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PROCYON CORP
Form 10-Q
May 15, 2009

SECURITIES & EXCHANGE COMMISSION
WASHINGTON, DC 20549

FORM 10-Q

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

For Quarterly Period Ended March 31, 2009

☐ 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)

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

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (ss.232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes _____ No _____

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

Large accelerated filer _____	Accelerated filer _____
Non-accelerated filer _____	Smaller reporting company <input checked="" type="checkbox"/>
(Do not check if a smaller reporting company)___	

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

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date: Common stock, no par value; 8,055,388 shares outstanding as of May 14, 2009.

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PROCYON CORPORATION & SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS
March 31, 2009 and June 30, 2008

	(unaudited) March 31, 2009 -----
ASSETS	
CURRENT ASSETS	
Cash	\$ 314,563
Certificate of Deposits, and accrued interest	246,473
Accounts receivable, net of \$3,500 and \$2,500 allowance for doubtful accounts, respectively	193,505
Inventories	145,453
Prepaid expenses	181,512
Deferred tax asset	79,069

TOTAL CURRENT ASSETS	1,160,575
PROPERTY AND EQUIPMENT, NET	541,455

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OTHER ASSETS		
Deposits		2,575
Deferred tax asset		963,213

		965,788
TOTAL ASSETS		\$ 2,667,818
		=====
LIABILITIES AND STOCKHOLDERS' EQUITY		
CURRENT LIABILITIES		
Accounts Payable	\$	61,565
Accrued Expenses		114,012
Current Portion of Mortgage Payable		24,060

TOTAL CURRENT LIABILITIES		199,637
LONG-TERM LIABILITIES		
Mortgage Payable		429,194

TOTAL LONG TERM LIABILITIES		429,194
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
Common stock, no par value, 80,000,000 shares authorized; 8,052,388 shares issued and outstanding		4,416,676
Paid-in Capital		6,000
Accumulated deficit		(2,538,639)

TOTAL STOCKHOLDERS' EQUITY		2,038,987

TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY		\$ 2,667,818
		=====

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

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PROCYON CORPORATION & SUBSIDIARIES CONSOLIDATED STATEMENTS OF OPERATIONS Three & Nine Months Ended March 31, 2009 and 2008

	(unaudited) Three Months Ended Mar. 31, 2009	(unaudited) Three Months Ended Mar. 31, 2008
	-----	-----
NET SALES	\$ 698,639	\$ 625,514
COST OF SALES	150,553	147,466
	-----	-----

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GROSS PROFIT	548,086	478,048
OPERATING EXPENSES		
Salaries and Benefits	253,125	230,563
Selling, General and Administrative	240,812	232,922
	-----	-----
	493,937	463,485
INCOME FROM OPERATIONS	54,149	14,563
OTHER INCOME (EXPENSE)		
Interest Income	3,677	4,166
Interest Expense	(8,192)	(8,772)
	-----	-----
	(4,515)	(4,606)
INCOME BEFORE INCOME TAXES	49,634	9,957
INCOME TAX (EXPENSE) BENEFIT	(20,778)	2,169
	-----	-----
NET INCOME	28,856	12,126
Dividend requirements on preferred stock	(4,978)	(4,978)
	-----	-----
Basic net income available to common shares	\$ 23,878	\$ 7,148
	=====	=====
Basic net income per common share	\$ --	\$ --
Weighted average number of common	8,055,388	8,055,388
shares outstanding	=====	=====
Diluted net income per common share	\$ --	\$ --
Weighted average number of common shares		
outstanding, basic and diluted	8,414,259	8,428,866
	=====	=====

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

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CASH FLOWS FROM OPERATING ACTIVITIES

Net Income

Adjustments to reconcile net income to net cash provided by operating activities:

Depreciation

Deferred Income Taxes

Accrued Interest on Certificates of Deposit

Allowance for doubtful accounts

Decrease (increase) in:

Accounts Receivable

Inventory

Prepaid Expenses

Other Assets

Increase (decrease) in:

Accounts Payable

Accrued Expenses

NET CASH PROVIDED BY OPERATING ACTIVITIES

CASH FLOW FROM INVESTING ACTIVITIES

Purchase of Certificates of Deposit

Redemption of Certificate of Deposit

Purchase of property & equipment

NET CASH USED BY INVESTING ACTIVITIES

CASH FLOW FROM FINANCING ACTIVITIES

Payments on Mortgage Payable

NET CASH USED BY FINANCING ACTIVITIES

NET CHANGE IN CASH

CASH AT BEGINNING OF PERIOD

CASH AT END OF PERIOD

SUPPLEMENTAL DISCLOSURES

Interest Paid

Taxes Paid

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

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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

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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, 2008. 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 March 31, 2009, 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 March 31, 2009, no options were granted. Therefore, the adoption of SFAS 123R does not have an impact on our statement of operations for period ending March 31, 2009.

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 March 31, 2009 and 2008.

The Black-Scholes option valuation model was developed for estimating the fair value of traded options that have no vesting restrictions and are fully

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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:

	March 31, 2009 -----	June 30, 2008 -----
Finished Goods	\$ 68,138	\$109,561
Raw Materials	\$ 77,315 -----	\$ 74,597 -----
	\$145,453 =====	\$184,158 =====

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, 2009 no dividends have been declared. Dividends in arrears on the outstanding preferred shares total \$236,394 as of March 31, 2009

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. There were no shares converted during the reporting period.

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

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returned to the status of authorized but unissued common stock. The plan does not have an expiration date. As of March 31, 2009, no shares of common stock had been repurchased by the Company pursuant to its repurchase plan.

NOTE D - INCOME TAXES AND AVAILABLE CARRYFORWARD

As of March 31, 2009, the Company had consolidated income tax net operating loss ("NOL") carryforward for federal income tax purposes of approximately \$2,790,000. The federal NOL will expire in various years ending through the year 2023.

The components of the provision for income taxes (benefits) are attributable to continuing operations as follows:

		Nine Months 3/31/09 -----	Nine Months 3/31/08 -----
Current			
	Federal	\$ --	\$ --
	State	--	--
		-----	-----
		\$ --	\$ --
Deferred			
	Federal	\$ 28,126	\$ (53,869)
	State	4,815	(9,220)
		-----	-----
		\$ 32,941	\$ (63,089)
		=====	=====

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	\$ 77,751	\$ 973,801
Allowance for doubtful accounts	1,318	--
Less: Valuation allowance	--	--
	-----	-----
	79,069	973,801
Deferred tax liability		
Excess of tax over book depreciation	--	(10,588)
	-----	-----
	79,069	963,213
Net deferred tax asset	\$ 79,069	\$ 963,213
	=====	=====

The change in the valuation allowance is as follows:

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June 30, 2008	\$ --

March 31, 2009	--

Change in valuation allowance	\$ --
	=====

Management believes it is more likely than not it will realize the benefit of the NOL carryforward, because of its continuing trend of earnings. Therefore, a valuation allowance is not considered necessary.

Income taxes for the nine month periods ended March 31, 2009, and March 31, 2008, 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:

	Nine Months 03/31/09	Nine Months 03/31/08
	-----	-----
Expected provision (benefit)	\$ 29,288	\$ 45,839
State income taxes net of federal benefits	3,127	4,894
Nondeductible (income) expense	3,662	3,525
Change in estimates	(3,136)	12,680
Change in valuation allowance	--	(130,027)
	-----	-----
	\$ 32,941	\$ (63,089)
	=====	=====

NOTE E - MORTGAGE PAYABLE

On July 21, 2006, we entered into a mortgage loan, guaranteed by our C.E.O. Regina W. Anderson, for \$508,000 with the Bank of America for the purchase of our corporate office building which has a net book value of approximately \$512,000. The mortgage loan is due in 15 years and interest is fixed at 7.25%. Interest expense was \$25,536 for the nine months ended March 31, 2009.

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

Year Ending June 30,	

3 months 2009	\$ 5,853
2010	24,498
2011	26,335
2012	28,309

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2013	30,431
2014 and thereafter	337,828

	453,254
Less current portion	24,060

	\$429,194
	=====

NOTE F - LINE OF CREDIT

The Company has a \$250,000, due-on-demand line of credit with a financial institution, collateralized by the Company's inventory of \$145,453 and accounts receivable assets of \$193,505. The line of credit is renewable annually in April. The C.E.O. of the Company personally guaranteed the line of credit to the Company. At March 31, 2009, the Company owed \$0 on the line of credit. The line of credit extends terms of cash advances at a variable rate set equal to the banks prime rate at the time of advance. The interest rate can fluctuate according to the banks changes in its published prime rate.

NOTE G - RELATED PARTY TRANSACTIONS

Our Chief Executive Officer, Regina W. Anderson, guaranteed a loan for the Company in the amount of \$508,000, issued in connection with our purchase of our office building in July 2006, as well as the \$250,000 line of credit.

NOTE H - SEGMENT INFORMATION

The Company operates in the following two business segments:

1. Sale of skin and wound care products through Amerx. The marketing of these products is targeted primarily to diabetic patients who have difficulties providing proper care and treatment of wounds due to their diabetic condition and physicians who recommend the products to their patients.
2. Sale of diabetic supplies - Sirius provides meters, test strips, monitors, syringes, etc. primarily to diabetic patients. The Company is then reimbursed by Medicare and/or patients' secondary insurance.

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Each separately managed segment offers different products requiring different marketing and distribution strategies. Segments information for the nine months ended March 31, 2009 and 2008 is as follows:

	Mar. 31,	Wound Care	Diabetic		Other
	-----	Products	Products		-----
Revenues	2009	\$1,772,676	\$ 206,621	\$	-
	2008	1,728,661	234,547		-
Gross Profit	2009	1,444,328	86,911		-
	2008	1,392,443	99,126		-

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Identifiable Assets	2009	616,663	199,295	1,851,860
	2008	624,535	209,706	1,248,772
Property and Equipment				
Additions	2009	1,654	-	9,677
	2008	1,261	-	650
Depreciation	2009	6,193	273	18,639
	2008	7,329	407	19,147
Geographical Information				

The Company operates and sells its products to its customers primarily within the United States. All assets are located within the United States.

NOTE I - RECENTLY ISSUED ACCOUNTING STANDARDS

In September 2006, the Financial Accounting Standards Board ("FASB") issued SFAS No. 157, "Fair Value Measurements," which defines fair value, establishes a framework in generally accepted accounting principles for measuring fair value and expands disclosures about fair value measurements. This standard only applies when other standards require or permit the fair value measurement of assets and liabilities. It does not increase the use of fair value measurement. SFAS No. 157 is effective for fiscal years beginning after November 15, 2007, except as it relates to nonrecurring fair value measurements of nonfinancial assets and liabilities for which the standard is effective for fiscal years beginning after November 15, 2008. The Company is evaluating the impact on its consolidated financial statements as a result of the adoption of SFAS No. 157 with respect to financial assets and liabilities.

In February 2007, the FASB issued Statement of Financial Accounting Standard ("SFAS") No. 159, "The Fair Value Option for Financial Assets and Financial Liabilities Including an Amendment of FASB Statement No. 115." This standard permits entities to choose to measure eligible items at fair value at specified election dates and report unrealized gains and losses on items, for which the fair value option has been elected, in earnings at each subsequent reporting date. SFAS No. 159 is effective for fiscal years beginning after November 15, 2007. The Company is evaluating the impact on its consolidated financial statements as a result of the adoption of SFAS No. 159.

In May 2008, the Financial Accounting Standards Board ("FASB") issued Statement of Financial Accounting Standards ("SFAS") No. 162, "The Hierarchy of Generally Accepted Accounting Principles" ("SFAS 162"). SFAS 162 is intended to improve financial reporting by identifying a consistent framework, or hierarchy, for selecting accounting principles to be used in preparing financial statements that are presented in conformity with generally accepted accounting principles in the United States for non-governmental entities. SFAS 162 is effective 60 days following approval by the U.S. Securities and Exchange Commission ("SEC") of the Public Company Accounting Oversight Board's amendments to AU Section 411, "The Meaning of Present Fairly in Conformity with Generally Accepted Accounting Principles." The Company does not expect SFAS 162 to have a material impact on the preparation of its financial statements.

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

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elsewhere in this report.

This Report on Form 10-Q, 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,"

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"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 or 10-K, for the year ended June 30, 2008, which was filed with the Securities and Exchange Commission on September 9, 2008. 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 March 31, 2009, our allowance for

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doubtful accounts totaled \$3,500.

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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 enacted 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"). A valuation allowance is used 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. We did not have a valuation allowance as of March 31, 2009. 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,"

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which is a revision of Statement of Financial Accounting Standards No. 123,

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"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 March 31, 2009 the Company's principal sources of liquid assets included cash of \$314,563, inventories of \$145,453, and net accounts receivable of \$193,505. The company also has \$246,473 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 \$960,938, and long-term debt of \$429,194 at March 31, 2009.

During the nine months ended March 31, 2009, cash increased from \$278,878 as of June 30, 2008, to \$314,563. Operating activities provided cash of \$66,719 during the period, consisting primarily of a reduction of accounts payable of \$43,749, but also due to a decrease in inventory and decrease in deferred income tax. Cash used by financing activities was \$16,577 as compared to cash used by financing activities of \$15,324 for the corresponding period in 2008.

The Company recorded a current deferred tax asset of \$79,069, and non-current deferred tax asset of \$963,213, at March 31, 2009. 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 nine months ended March 31, 2009 and 2008.

Net sales during the quarter ended March 31, 2009, were \$698,639, as compared to \$625,514 in the quarter ended March 31, 2008, an increase of \$73,125, or approximately 12%. Net sales during the nine months ended March 31, 2009, were \$1,979,297, as compared to \$1,963,208 in the nine months ended March 31, 2008, an increase of \$16,089, or approximately 1%. Our net sales for the three and nine months ended March 31, 2009 increased from corresponding prior periods primarily because of an increase in skin and wound care product sales.

Gross profit during the quarter ended March 31, 2009, was \$548,086, as compared to \$478,048 during the quarter ended March 31, 2008, an increase of \$70,038, or approximately 15%. As a percentage of net sales, gross profit was approximately 78% in the quarter ended March 31, 2009, and approximately 76% in the corresponding quarter in 2008. Gross profit during the nine months ended March 31, 2009, was \$1,531,239, as compared to \$1,491,569 during the nine months ended March 31, 2008, an increase of \$39,670, or approximately 3%. As a percentage of net sales, gross profit was approximately 77% in the nine months ended March 31, 2009, and approximately 76% in the corresponding nine months in 2008.

Operating expenses during the quarter ended March 31, 2009, were \$493,937, consisting of \$253,125 in salaries and benefits, and \$240,812 in selling, general and administrative expenses. This compares to operating expenses during the quarter ended March 31, 2008, of \$463,485, consisting of \$230,563 in salaries and benefits, and \$232,922 in selling, general and administrative expenses. Expenses for the quarter ended March 31, 2009, increased by approximately \$30,452, or approximately 7% compared to the corresponding quarter in 2008. Increases in the salaries and benefits for the current period was due to a increase in staffing and increased commissions from increased sales in fiscal 2009. Selling, general and administrative cost increased for the nine months ended March 31, 2009, compared to the nine months ended March 31, 2008 by \$95,928. Operating expenses during the nine months ended March 31, 2009, were \$1,431,035, consisting of \$702,157 in salaries and benefits, and \$728,878 in selling, general and administrative expenses. This compares to operating expenses during the nine months ended March 31, 2008 of \$1,341,362, consisting of \$708,412 in salaries and benefits, and \$632,950 in selling, general and administrative expenses. Expenses for the nine months ended March 31, 2009, increased by approximately \$89,673, or approximately 7% compared to the corresponding period in 2008.

Operating profit increased by \$39,586 (approximately 271%) to \$54,149 for the quarter ended March 31, 2009, as compared to \$14,563 in the comparable quarter of the prior year. Net income (before dividend requirements for Preferred Shares) was \$28,856 during the quarter ended March 31, 2009, as compared to \$12,126 during the quarter ended March 31, 2008, an increase of 138%. Operating profit decreased by \$50,003 (approximately 33%) to \$100,204 for the nine months ended March 31, 2009, as compared to \$150,207 in the comparable period of the prior year. Net income (before dividend requirements for Preferred Shares) was \$53,201 during the nine months ended March 31, 2009, as compared to \$197,905 during the nine months ended March 31, 2008, a decrease of \$144,704 or 73%. The decrease in net income was primarily attributable to a decrease of the income tax benefit. 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 4. 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

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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 reaching a reasonable level of assurance that: (a) 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 (b) information was 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

As previously reported, our annual assessment of the internal controls over financial reporting revealed several areas that we consider to be material weaknesses: (1) inadequate segregation of duties consistent with control objectives; (2) insufficient written policies and procedures for accounting and financial reporting with respect to the requirements and application of GAAP and SEC disclosure requirements; (3) inadequate internal and external control over the calculation of deferred tax assets and liabilities and requisite knowledge to properly compute the deferred tax assets and liabilities; (4) ineffective controls over period end financial disclosure and reporting processes and (5) insufficient board and audit committee composition to provide oversight of the financial statement process.

During the third fiscal quarter of 2009, the Company continues to address changes needed to improve board oversight of the financial statement process. We have instituted some changes in segregation of duties as current staffing permits and improved our process of communication with our Board of Directors.

PART II. OTHER INFORMATION

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

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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.

May 14, 2009

Date

PROCYON CORPORATION

By:/s/ REGINA W. ANDERSON

Regina W. Anderson, Chief Executive Officer

