PROCYON CORP
Form 10QSB
May 15, 2003

SECURITIES & EXCHANGE COMMISSION
WASHINGTON, DC 20549

FORM 10-QSB

[x] Quarterly Report Under Section 13 or 15 (d) of
the Securities Exchange Act of 1934

For Quarterly Period Ended March 31, 2003

[ ] Transition Report Under Section 13 or 18(d) of the Exchange Act

Commission File Number: 0-17449

PROCYON CORPORATION
(Exact Name of Small Business Issuer as specified in its charter)

COLORADO	59-3280822
(State of Incorporation)	(IRS Employer Identification Number)

1150 Cleveland Street, Suite 410
Clearwater, FL 33755
(Address of Principal Offices)

(727) 447-2998
(Issuer's Telephone Number)

Check whether the issuer (1) filed all reports required to be filed by Section 13 or 15 (d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

YES [X] NO [ ]

State the number of shares outstanding of each of the issuer's classes of common equity, as of the latest practicable date:

Common stock, no par value; 8,041,388 shares outstanding as of May 14, 2003

Transitional Small Business Disclosure Format (check one) Yes [ ] No [x]

PART I. FINANCIAL INFORMATION

Item

Index to Financial Statements

Financial Statements:

PROCYON CORPORATION & SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS
MARCH 31, 2003 & JUNE 30, 2002

	(unaudited) March 31 2003
ASSETS	
CURRENT ASSETS	
Cash	$ 35,390
Accounts Receivable, less allowances of $14,500 & $8,500, respectively	165,852
Prepaid Expenses	35,826
Inventories	85,445
Total Current Assets	322,513
PROPERTY AND EQUIPMENT	
Office Equipment	59,794
Furniture and Fixtures	15,164
Production Equipment	14,235
	89,193
Accumulated Depreciation	(58,496)
Total Property & Equipment	30,697
OTHER ASSETS	
Certificates of deposit - plus accrued interest (restricted)	17,114
Deposits	844

Total Other Assets	17,958
TOTAL ASSETS	$ 371,168
LIABILITIES AND STOCKHOLDERS' DEFICIENCY	
Current Liabilities:	
Excess of checks issued over bank balance	0
Current portion of Long Term Debt	6,104
Accounts Payable	287,099
Accrued Liabilities	25,823
Notes Payable	291,488
Total Current Liabilities	610,514
Long Term Liabilities	
Note Payable	11,582
Total Long Term Liabilities	11,582
Stockholders' deficiency	
Preferred stock, 496,000,000 shares authorized, none issued	
Series A Cumulative Convertible Preferred stock no par value; 4,000,000 shares authorized; 186,950 shares issued and outstanding	186,950
Common stock, no par value, 80,000,000 shares authorized 8,006,388 shares issued & outstanding	4,363,677
Accumulated deficit	(4,801,555)
Total Stockholders' Deficiency	(250,928)
TOTAL LIABILITIES AND STOCKHOLDERS' DEFICIENCY	$ 371,168

See accompaning notes

PROCYON CORPORATION & SUBSIDIARIES
CONSOLIDATED STATEMENTS OF OPERATIONS
THREE MONTHS ENDED MARCH 31, 2003 & 2002
NINE MONTHS ENDED MARCH 31, 2003 & 2002

	Three Months Ended March 31, 2003	Three Months Ended March 31, 2002	Nine En March
	(unaudited)	(unaudited)	
Net Sales	$ 392,679	$ 371,072	$ 1,2
Cost of Sales	88,534	62,270	2

Gross Profit	304,145	308,802	9
Operating Expenses:			
Salaries and Benefits	136,492	107,741	4
Selling, General and Administrative	162,245	197,415	4
Total Operating Expenses	298,737	305,156	8
Profit (loss) from Operations	5,408	3,646	
Other Income (Expense):			
Interest Expense	(9,915)	(6,757)	(
Interest Income	89	0	
Other Income	0	4,557	
Total Other Income (expense)	(9,826)	(2,200)	(
Net Profit (loss)	(4,418)	1,446	
Dividend requirements on preferred stock	(18,972)	7,215	
Loss applicable to common stock	$ 14,554	($ 5,769)	$
Basic Gain (Loss) per common share	$ 0.00	$ 0.00	$
Weighted average number of common shares outstanding	7,984,397	7,861,338	7,8

See accompaning notes

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PROCYON CORPORATION & SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
NINE MONTHS ENDED MARCH 31, 2003 & 2002

	Nine Months Ended March 31, 2003	Nine Month Ended March 31, 2002
	(unaudited)	(unaudited
CASH FLOWS FROM OPERATING ACTIVITIES		
Net Profit (Loss)	$ 28,970	($ 97,158
Adjustments to reconcile net income to net cash used in operating activities:		
Depreciation	9,141	9,885
Allowance for doubtful accounts	6,000	0
Common stock issued for services	6,863	0
Decrease (increase) in:		

Accounts Receivable (trade)	(61,867)	(51,619
Inventories	(28,142)	2,226
Other Assets	0	476
Prepaid Expenses	(543)	(4,158
Increase (decrease) in:		
Accounts Payable	37,735	(33,493
Excess of checks issued over bank balance	(24,168)	0
Accrued Expenses	(3,951)	(6,563
Cash Used in Operating Activities	(29,962)	(180,404
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of Property & Equipment	(497)	(7,390
Cash Used in Investing Activities	(497)	(7,390
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from Short Term Loan	0	155,500
Payments on Short Term Loan	0	(500
Proceeds from Long Term Loan	0	25,000
Payments on Long Term Loan	(4,051)	(2,419
Proceeds from Stockholder Loan	33,000	0
Proceeds from Issuance of Common Stock	36,900	0
Cash provided by financing activities	65,849	177,581
Net Increase (decrease) in cash and cash equivalents	35,390	(10,213
Cash and Cash Equivalents, beginning of period	0	19,099
Cash and Cash Equivalents, end of period	$ 35,390	$ 8,886
SUPPLEMENTAL DISCLOSURES		
Interest Paid	$ 28,966	$ 31,172
Taxes Paid	0	0
NONCASH TRANSACTION DISCLOSURE		
Preferred Shares converted to Common Shares	$ 57,500	0

See accompaning notes

NOTE A - SUMMARY OF ACCOUNTING POLICIES

The financial statements included herein have been prepared by the Company without audit, pursuant to the rules and regulations of the Securities and

Exchange Commission. Certain information and footnote disclosures normally included in the financial statements prepared in accordance with generally accepted accounting principles have been condensed or omitted as allowed by such rules and regulations. The Company believes that the disclosures are adequate to make the information presented not misleading. These financial statements should be read in conjunction with the Company's audited financial statements dated June 30, 2002. The results for interim periods are not necessarily indicative of results that may be expected for any other interim period or for the full year.

Management of the Company has prepared the accompanying unaudited condensed financial statements prepared in conformity with generally accepted accounting principles, which require the use of management estimates, contain all adjustments (including normal recurring adjustments) necessary to present fairly the operations and cash flows for the period presented and to make the financial statements not misleading.

STOCK-BASED COMPENSATION

The Company has adopted SFAS No. 148, "Accounting for Stock-Based Compensation, Transition and Disclosure." The Company accounts for stock-based employee compensation arrangements in accordance with the provisions of Accounting Principles Board Opinion No. 25, "Accounting for Stock Issued to Employees" ("APB No. 25") and has elected to follow the disclosure-only provisions of Statement of Financial Accounting Standards No. 123, "Accounting for Stock-Based Compensation" ("SFAS No. 123"). Under the provisions of APB 25, the Company recognizes compensation expense only to the extent that the exercise price of the Company's employee stock options is less than the market price of the underlying stock on the date of grant. SFAS No. 123 requires the presentation of pro forma information as if the Company has accounted for its employee stock options granted under the fair value method.

NOTE B - INVENTORIES

Inventories consisted of the following:

	March 31, 2003	June 30, 2002
Finished Goods	$14,117	$ 4,563
Raw Materials	$61,940	$42,235
Diabetic Products	$ 9,388	$10,505
	$85,445	$57,303

NOTE C - STOCKHOLDERS' EQUITY

During January 1995, the Company's Board of Directors authorized the issuance of up to 4,000,000 shares of Series A Cumulative Convertible Preferred Stock ("Series A Preferred Stock"). The preferred stockholders are entitled to receive, as and if declared by the board of directors, quarterly dividends at an annual rate of $.10 per share of Series A Preferred Stock per annum. Dividends will accrue without interest and will be cumulative from the date of issuance of the Series A Preferred Stock and will be payable quarterly in arrears in cash or publicly traded common stock when and if declared by the Board of Directors. As of March 31, 2003, no dividends have been declared. Dividends in arrears on the outstanding preferred shares total $135,734 as of March 31, 2003. The preferred stockholders have the right to convert each share of Series A Preferred Stock into one share of the Company's common stock at any time without additional consideration. However, each share of Series A Preferred Stock is subject to mandatory conversion into one share of common stock of the

Company, effective as of the close of a public offering of the Company's common stock provided, however, that the offering must provide a minimum of $1 million in gross proceeds to the Company and the initial offering price of such common stock must be at least $1 per share. In addition to the rights described above, the holders of the Series A Preferred Stock will have equal voting rights as the common stockholders based upon the number of shares of common stock into which the Series A Preferred Stock is convertible. The Company is obligated to reserve an adequate number of shares of its common stock to satisfy the conversion of all the outstanding Series A Preferred Stock.

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Item 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

General

The following discussion and analysis should be read in conjunction with the unaudited Condensed Financial Statements and Notes thereto appearing elsewhere in this report.

"Safe Harbor" Statement under the Private Securities Litigation reform Act of 1995

This Report on Form 10-QSB, including Management's Discussion and Analysis, contains forward-looking statements. When used in this report, the words "may", "will", "expect", "anticipate", "continue", "estimate", "project", "intend", "believe", and similar expressions, variations of these words or the negative of those word are intended to identify forward - looking statements within the meaning of Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934 regarding events, conditions and financial trends including, without limitation, business conditions in the skin and wound care market and the general economy, competitive factors, changes in product mix, production delays, manufacturing capabilities, and otherwise or uncertainties detailed in other of the Company's Securities and Exchange Commission filings. Such statements are based on management's current expectations and are subject to risks, uncertainties and assumptions. Should one or more of these risks or uncertainties materialize, or should underlying assumptions prove incorrect, the Company's actual plan of operations, business strategy, operating results and financial position could differ materially from those expressed in, or implied by, such forward looking statements.

Financial Condition

As of March 31, 2003, the Company's principal sources of liquid assets included cash and cash equivalents of $35,390, inventories of $85,445, and net accounts receivable of $165,852. The Company had negative working capital of $288,001, and long-term debt of $11,582 at March 31, 2002.

During the nine months ended March 31, 2003, cash and cash equivalents increased from $0 as of June 30, 2002 to $35,390. Operating activities used cash of $29,962 during the period, consisting primarily of a increase in Accounts Receivable of $61,867. Cash provided by financing activities was $65,849 as compared to $177,581 for the corresponding period in 2002.

At March 31, 2003, the Company had no commitments for capital expenditures.

The Company has deferred tax assets with a 100% valuation allowance at March 31, 2003. Management is not able to determine if it is more likely than not that the deferred tax assets will be realized.

Results of Operations

Comparison of Three, and Nine Months ended March 31, 2003 and 2002.

Net sales during the quarter ended March 31, 2003 were $392,679, as compared to $371,072 in the quarter ended March 31, 2002, an increase of $21,607, or 6%. Net sales during the nine months ended March 31, 2003 were $1,212,427, as compared to $996,981 in the nine months ended March 31, 2002, an increase of $215,446, or 22%. Increases in sales continue for the Company as market share increases, and marketing plans continue to reach their target market.

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Gross profit during the quarter ended March 31, 2003 was $304,145, as compared to $308,802 during the quarter ended March 31, 2002, a decrease of $4,657, or 2%. Gross profit during the nine months ended March 31, 2003 was $949,296, as compared to $812,513 during the nine months ended March 31, 2002, an increase of $136,783, or 17%. As a percentage of net sales, gross profit was 77% in the quarter ended March 31, 2003, as compared to 83% in the corresponding quarter in 2002. As a percentage of net sales, gross profit was 78% in the nine months ended March 31, 2003, as compared to 81% in the corresponding nine months in 2002. Gross profit increased for the nine months based on increased sales, however as a percentage of net sales gross profit decreased based on increased manufacturing cost, and an increase in the Sirius subsidiary sales for the period as well.

Operating expenses during the quarter ended March 31, 2003, were $298,737, consisting of $136,492 in salaries and benefits, and $162,245 in selling, general and administrative expenses. This compares to operating expenses during the quarter ended March 31, 2002 of $305,156, consisting of $107,741 in salaries and benefits, and $197,415 in selling, general and administrative expenses. Operating expenses during the nine months ended March 31, 2003, were $891,746, consisting of $410,400 in salaries and benefits, and $481,346 in selling, general and administrative expenses. This compares to operating expenses during the nine months ended March 31, 2002 of $883,510, consisting of $337,642 in salaries and benefits, and $545,868 in selling, general and administrative expenses. Expense for the period have remained consistent overall, but have seen a shift towards salaries & benefits as the Company has increased it's personel.

The Company had an operating profit of $5,408 in the quarter ended March 31, 2003, as compared to an operating profit of $3,646 in the corresponding quarter in 2002. Net Loss (before dividend requirements for Preferred Shares) was $4,418 during the quarter ended March 31, 2003, as compared to a net profit of $1,446 during the quarter ended March 31, 2002. The Company had an operating profit of $57,550 in the nine months ended March 31, 2003, as compared to an operating loss of $70,997 in the corresponding period in 2002. Net profit (before dividend requirements for Preferred Shares) was $28,970 during the nine months ended March 31, 2003, as compared to a net loss of $97,158 during the nine months ended March 31, 2002. The Company believes it has turned the corner towards profitability after surviving the financial difficulties faced in the past. The Company continues to improve it's cash position and profitability.

ITEM 3. CONTROLS AND PROCEDURES

(a) Evaluation of Disclosure Controls and Procedures

The management of the Company, including the Chief Executive Officer / Chief Financial Officer, have conducted an evaluation of the effectiveness of the Company's disclosure controls and procedures pursuant to Rule 13a-14 under the Securities Exchange Act of 1934 as of a date (the "Evaluation Date") within 90 days prior to the filing date of this report. Based on that evaluation, the Chief Executive Officer / Chief Financial Officer concluded that, as of the Evaluation Date, the Company's disclosure controls and procedures were effective in ensuring that all material information relating to the Company, including our consolidated subsidiaries, required to be filed in this quarterly report has been made known to them in a timely manner.

(b) Changes in Internal Controls

There have been no significant changes made in the Company's internal controls or in other factors that could significantly affect internal controls subsequent to the Evaluation Date.

PART II. OTHER INFORMATION

ITEM 6. EXHIBITS AND REPORTS ON FORM 8-K

(A) EXHIBITS - None

REPORTS ON FORM 8-K - NONE

SIGNATURES

In accordance with the requirements of the Exchange Act, the registrant caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

PROCYON CORPORATION

May 14, 2002	By: /s/ John C. Anderson
Date	John C. Anderson, President and Chief Financial Officer

CERTIFICATION

I, John C. Anderson, Chief Executive Officer and Chief Financial Officer of Procyon Corporation, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Procyon Corporation

2. Based on my knowledge, this quarterly report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this quarterly report; and

3. Based on my knowledge, the financial statements, and other financial information included in this quarterly report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this quarterly report.

4. The registrant's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-14 and 15d-14) for the registrant and we have:

(a) designed such disclosure controls and procedures to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this quarterly report is being prepared;

(b) evaluated the effectiveness of the registrant's disclosure controls and procedures as of a date within 90 days prior to the filing date of this quarterly report (the "Evaluation Date"); and

(c) presented in this quarterly report our conclusions about the effectiveness of the disclosure controls and procedures based on our evaluation as of the Evaluation Date;

5. The registrant's other certifying officers and I have disclosed, based on our most recent evaluation, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent function):

(a) all significant deficiencies in the design or operation of internal controls which could adversely affect the registrant's ability to record, process, summarize and report financial data and have identified for the registrant's auditors any material weaknesses in internal controls; and

(b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal controls; and

6. The registrant's other certifying officers and I have indicated in this quarterly report whether or not there were significant changes in internal controls or in other factors that could significantly affect internal controls subsequent to the date of our most recent evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

Date: May 14, 2003

/s/ JOHN C. ANDERSON

John C. Anderson

Chief Executive Officer and Chief Financial Officer