, any federal or state judicial or administrative order, judgment, decree, or finding, not subsequently reversed, suspended or vacated, relating to an alleged violation of:

(i) Any federal or state securities or commodities law or regulation; or

(ii) Any law or regulation respecting financial institutions or insurance companies including, but not limited to, a temporary or permanent injunction, order of disgorgement or restitution, civil money penalty or temporary or permanent cease-and-desist order, or removal or prohibition order; or

(iii) Any law or regulation prohibiting mail or wire fraud or fraud in connection with any business entity; or

- Been the subject of, or a party to, any sanction or order, not subsequently reversed, suspended or vacated, of any self-regulatory organization (as defined in Section 3(a)(26) of the Exchange Act), any registered entity (as defined in Section 1(a)(29) of the Commodity Exchange Act), or any equivalent exchange, association, entity or organization that has disciplinary authority over its members or persons associated with a member.

Compliance with Section 16(a) of the Exchange Act

Section 16(a) of the Exchange Act requires our officers, directors, and persons who own more than ten percent of a registered class of our equity securities to file reports of ownership and changes in ownership with the SEC and to furnish the Company with copies of all Section 16(a) forms they file. Our review of copies of the Section 16(a) reports filed during the fiscal year ended June 30, 2010 indicates that all filing requirements applicable to our officers, directors, and greater than ten percent beneficial owners were complied with. However, our review of copies of the Section 16(a) reports filed subsequent to June 30, 2010 indicates that Mr. McKilligan, Mr. Ahlberg and Ms. Peterson did not timely file their respective reports on Form 4 pertaining to transactions involving each of them that occurred on May 28, 2009 and July 27, 2010. Each of the relevant reports was filed on August 12, 2010.

Code of Ethics

We have not yet adopted a written code of ethics that applies to our Chief Executive Officer, Chief Financial Officer, principal accounting officer or persons performing similar functions. We currently are considering the terms of such a code and expect to adopt a code of ethics during the current fiscal year.

Item 11. Executive Compensation.

Executive Compensation

The following table summarizes all compensation for the fiscal years ended June 30, 2010 and June 30, 2009 awarded to, earned by or paid to our Chief Executive Officer and the Company's two most highly compensated executive officers who earned more than $100,000 in fiscal year 2010. The following table summarizes all compensation for the last two fiscal years awarded to, earned by or paid to (i) our Chief Executive Officer (principal executive officer), (ii) two most highly compensated executive officers other than our CEO who were serving as executive officers at the end of our last completed fiscal year, whose total compensation exceeded $100,000 during such fiscal year ends, and (iii) up to two additional individuals for whom disclosure would have been provided but for the fact that the individual was not serving as an executive officer at the end of our last completed fiscal year, whose total compensation exceeded $100,000 during such fiscal year ends.

SUMMARY COMPENSATION TABLE FOR FISCAL YEARS ENDED JUNE 30, 2010 AND 2009

Name and principle Position (a)	Year (b)	Salary ($) (c)	Bonus ($) (d)	Stock awards ($) (e)	Option awards ($) (f)	Non-equity incentive plan compensation ($) (g)	Nonqualified deferred compensation earnings ($) (h)	All other compensation ($) (i)	Total ($) (j)
Peter Derycz	2010	270,000(1)	-	-	-	-	-	-	270,000
Chief Executive Officer	2009	240,000	-	-	-	-	-	-	240,000
Richard McKilligan	2010	155,000	-	-	-	-	-	-	155,000
Chief Financial Officer	2009	111,000	-	-	27,133(2)	-	-	-	138,133

(1) Includes a bonus of $30,000 paid on July 30, 2010 for services performed during the fiscal year ended June 30, 2010 and accrued as as an expense at June 30, 2010.

(2) Represents a grant made on May 28, 2009, of options to purchase 90,000 common shares which vested immediately.

The following table sets forth, at June 30, 2010, information regarding unexercised options for each named executive officer. There were no stock awards outstanding at June 30, 2010.

OUTSTANDING EQUITY AWARDS AT 2010 FISCAL YEAR-END

Name (a)	Number of securities underlying unexercised options (#) exercisable (b)	Number of securities underlying unexercised options (#) unexercisable (c)	Equity incentive plan awards: Number of securities underlying unexercised unearned options (#) (d)	Option exercise price ($) (e)	Option expiration date (f)
Peter Derycz	-	-	-	-	-
Richard	95,000(1)	-		$ 1.50	12/21/17
McKilligan	90,000(2)	-	-	1.00	5/28/19

(1) Options vested immediately upon grant on December 21, 2007.

(2) Options vested immediately upon grant on May 28, 2009.

The following table sets forth, for the year ended June 30, 2010, the compensation earned by our directors for the services rendered by them to the Company in all capacities.

DIRECTOR COMPENSATION FOR THE FISCAL YEAR ENDED JUNE 30, 2010

Name (a)	Fees earned or paid in cash ($) (b)	Stock awards ($) (c)	Option awards ($) (d)	Non-equity incentive plan compensation ($) (e)	Nonqualified deferred compensation earnings ($) (f)	All other compensation ($) (g)	Total ($) (h)
Scott Ahlberg	-	-	-	-	-	174,000(1)	174,000
Janice Peterson	-	-	-	-	-	100,000(2)	100,000

(1) Mr. Ahlberg received no compensation for his services as a director of the Company. Other compensation represents the following amounts paid to Mr. Ahlberg for his services as an employee of the Company: salary in the amount of $60,000 and a cash bonus in the amount of $114,000.

(2) Ms. Peterson received no compensation for her services as a director of the Company. Other compensation represents the following amounts paid to Ms. Peterson for her services as an employee of the Company: salary in the amount of $68,500, and a cash bonus in the amount of $32,500.

Employment Agreements

Peter Derycz

Mr. Derycz's employment contract as Chief Executive Officer and as a director of the Company has a three year term beginning July 1, 2010. The contract provides an annual salary of $240,000. No part of Mr. Derycz's salary is allocated to his duties as a director of the Company. The contract contains no incentive bonus structure.

Richard McKilligan

Mr. McKilligan's employment contract as Chief Financial Officer and General Counsel has a three year term beginning July 1, 2010. The contract provides an annual salary of $155,000. The contract contains no incentive bonus structure.

Scott Ahlberg

Mr. Ahlberg's employment contract as Head of Corporate Services of Reprints Desk and as a director of the Company has a three year term beginning July 1, 2010. The contract provides an annual base salary of $60,000 and an annual guaranteed bonus of $40,000. The contract sets out bonuses of between $20,000 and $220,000 available to Mr. Ahlberg if the Company achieves certain levels of revenues from its document delivery product from $1,000,000 to in excess of $20,000,000. No part of Mr. Ahlberg's salary is allocated to his duties as a director of the Company. The contract contains no other incentive bonus structure.

Janice Peterson

Ms. Peterson's employment contract as Head of Publisher Relations of Reprints Desk and as a director of the Company has a three year term beginning July 1, 2010. The contract provided an annual base salary of $100,000. No part of Ms. Peterson's salary is allocated to her duties as a director of the Company. The contract contains no other incentive bonus structure.

Director Compensation

We intend to compensate non-management directors through stock option and/or restricted stock granted under our 2007 Equity Compensation Plan. At this time, no directors receive compensation for their services as directors.

Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters.

The following table sets forth certain information, as of September 23, 2010, with respect to the holdings of (1) each person who is the beneficial owner of more than five percent of our common stock, (2) each of our directors, (3) the CEO and each named executive officer, and (4) all of our directors and executive officers as a group.

Beneficial ownership of the common stock is determined in accordance with the rules of the Securities and Exchange Commission and includes any shares of common stock over which a person exercises sole or shared voting or investment powers, or of which a person has a right to acquire ownership at any time within 60 days of September 23, 2010. Except as otherwise indicated, and subject to applicable community property laws, the persons named in this table have sole voting and investment power with respect to all shares of common stock held by them. Applicable percentage ownership in the following table is based on 13,021,223 shares of common stock outstanding as of September 23, 2010 plus, for each person, any securities that person has the right to acquire within 60 days of September 23, 2010.

Unless otherwise indicated below, the address of each of the principal shareholders is c/o Derycz Scientific, Inc., 1524 Cloverfield Blvd., Suite E, Santa Monica, California 90404.

Name and Address	Shares Beneficially Owned	Percentage of Class
Bristol Investment Fund, Ltd. (1) (2)	2,750,000	20.7%
Bristol Capital, LLC (1) (3)	1,810,910	13.9%
Peter Derycz	4,000,000	30.7%
Richard McKilligan (4)	261,062	2.0%
Scott Ahlberg (5)	163,477	1.2 %
Jan Peterson (6)	163,334	1.2 %
All Directors and Executive Officers as a group (4 persons)	4,587,873	33.9%

(1) Paul Kessler exercises investment and voting control over the shares held by Bristol Investment Fund, Ltd. and Bristol Capital, LLC.

(2) Includes warrants to purchase 250,000 shares of common stock at an exercise price of $1.25 per share.

(3) Diana Derycz-Kessler is a member of Bristol Capital, LLC, the spouse of Paul Kessler and the sibling of Peter Derycz.

(4) Includes options to purchase 95,000 shares of common stock at an exercise price of $1.50, options to purchase 90,000 shares of common stock at an exercise price of $1.00 and options to purchase 3,334 shares of common stock at an exercise price of $1.02.

(5) Includes options to purchase 75,000 shares of common stock at an exercise price of $1.50, options to purchase 75,000 shares of common stock at an exercise price of $1.00 and options to purchase 1,667 shares of common stock at an exercise price of $1.02.

(6) Includes options to purchase 85,000 shares of common stock at an exercise price of $1.50, options to purchase 75,000 shares of common stock at an exercise price of $1.00 and options to purchase 3,334 shares of common stock at an exercise price of $1.02.

Change of Control

To the knowledge of management, there are no present arrangements or pledges of securities of our company that may result in a change in control of the Company.

Equity Compensation Plan Information

In December 2007, we 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 purpose of the Plan is to grant stock and stock options to purchase our common stock to our employees and key consultants. The total amount of shares subject to the Plan is 1,500,000 shares. As of September 25, 2010, we had granted 1,401,000 options under the Plan. The following table provides information as of June 30, 2010 with respect to the Plan, which is the only compensation plan under which our equity securities are authorized for issuance.

Plan category	Number of securities to be issued upon exercise of outstanding options, warrants and rights (a)	Weighted-average exercise price of outstanding options, warrants and rights (b)	Number of securities remaining available for future issuance under equity compensation plans (excluding securities reflected in column (a)) (c)
Equity compensation plans approved by security holders	1,500,000	$ 1.26	478,000
Equity compensation plans not approved by security holders	-	-	-
Total	1,500,000		478,000

Item 13. Certain Relationships and Related Transactions, and Director Independence.

Described below are certain transactions or series of transactions since July 1, 2008 between us and our subsidiaries and our executive officers, directors and the beneficial owners of five percent or more of our common stock, on an as converted basis, and certain persons affiliated with or related to these persons, including family members, in which they had or will have a direct or indirect material interest in an amount that exceeds the lesser of $120,000 or one percent of the average of our total assets at year end for the last two completed fiscal years, other than compensation arrangements that are otherwise required to be described under “Executive Compensation.”

Richard McKilligan, our Chief Financial Officer, is also a director of Bristol Investment Fund, Ltd., which holds 2,750,000 shares, or 20.7%, of the Company’s common stock. Mr. McKilligan is also the Chief Financial Officer and a director of Genesis Biopharma, Inc., of which Bristol Investment Fund, Ltd. is a shareholder.

Until May 31, 2009, the Company sublet its office space from Bristol Capital Advisors, LLC pursuant to a lease agreement. The office space is approximately 1,000 square feet and the cost was $2,740.40 per month, which rate is equivalent on a per square foot basis to the amount Bristol Capital Advisors, LLC paid under its lease agreement and was comparable to the terms of a lease between unaffiliated parties. The sublease agreement was a month-to-month tenancy which could be terminated at any time. Bristol Capital Advisors, LLC is the investment manager of Bristol Investment Fund, Ltd., which holds a significant equity stake in the Company.

A familial relationship exists between management and certain equity holders of the Company. Paul Kessler and Diana Derycz-Kessler are married and are the owners of Bristol Capital, LLC, which holds 1,810,910 shares, or 13.9%, of the Company’s common stock. Paul Kessler has investment and voting control over the shares held by Bristol Investment Fund, Ltd., which holds 2,750,000 shares, or 20.7%, of the Company’s common stock. Diana Derycz-Kessler and Peter Derycz, the Company’s Chief Executive Officer, are siblings.

Director Independence

None of the members of the Company’s Board of Directors are independent directors as that term is defined by NYSE Rule 303A.02(a). The Company currently does not have an audit committee. None of the members of the Company’s Board of Directors meet the NYSE’s independence standards for members of such committees. The Company does not have a separate audit committee or any other committees as the entire board undertakes and considers matters generally left to such committees.

Item 14. Principal Accounting Fees and Services.

Summary of Principal Accounting Fees for Professional Services Rendered

The following table presents the aggregate fees for professional audit services and other services rendered by Weinberg & Company, P.A., our independent registered public accountants in the fiscal years ended June 30, 2010 and 2009.

	Year Ended June 30, 2010	Year Ended June 30, 2009
Audit Fees	$ 83,418	89,339
Audit-Related Fees	-	-
Tax Fees	-	-
All Other Fees	-	-
	$ 83,418	89,339

Audit Fees consist of fees billed for the annual audit of our financial statements and other audit services including the provision of consents and the review of documents filed with the SEC.

We do not have an independent audit committee and the full Board of Directors, therefore, serves as the audit committee for all purposes relating to communication with our auditors and responsibility for our audit. Our Board of Directors has considered whether the provision of the services described above for the fiscal years ended June 30, 2009 and 2010, is compatible with maintaining the auditor's independence.

All audit and non-audit services that may be provided by our principal accountant to us shall require pre-approval by the Board of Directors. Further, our auditor shall not provide those services to us specifically prohibited by the SEC, including bookkeeping or other services related to the accounting records or financial statements of the audit client; financial information systems design and implementation; appraisal or valuation services, fairness opinion, or contribution-in-kind reports; actuarial services; internal audit outsourcing services; management functions; human resources; broker-dealer, investment adviser, or investment banking services; legal services and expert services unrelated to the audit; and any other service that the Public Company Accounting Oversight Board determines, by regulation, is impermissible.

PART IV

Item 15. Exhibits, Financial Statements Schedules.

(a) Documents filed as a part of this report

(1) Financial Statements

The financial statements of Derycz Scientific, Inc. and its subsidiaries and Weinberg & Company, P.A.'s report dated September 27, 2010, are incorporated by reference to Item 8 of this report.

(2) Financial Statement Schedules

Not required.

(b) Exhibits

Exhibit Number	Description
2.1	Share Exchange Agreement between Derycz and Reprints Desk dated November 13, 2006 (1)
3.1	Articles of Incorporation (1)
3.2	Bylaws (1)
4.1	Form of Warrant (1)
10.1	2007 Equity Compensation Plan (1)
10.2	Lease agreement between Pools Press and JJ Properties (1)
10.3	Peter Derycz employment agreement (3)
10.4	Richard McKilligan employment agreement (3)
10.5	Scott Ahlberg employment agreement (3)
10.6	Janice Peterson employment agreement (3)
10.7	Matt Sampson employment agreement (1)
10.8	CapCas License Agreement (1)
10.9	Dainippon Equipment Purchase Agreement (1)
10.10	Form of Subscription Agreement (2)
21.1	List of subsidiaries (1)
31.1	Rule 13a-14(a)/15d-14(a) Certification of Chief Executive Officer (3)
31.2	Rule 13a-14(a)/15d-14(a) Certification of Chief Financial Officer (3)
32.1	Section 1350 Certification of Chief Executive Officer (3)
32.2	Section 1350 Certification of Chief Financial Officer (3)

(1) Incorporated by reference to the exhibit of the same number to the registrant's Registration Statement on Form SB-2 filed on December 28, 2007.

(2) Incorporated by reference to the exhibit of the same number to the registrant's Registration Statement on Form S-1/A (Amendment No. 1) filed on February 27, 2008.

(3) Filed herewith.

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) 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: September 28, 2010		Peter Derycz Chief Executive Officer (Principal Executive Officer)
	By:	/s/ Richard McKilligan
Date: September 28, 2010		Richard McKilligan Chief Financial Officer (Principal Financial and Accounting Officer)

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated.

Signature	Title	Date
/s/ Peter Derycz Peter Derycz	Chief Executive Officer (Principal Executive Officer) and Chairman of the Board	September 28, 2010
/s/ Richard McKilligan Richard McKilligan	Chief Financial Officer (Principal Financial and Accounting Officer), Secretary and General Counsel	September 28, 2010
/s/ Scott Ahlberg Scott Ahlberg	Director	September 28, 2010
/s/ Jan Peterson Jan Peterson	Director	September 28, 2010

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