PROCYON CORP
Form 10QSB
February 08, 2008

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 December 31, 2007

[ ] 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)

1300 S. Highland Ave. Clearwater, FL 33756
(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 past 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 [ ]

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

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; 8,055,388 shares outstanding as of February 6, 2008.

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

PART I. - FINANCIAL INFORMATION

PROCYON CORPORATION & SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS
December 31, 2007 and June 30, 2007

	(unaudited) December 31, 2007	(audited) June 30, 2007
ASSETS		
CURRENT ASSETS		
Cash	$ 365,216	$ 422,876
Certificate of Deposit	185,000	--
Accounts receivable, net of $2,500 allowance for doubtful accounts	195,480	224,460
Inventories	181,988	133,892
Prepaid expenses	106,708	129,476
Deferred tax asset	200,647	169,758
TOTAL CURRENT ASSETS	1,235,039	1,080,462

PROPERTY AND EQUIPMENT, NET	571,224	589,141
OTHER ASSETS		
Deposits	1,515	1,515
Deferred tax asset	261,305	231,274
	262,820	232,789
TOTAL ASSETS	$ 2,069,083	$ 1,902,392
LIABILITIES AND STOCKHOLDERS' EQUITY		
CURRENT LIABILITIES		
Accounts Payable	$ 131,963	$ 108,076
Accrued Expenses	78,432	111,316
Current Portion of Mortgage Payable	21,981	21,201
TOTAL CURRENT LIABILITIES	232,376	240,593
LONG-TERM LIABILITIES		
Mortgage Payable	458,320	469,191
TOTAL LONG TERM LIABILITIES	458,320	469,191
STOCKHOLDERS' EQUITY		
Preferred stock, 496,000,000 shares authorized, none issued		
Series A Cumulative Convertible Preferred stock, no par value; 4,000,000 shares authorized; 199,100 shares issued and outstanding	154,950	159,750
Common stock, no par value, 80,000,000 shares authorized; 8,052,388 shares issued and outstanding	4,416,676	4,411,876
Paid-in Capital	6,000	6,000
Accumulated deficit	(3,199,239)	(3,385,018)
TOTAL STOCKHOLDERS' EQUITY	1,378,387	1,192,608
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	$ 2,069,083	$ 1,902,392

The accompanying notes are an integral part of these financial statements.

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PROCYON CORPORATION & SUBSIDIARIES
CONSOLIDATED STATEMENTS OF OPERATIONS
Three & Six Months Ended December 31, 2007 and 2006

	(unaudited) Three Months Ended Dec. 31, 2007	(unaudited) Three Months Ended Dec. 31, 2006	(unaudited) Six Months Ended Dec. 31, 2007	(unaud Six Mo End Dec. 31
NET SALES	$ 742,454	$ 566,699	$ 1,337,694	$ 1,15

COST OF SALES	177,958	126,395	324,173	27
GROSS PROFIT	564,496	440,304	1,013,521	88
OPERATING EXPENSES				
Salaries and Benefits	241,658	193,802	477,848	38
Selling, General and Administrative	194,032	219,332	400,025	43
	435,690	413,134	877,873	82
INCOME FROM OPERATIONS	128,806	27,170	135,648	5
OTHER INCOME (EXPENSE)				
Interest Income	2,860	2,638	6,555	
Interest Expense	(8,970)	(9,226)	(17,340)	(1
	(6,110)	(6,588)	(10,785)	(1
INCOME BEFORE INCOME TAXES	122,696	20,582	124,863	4
INCOME TAX (EXPENSE) BENEFIT	28,024	131,532	60,921	15
NET INCOME	150,720	152,114	185,784	19
Dividend requirements on preferred stock	(58)	(5,123)	(5,155)	(1
Basic net income available to common shares	$ 150,662	$ 146,991	$ 180,629	$ 18
Basic net income per common share	$ 0.02	$ 0.02	$ 0.02	$
Weighted average number of common shares outstanding	8,053,549	8,049,588	8,052,068	8,04
Diluted net income per common share	$ 0.02	$ 0.02	$ 0.02	$
Weighted average number of common shares outstanding, basic and diluted	8,403,742	8,353,493	8,403,742	8,35

The accompanying notes are an integral part of these financial statements.

PROCYON CORPORATION & SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
For the Six Months Ending December 31, 2007 and 2006

	(unaudited) December 31,	(un Dec

	2007	
CASH FLOWS FROM OPERATING ACTIVITIES		
Net Income	$ 185,784	$
Adjustments to reconcile net income to net cash used in operating activities:		
Depreciation	17,917	
Deferred Income Taxes	(60,920)	(
Decrease (increase) in:		
Accounts Receivable	28,980	
Inventory	(48,096)	
Prepaid Expenses	22,763	
Other Assets	--	
Increase (decrease) in:		
Accounts Payable	23,887	
Accrued Expenses	(32,884)	
NET CASH PROVIDED BY OPERATING ACTIVITIES	137,431	
CASH FLOW FROM INVESTING ACTIVITIES		
Purchase of Certificates of Deposit	(185,000)	
Purchase of property & equipment	--	
NET CASH USED BY INVESTING ACTIVITIES	(185,000)	
CASH FLOW FROM FINANCING ACTIVITIES		
Payments on Mortgage Payable	(10,091)	
NET CASH USED BY FINANCING ACTIVITIES	(10,091)	
NET CHANGE IN CASH	(57,660)	
CASH AT BEGINNING OF PERIOD	422,876	
CASH AT END OF PERIOD	$ 365,216	$
SUPPLEMENTAL DISCLOSURES		
Interest Paid	$ 17,340	$
Taxes Paid	$ --	$
NONCASH TRANSACTION DISCLOSURE		
Purchase of Office Building Financed by Mortgage	$ --	$

The accompanying notes are an integral part of these financial statements.

Notes to Financial Statements

NOTE A - SUMMARY OF ACCOUNTING POLICIES

The interim 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, 2007. 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

In December 2004, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards No. 123R ("SFAS 123R"), "Share-Based Payment," which is a revision of Statement of Financial Accounting Standards No. 123, "Accounting for Stock-Based Compensation." SFAS 123R is effective for small business publicly traded companies, for interim or annual periods beginning after December 15, 2005. It supersedes Accounting Principles Board Opinion No. 25, "Accounting for Stock Issued to Employees" and amends Statement of Financial Accounting Standards No. 95, "Statement of Cash Flows." SFAS 123R requires all share-based payments to employees, including grants of employee stock options, to be recognized in the statement of operations based upon their fair values and rescinds the acceptance of pro forma disclosure. SFAS 123R permits two methods of adoption, a "modified prospective" method and a "modified retrospective" method. Under the modified prospective method, stock-based compensation cost is recognized, beginning with the effective date, based on the requirements of SFAS 123R for all share-based payments granted after the effective date and for all awards granted prior to the effective date that remain unvested on the effective date. The modified retrospective method includes the requirements of the modified prospective method and also permits restatement of prior periods based on amounts previously reported in pro forma disclosures pursuant to SFAS 123 for either all periods presented or for only prior interim periods of the year of adoption. We adopted the modified prospective method prescribed in SFAS 123R, effective January 1, 2006.

On December 31, 2007, there were outstanding options to purchase 300,000 shares of our common stock at exercise prices ranging from $0.16 to $0.21 per share and expiration dates between December 2009 and November 2010. These options were vested at the time of grant. During the quarter ended December 31, 2007, no options were granted. Therefore, the adoption of SFAS 123R does not have an impact on our statement of operations for period ending December 31, 2007.

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Prior to January 1, 2006, we accounted for stock-based compensation using the intrinsic value method prescribed in Accounting Principles Board Opinion No. 25, "Accounting for Stock Issued to Employees," and related interpretations and elected to apply the disclosure-only provisions of Statement of Financial Accounting Standards ("SFAS") No. 123, "Accounting for Stock-Based Compensation,"as amended by SFAS No. 148, "Accounting for Stock-Based Compensation - Transition and Disclosure." Under the intrinsic value method, compensation expense for stock options was recognized over the vesting period of the grant based on the excess, if any, of the market price of our common stock at the date of grant over the stock option exercise price. As governed by the Plan, stock options were generally granted at or near fair market value on the date of grant.

The fair value of a stock option is determined using the Black-Scholes option-pricing model, which values options based on the stock price at the grant date, the expected life of the option, the estimated volatility of the stock, the expected dividend payments, and the risk-free interest rate over the life of the option. There were no options granted during the quarters ended December 31, 2007 and 2006.

The Black-Scholes option valuation model was developed for estimating the fair value of traded options that have no vesting restrictions and are fully transferable. Because option valuation models require the use of subjective assumptions, changes in these assumptions can materially affect the fair value of the options. Our options do not have the characteristics of traded options, therefore, the option valuation models do not necessarily provide a reliable measure of the fair value of our options.

NOTE B - INVENTORIES

Inventories consisted of the following:

	December 31, 2007	June 30, 2007
Finished Goods	$ 69,930	$ 36,509
Raw Materials	$112,058	$ 97,383
	$181,988	$133,892

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 December 31, 2007, no dividends have been declared. Dividends in arrears on the outstanding preferred shares total $211,506 as of December 31, 2007.

Holders of the Preferred Stock have the right to convert their shares of Preferred Stock into an equal number of shares of Common Stock of the Company. In addition, Preferred Stock holders have the right to vote the number of shares into which their shares are convertible into Common Stock. Such preferred shares will automatically convert into one share of Common Stock at the close of a public offering of Common Stock by the Company provided the Company receives gross proceeds of at least $1,000,000, and the initial offering price of the Common Stock sold in such offering is equal to or in excess of $1 per share. 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.

The Board of Directors of the Company approved a plan on December 8, 2007 to repurchase shares of Procyon Corporation's outstanding common stock. The repurchase plan authorizes management to repurchase from time to time up to 10% of the total outstanding shares of common stock as of December 8, 2007, subject to applicable SEC regulations and compliance with the Company's trading window policies. The Board's authorization is based on its belief that Procyon's common stock is underpriced at times given the Company's working capital, liquidity, assets, book value and future prospects. The shares may be repurchased from time to time in the open market, through block purchases or in privately negotiated transactions depending upon market conditions and other factors, in accordance with SEC Rule 10b-18. Procyon has no commitment or obligation to purchase all or any portion of the authorized shares. All shares purchased are canceled and returned to the status of authorized but unissued common stock.

NOTE D - INCOME TAXES AND AVAILABLE CARRYFORWARD

As of December 31, 2007, the Company had consolidated income tax net operating loss ("NOL") carryforward for federal income tax purposes of approximately $2,848,000. The federal NOL will expire in various years ending through the year 2023.

For the six months periods ended December 31, 2007 and 2006, the components of the provision for income taxes (benefits) are attributable to continuing operations as follows:

		Six Months 12/31/07	Six Months 12/31/06
Current			
	Federal	$ --	$ --
	State	--	--
		$ --	$ --
Deferred			
	Federal	$ (52,017)	$ (128,754)
	State	(8,904)	(22,040)
		$ (60,921)	$ (150,794)

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

	Current	Non-Current
Deferred tax assets:		
Net operating loss & contribution carryforwards	$ 199,706	$ 885,075

Allowance for doubtful accounts	941	--
Less: Valuation allowance	--	(615,803)
	200,647	269,272
Deferred tax liability		
Excess of tax over book depreciation	--	(7,967)
	200,647	261,305
Net deferred tax asset	$ 200,647	$ 261,305

The change in the valuation allowance is as follows:

June 30, 2007	$(737,284)
December 31, 2007	(615,803)
Change in valuation allowance	$(121,481)

The decrease in the valuation allowance is due to an increase in the expected utilization of net operating loss carry forwards. A valuation allowance of approximately $616,000 has been provided to reduce the asset to the net amount of tax benefit management believes it will more likely than not realize. As time passes, management will be able to better assess the amount of tax benefit it will realize from using the carryforward.

Income taxes for the six month periods ended December 31, 2007, and December 31, 2006, differ from the amounts computed by applying the effective income tax rates of 37.63% and 37.63%, respectively, to income before income taxes as a result of the following:

	Six Months 12/31/07	Six Months 12/31/06
Expected provision (benefit)	$ 43,190	$ 16,568
State income taxes net of federal benefits	4,612	1,769
Nondeductible (income) expense	2,946	1,323
Change in estimates	9,812	--
Other	--	1,532
Change in valuation allowance	(121,481)	(171,986)
	$ (60,921)	$(150,794)

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NOTE E - MORTGAGE PAYABLE

On July 21, 2006, we entered into a mortgage loan for $508,000 with the Bank of America for the purchase of our corporate office building. The mortgage loan is due in 15 years and interest is fixed at 7.25%. Interest expense was $17,235 for the six months ended December 31, 2007.

Maturities of long-term debt associated with the mortgage payable are as follows:

Year Ending June 30,	
6 months 2008	$ 10,792
2009	22,790
2010	24,498
2011	26,335
2012	28,309
2013 and thereafter	367,577
	480,301
Less current portion	21,981
	$ 458,320

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OR PLAN OF OPERATION.

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 of Financial Condition and Results of Operation, contains forward-looking statements. When used in this report, the words "may," "will," "expect," "anticipate," "continue," "estimate," "project," "intend," "hope," "believe" and similar expressions, variations of these words or the negative of those words, and, any statement regarding possible or assumed future results of operations of the Company's business, the markets for its products, anticipated expenditures, regulatory developments or competition, or other statements regarding matters that are not historical facts, 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, diabetic market and the general economy, competitive factors, changes in product mix, production delays, manufacturing capabilities, and other risks 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.

CRITICAL ACCOUNTING POLICIES AND ESTIMATES

The Company's condensed financial statements have been prepared in accordance with standards of the Public Company Accounting Oversight Board (United States), which require the Company to make estimates and judgments that affect the reported amounts of assets, liabilities, revenues and expenses, and the related disclosures. A summary of those significant accounting policies can be found in the Notes to the Consolidated Financial Statements included in the Company's annual report on 10-KSB, for the year ended June 30, 2007, which was filed with the Securities and Exchange Commission on September 27, 2007. The estimates used by management are based upon the Company's historical experiences combined with management's understanding of current facts and circumstances. Certain of the Company's accounting policies are considered critical as they are both important to the portrayal of the Company's financial condition and the results of its operations and require significant or complex judgments on the part of management. We believe that the following critical accounting policies affect the more significant judgments and estimates used in the preparation of our financial statements.

Accounts receivable allowance

Accounts receivable allowance reflects a reserve that reduces our customer accounts and receivable to the net amount estimated to be collectible. The valuation of accounts receivable is based upon the credit-worthiness of customers and third-party payers as well as historical collection experience. Allowances for doubtful accounts are recorded as a selling, general and administrative expense for estimated amounts expected to be uncollectible from third-party payers and customers. The Company bases its estimates on its historical collection experience, current trends, credit policy and on the analysis of accounts by aging category. At December 31, 2007, our allowance for doubtful accounts totaled $2,500.

Advertising and Marketing

The Company uses several forms of advertising, including sponsorships to agencies who represent the professionals in their respective fields. The Company expenses these sponsorships over the term of the advertising arrangements, on a straight line basis. Other forms of advertising used by the Company include professional journal advertisements and mailing campaigns. These forms of advertising are expensed when incurred.

Deferred Income Taxes

Deferred income taxes are recognized for the expected tax consequences in future years for differences between the tax bases of assets and liabilities and their financial reporting amounts, based upon exacted tax laws and statutory tax rates applicable to the periods in which the differences are expected to affect taxable income. The Company accounts for income taxes under Statement of Financial Accounting Standards No. 109, "Accounting for Income Taxes" ("SFAS 109"). We maintain a valuation allowance to reduce deferred tax assets to the net amount expected to be recovered in future periods. The estimates for deferred tax assets and the corresponding valuation allowance require us to exercise complex judgments. We periodically review and adjust those estimates based upon the most current information available. In accordance with SFAS 109 and based upon a review at December 31, 2007, of our utilization of deferred tax assets, we maintained a valuation allowance of $615,803. Because the recoverability of deferred tax assets is directly dependent upon future operating results, actual recoverability of deferred tax assets may differ materially from our estimates.

Revenue Recognition

The Company recognizes revenue in accordance with Securities and Exchange Commission Staff Accounting Bulletin No. 104, "Revenue Recognition, corrected copy." which requires that four basic criteria must be met before revenue can be recognized: (1) persuasive evidence of an arrangement exists; (2) delivery has occurred or services have been rendered; (3) the seller's price to the buyer is fixed or determinable; and, (4) collectibility is reasonably assured.

The Company recognizes revenue related to product sales upon the shipment of such orders to customers, provided that the risk of loss has passed to the customer and the Company has received and verified any written documentation required to bill Medicare, other third-party payers and customers. The Company records revenue at the amounts expected to be collected from Medicare, other third-party payers and directly from customers. The Company delays recognizing revenue for shipments where the Company has not received the required documentation, until the period when such documentation is received.

The Company calculates Medicare reimbursements based upon government-established reimbursement prices. The reimbursements that Medicare pays the Company are subject to review by government regulators. Medicare reimburses at 80% of the government-determined reimbursement prices and the Company bills the remaining balance to either third-party payers, such as insurance companies, or directly to the customers.

Stock Based Compensation

In December 2004, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards No. 123R ("SFAS 123R"), "Share-Based Payment," which is a revision of Statement of Financial Accounting Standards No. 123, "Accounting for Stock-Based Compensation." SFAS 123R is effective for small business publicly traded companies, for interim or annual periods beginning after December 15, 2005. It supersedes Accounting Principles Board Opinion No. 25, "Accounting for Stock Issued to Employees" and amends Statement of Financial Accounting Standards No. 95, "Statement of Cash Flows." SFAS 123R requires all share-based payments to employees, including grants of employee stock options, to be recognized in the statement of operations based upon their fair values and rescinds the acceptance of pro forma disclosure. SFAS 123R permits two methods of adoption, a "modified prospective" method and a "modified retrospective" method. Under the modified prospective method, stock-based compensation cost is recognized, beginning with the effective date, based on the requirements of SFAS 123R for all share-based payments granted after the effective date and for all awards granted prior to the effective date that remain unvested on the effective date. The modified retrospective method includes the requirements of the modified prospective method and also permits restatement of prior periods based on amounts previously reported in pro forma disclosures pursuant to SFAS 123 for either all periods presented or for only prior interim periods of the year of adoption. We adopted the modified prospective method prescribed in SFAS 123R, effective January 1, 2006.

Financial Condition

As of December 31, 2007, the Company's principal sources of liquid assets included cash of $365,216, inventories of $181,988, and net accounts receivable of $195,480. The company also invested $185,000 in short term Certificate of Deposits, to take advantage of higher interest rates relative to money market rates. The Company had net working capital of $1,002,663, and long-term debt of $458,320 at December 31, 2007.

During the six months ended December 31, 2007, cash decreased from $422,876 as of June 30, 2007, to $365,216. Operating activities provided cash of $137,431 during the period, consisting primarily of net income of $185,784. Cash used by financing activities was $10,091 as compared to cash used by financing activities of $7,783 for the corresponding period in 2006.

The Company recorded a current deferred tax asset of $200,647, and non-current deferred tax asset of $261,305, at December 31, 2007. A valuation allowance of approximately $616,000 has been recorded to reduce the asset to the net amount of expected tax benefit management believes it will more likely than not realize. Because the recoverability of deferred tax assets is directly dependent upon future operating results, actual recoverability of deferred tax assets may differ materially from our estimates.

Results of Operations

Comparison of the three and six months ended December 31, 2007 and 2006.

Net sales during the quarter ended December 31, 2007, were $742,454, as compared to $566,699 in the quarter ended December 31, 2006, an increase of $175,755, or approximately 31%. Net sales during the six months ended December 31, 2007, were $1,337,694, as compared to $1,152,859 in the six months ended December 31, 2006, an increase of $184,835, or approximately 16%. Our net sales for the three and six months ended December 31, 2007 increased from corresponding prior periods primarily because of continued penetration into current markets. Sales also increased in the second quarter because we notified our customers of a coming price increase that took effect January 1, 2008. Sales from our Sirius subsidiary have leveled off, as we continue to find ways to reach Sirius' intended market. We believe there is great potential for Sirius as the number of diagnosed diabetics continues to increase.

Gross profit during the quarter ended December 31, 2007, was $564,496, as compared to $440,304 during the quarter ended December 31, 2006, an increase of $124,192, or approximately 28%. As a percentage of net sales, gross profit was approximately 76% in the quarter ended December 31, 2007, and approximately 78% in the corresponding quarter in 2006. Gross profit during the six months ended December 31, 2007, was $1,013,521, as compared to $880,087 during the six months ended December 31, 2006, an increase of $133,434, or approximately 15%. As a percentage of net sales, gross profit was approximately 76% in the six months ended December 31, 2007, and approximately 77% in the corresponding six months in 2006.

Operating expenses during the quarter ended December 31, 2007, were $435,690, consisting of $241,658 in salaries and benefits, and $194,032 in selling, general and administrative expenses. This compares to operating expenses during the quarter ended December 31, 2006 of $413,134, consisting of $193,802 in salaries and benefits, and $219,332 in selling, general and administrative expenses. Expenses for the quarter ended December 31, 2007, increased by approximately $22,556, or approximately 5% compared to the corresponding quarter in 2006. Increases in the salaries and benefits for the current period was due to an increase in staffing and increased commissions from increased sales in fiscal 2008. Selling, general and administrative cost decreased for the six months ended December 31, 2007, compared to the six months ended December 31, 2006 by $56,939. Operating expenses during the six months ended December 31, 2007, were $877,873, consisting of $477,848 in salaries and benefits, and $400,025 in selling, general and administrative expenses. This compares to operating expenses during the six months ended December 31, 2006 of $820,934, consisting of $382,526 in salaries and benefits , and $438,408 in selling, general and administrative expenses. Expenses for the six months ended December 31, 2007, increased by approximately $56,939, or approximately 7% compared to the corresponding period in 2006.

Operating profit increased by $101,636 (approximately 374%) to $128,806 for the quarter ended December 31, 2007, as compared to $27,170 in the comparable quarter of the prior year. Net income (before dividend requirements for Preferred Shares) was $150,720 during the quarter ended December 31, 2007, as compared to $152,114 during the quarter ended December 31, 2006, a decrease of 1%. The decrease in net income was primarily attributable to an increase in sales, without the benefit of a large income tax benefit as compared to the previous period. The current deferred tax asset calculation is based on a two year projection verses a one year projection utilized in previously reported quarters. The two year projection is currently utilized to reflect the Company's increased fiscal stability as reported for the past nineteen quarters. Amerx continues efforts to increase market share for its products. Sirius continues efforts to penetrate the aging diabetic market. We also believe that sales will continue to increase if the Company finds new markets for both its products and services.

ITEM 3. CONTROLS AND PROCEDURES

(a) Evaluation of Disclosure Controls and Procedures

Management of the Company, with the participation of the Chief Executive Officer and Chief Financial Officer, has conducted an evaluation of the effectiveness of the Company's disclosure controls and procedures pursuant to Rule 13a-15 under the Securities Exchange Act of 1934 as of the end of the period covered by this report. Based on that evaluation, management, including the Chief Executive and Chief Financial Officer, has concluded that, as of the end of the period covered by this report, the Company's disclosure controls and procedures were effective in ensuring that all material information relating to the Company required to be disclosed in this report has been made known to management in a timely manner and ensuring that this information is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and regulations.

(b) Changes in Internal Controls Over Financial Reporting

During the second fiscal quarter of 2008, the Company did not institute any significant changes in its internal control over financial reporting that materially affected or is reasonably likely to materially affect, the Company's internal control over financial reporting.

PART II. OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

None.

ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

We held our annual meeting for fiscal 2008 on Saturday, December 8, 2007, at 9:00 a.m. EST. The following matters were considered and approved by the shareholders:

A. The following eight directors were elected to hold office for one-year terms or until their successors are elected and qualified:

	Votes For	Votes Against or Withheld	Total Voted
Regina W. Anderson	5,104,238	12,000	5,116,238
Alan B. Crane	5,083,738	32,500	5,116,238
Jeffrey S. Slowgrove	5,094,238	22,000	5,116,238
Fred W. Suggs	5,083,738	32,500	5,116,238
Chester A. Wallack	5,093,738	22,500	5,116,238
James B. Anderson	5,090,880	25,358	5,116,238
Justice W. Anderson	5,090,880	25,358	5,116,238
Michael T. Foley	5,104,238	12,000	5,116,238

B. To ratify appointment of Ferlita, Walsh & Gonzalez, P.A. as our independent certified public accountants for the 2008 fiscal year.

Votes For:	5,095,738
Votes Against:	20,500
Votes Abstaining:	0
Total Voted	5,116,238

ITEM 5. OTHER INFORMATION

The Board of Directors of the Company approved a plan on December 8, 2007 to repurchase shares of Procyon Corporation's outstanding common stock. The repurchase plan authorizes management to repurchase from time to time up to 10% of the total outstanding shares of common stock as of December 8, 2007, subject to applicable SEC regulations and compliance with the Company's trading window policies. The Board's authorization is based on its belief that Procyon's common stock is underpriced at times given the Company's working capital, liquidity, assets, book value and future prospects. The shares may be repurchased from time to time in the open market, through block purchases or in privately negotiated transactions depending upon market conditions and other factors, in accordance with SEC Rule 10b-18. Procyon has no commitment or obligation to purchase all or any portion of the authorized shares. All shares purchased are canceled and returned to the status of authorized but unissued common stock.

ITEM 6. EXHIBITS

(A) EXHIBITS

31.1 Certification of Regina W. Anderson pursuant to Exchange Act Rule 13a-14(a)/15d-14(a)
31.2 Certification of James B. Anderson pursuant to Exchange Act Rule 13a-14(a)/15d-14(a)
32.1 Certification Pursuant to 18 U.S.C.ss.1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act Of 2002

SIGNATURES

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

PROCYON CORPORATION

February 8, 2008	By: /s/ REGINA W. ANDERSON
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Date	Regina W. Anderson, Chief Executive Officer