PROCYON CORP
Form 10-Q
February 17, 2015

SECURITIES & EXCHANGE COMMISSION
WASHINGTON, DC 20549

FORM 10-Q

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

For Quarterly Period Ended December 31, 2014

[ ] 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 (§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 (Do not check if a smaller reporting company)	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; 8,060,388 shares outstanding as of February 9, 2015.

PART I. - FINANCIAL INFORMATION

PROCYON CORPORATION & SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS

December 31, 2014 and June 30, 2014

	(unaudited) December 31, 2014	(audited) June 30, 2014
ASSETS		
CURRENT ASSETS		
Cash	$420,670	$582,776
Certificates of Deposit, plus accrued interest	157,485	157,145
Accounts Receivable, less allowance for doubtful accounts of $1,000.	240,577	301,243
Inventories	518,375	276,750
Prepaid Expenses	145,559	203,616
Deferred Tax Asset	79,401	83,373
TOTAL CURRENT ASSETS	1,562,067	1,604,903
PROPERTY AND EQUIPMENT, NET	494,153	466,214
OTHER ASSETS		
Deposits	792	792
Deferred Tax Asset	583,863	556,359
	584,655	557,151
TOTAL ASSETS	$2,640,875	$2,628,268
LIABILITIES AND STOCKHOLDERS' EQUITY		
CURRENT LIABILITIES		
Accounts Payable	$194,984	$112,075
Accrued Expenses	120,659	142,254
TOTAL CURRENT LIABILITIES	315,643	254,329
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; 194,100 shares issued and outstanding.	149,950	149,950
Common Stock, no par value, 80,000,000 shares	4,421,676	4,421,676

authorized; 8,060,388 shares issued and outstanding.		
Paid-in Capital	6,000	6,000
Accumulated Deficit	(2,252,394)	(2,203,687)
TOTAL STOCKHOLDERS' EQUITY	$2,325,232	2,373,939
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	$2,640,875	$2,628,268

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

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PROCYON CORPORATION & SUBSIDIARIES CONSOLIDATED STATEMENTS OF OPERATIONS Three and Six Months Ended December 31, 2014 and 2013

	(unaudited) Three Months Ended Dec. 31, 2014	(unaudited) Three Months Ended Dec. 31, 2013	(unaudited) Six Months Ended Dec. 31, 2014	(unaudited) Six Months Ended Dec. 31, 2013
NET SALES	$735,871	$792,449	$1,354,824	$1,524,013
COST OF SALES	190,614	196,104	332,891	368,529
GROSS PROFIT	545,257	596,345	1,021,933	1,155,484
OPERATING EXPENSES				
Salaries and Benefits	298,304	276,506	594,293	558,509
Selling, General and Administrative	272,131	226,273	501,284	404,544
	570,435	502,779	1,095,577	963,053
(LOSS) / INCOME FROM OPERATIONS	(25,178)	93,566	(73,644)	192,431
OTHER INCOME (EXPENSE)				
Interest Expense	—	—	—	—
Interest Income	724	991	1,405	1,815
	724	991	1,405	1,815
(LOSS) / INCOME BEFORE INCOME TAXES	(24,454)	94,557	(72,239)	194,246
INCOME TAX BENEFIT / (EXPENSE)	5,973	(36,556)	23,533	(75,027)
NET (LOSS) / INCOME	(18,481)	58,001	(48,706)	119,219

Dividend requirements on preferred stock	(4,853)	(4,853)	(9,705)	(9,705)
Basic net income (loss) available to common shares	$(23,334)	$53,148	$(58,411)	$109,514
Basic net income (loss) per common share	$(0.00)	$0.01	$(0.01)	$0.01
Weighted average number of common shares outstanding	8,060,388	8,060,388	8,060,388	8,060,388
Diluted net income (loss) per common share	$(0.00)	$0.01	$(0.01)	$0.01
Weighted average number of common shares outstanding, diluted	8,060,388	8,254,488	8,060,388	8,254,488

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

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PROCYON CORPORATION & SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
For the Six Months Ending December 31, 2014 and 2013

	(unaudited) December 31, 2014	(unaudited) December 31, 2013
CASH FLOWS FROM OPERATING ACTIVITIES		
Net (Loss) Income	$(48,706)	$119,219
Adjustments to reconcile net (loss) income to net cash (used in) provided by operating activities:		
Depreciation	16,401	16,534
Deferred Income Taxes	(23,533)	75,027
Accrued Interest on Certificates of Deposit	36	(325)
Decrease (increase) in:		
Accounts Receivable	60,667	(92,947)
Inventory	(241,625)	(157)
Prepaid Expenses	58,057	(1,397)
Increase (decrease) in:		
Accounts Payable	82,909	11,031
Accrued Expenses	(21,595)	(38,291)
NET CASH (USED IN)PROVIDED BY OPERATING ACTIVITIES	(117,389)	88,694
CASH FLOW FROM INVESTING ACTIVITIES		
Purchase of property & equipment	(44,340)	(2,628)
NET CASH (USED) IN INVESTING ACTIVITIES	(44,340)	(2,628)
CASH FLOW FROM FINANCING ACTIVITIES		
Redemption of CD	156,983	—
Purchase of CD	(157,360)	—
Payments on Mortgage Payable	—	—
NET CASH (USED) IN FINANCING ACTIVITIES	(377)	—
NET CHANGE IN CASH	(162,106)	86,066
CASH AT BEGINNING OF PERIOD	582,776	772,728
CASH AT END OF PERIOD	$420,670	$858,794
SUPPLEMENTAL DISCLOSURES		

Interest Paid	$—	$—
Taxes Paid	$—	$—

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 ("GAAP") 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, 2014. 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

Stock based compensation is accounted for in accordance with Topic 718 - Compensation -Stock Compensation in the Accounting Standards Codification. Pursuant to Topic 718, all share-based payments to employees, including grants of employee stock options, are to be recognized in the statement of operations based upon their fair values. Topic 718 rescinds the acceptance of pro forma disclosure. In December 2009, our shareholders approved the adoption of a new stock option plan, providing the Company a continued means of offering stock-based compensation.

On December 31, 2014, there were no outstanding options to purchase shares of our common stock. Therefore, the adoption of Topic 718 does not have a material impact on our statement of operations for period ending December 31, 2014.

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, 2014 and 2013.

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.

EARNINGS PER SHARE

Basic earnings per share (EPS) is computed by dividing income available to common stockholders by the weighted-average number of common shares outstanding for the period. Diluted EPS reflects the potential dilution that would occur if dilutive securities such as stock options and other contracts to issue Common Stock were exercised or converted into Common Stock or resulted in the issuance of Common Stock that then shared in earnings. We use the treasury stock method to compute potential common shares from stock options and the as-if-converted method to compute potential common shares from Preferred Stock.

For the three months ended December 31, 2014, the potential dilutive effects of the preferred stock was excluded from the weighted-average shares outstanding as the shares would have an antidilutive effect on the loss from continuing operations.

NOTE B - INVENTORIES

Inventories consisted of the following:

	December 31, 2014	June 30, 2014
Finished Goods	$205,166	$87,185
Raw Materials	313,209	189,565
	$518,375	$276,750

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, 2014, no dividends have been declared. Dividends in arrears on the outstanding preferred shares total $341,626 as of December 31, 2014.

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. So long as any share of Series A Preferred Stock is outstanding, the Company is prohibited from declaring dividends or other distributions related to its Common Stock or purchasing, redeeming or otherwise acquiring any of the Common 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. Effective May 1, 2014, the Board of Directors approved the termination of the repurchase plan. No shares of common stock were repurchased by the Company pursuant to its repurchase plan.

NOTE D - INCOME TAXES AND AVAILABLE CARRYFORWARD

As of December 31, 2014, the Company had consolidated income tax net operating loss ("NOL") carryforward for federal income tax purposes of approximately $1,754,000. The NOL will expire in various years ending through the year 2035. The utilization of certain of the loss carryforwards are limited under Section 382 of the Internal Revenue Code.

The components of the provision for income tax benefits (expense) attributable to continuing and discontinued operations are as follows:

	Six Months 12/31/2014	Six Months 12/31/2013
Current		
Federal	$ 0	$ 0
State	0	0
	$ 0	$ 0
Deferred		
Federal	$ 20,094	$ (64,061)
State	3,440	(10,966)
	$ 23,534	$ (75,027)
Total Income Tax Benefit (Expense)	$ 23,534	$ (75,027)

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		
NOL and contribution carryforwards	$74,300	$ 585,889
PTO Accounts	4,725	—
Allowance for doubtful accounts	376	—
	79,401	585,889
Deferred tax (liabilities)		
Excess of tax over book depreciation	—	(2,026)
Net deferred tax asset (liability)	$79,401	$ 583,863

The Change in valuation allowance is as follows:

		June 30, 2013	
		$—	—
	December 31, 2014		$ —
	Change in valuation allowance		
		$—	

Management believes it is more likely than not that 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 periods ended December 31, 2014 and 2013 differ from the amounts computed by applying the effective income tax rates of 37.63%, to income taxes as a result of the following:

	Six Months Dec. 31, 2014	Six Months Dec. 31, 2013
Expected benefit (provision) at US statutory rate	$24,453	$(66,044)
State income tax net of federal benefit (provision)	2,611	(7,051)
Nondeductible Expense	(2,131)	(1,932)
Change in estimates in available NOL carryforwards	(1,399)	—
Income Tax Benefit (Expense)	$23,534	$(75,027)

The earliest tax year still subject to examination by a major taxing jurisdiction is fiscal year end June 30, 2010.

The Company made a review of its uncertain tax positions in accordance with applicable standards of the Financial Accounting Standards Board ("FASB"). In this regard, an uncertain tax position represents the Company's expected treatment of a tax position taken in a filed tax return, or planned to be taken in a future tax return, that has not been reflected in measuring income tax expense for financial reporting purposes. As a result of this review, the Company concluded that at this time there are no uncertain tax positions, and there has been no cumulative effect on retained earnings.

NOTE E - 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 $518,375 and net accounts receivable assets of $240,577. The line of credit is renewable annually in April. Our Chief Executive Officer personally guaranteed the line of credit to the Company. At December 31, 2014 and June 30, 2014, 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 prime rate at the time of advance. The interest rate can fluctuate according to the changes in its published prime rate.

NOTE F - RELATED PARTY TRANSACTIONS

Our Chief Executive Officer, Regina W. Anderson, guarantees a $250,000 line of credit for the Company.

NOTE G - CONTINGENCIES

The Company is currently complying with a FDA recall that initially started July 21, 2014 and was expanded effective November 10, 2014. Total recall costs incurred through December 31, 2014 were $78,275. Future recall costs are expected, but cannot be accrued at this point because they are not able to be reasonably estimated.

NOTE H - SUBSEQUENT EVENTS

We have evaluated subsequent events through February 13, 2015, which is the date the financial statements were available to be issued.

ITEM 2. MANAGEMENT’S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS.

General

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

This Report on Form 10-Q, including Management’s Discussion and Analysis of Financial Condition and Results of Operations, 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 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 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.

Amerx Health Care recently expanded their advanced line of wound care products with the launch of Helix3 – Bioactive Collagen. The new line of Type- 1 Collagen Matrix and Powder Dressings offer physicians and wound care professionals an advanced option for addressing moderate to heavy exudating acute and chronic wounds. Collagen plays a vital role in tissue repair and the lack of collagen present in wounds can delay the wound healing process resulting in increased wound care costs as well as additional risks to patient’s health. Amerx feels this product expansion into a new segment of the wound care market better positions the company for growth.

Recent Developments

This past July Amerx received notice from our manufacturer involving a voluntary Class II recall as a result of a random FDA inspection of their facility. Amerx subsequently issued a voluntary sub-recall to our customers. At the same time, a second voluntary recall was initiated by Amerx based on FDA concerns regarding claims made on our previous packaging. The recall included Amerigel Wound Dressing, Amerigel Saturated Gauze Dressing, Amerigel Daily Dressing Packets and Amerigel Post-op Kits. These recalls remain open and ongoing as of this filing. The Company is unable to determine at this time whether or not there will be a long term adverse material effect to our financial operations from the recalls. An accrual was made to account for actual expenses incurred following the December 31, 2014 period end. However no accrual can be made for future expenses as these expenses cannot be reasonably calculated. The short term effects of the recalls can be seen in this quarterly report showing increased legal fees, research and development fees, postage and delivery costs and back ordered product. The quarterly cost of the recall at December 31, 2014 was $78,275. Amerx is actively addressing all concerns surrounding the recalls and is working directly with the FDA to ensure full compliance moving forward.

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 form 10-K, for the year ended June 30, 2014, which was filed with the Securities and Exchange Commission on September 29, 2014. 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, 2014 our allowance for doubtful accounts totaled $1,000.

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, distributor catalogs, website 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 Topic 740 - Income Tax in the Accounting Standards Codification. 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 December 31, 2014. 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.

Stock Based Compensation

Stock based compensation is accounted for in accordance with Topic 718 - Compensation - Stock Compensation in the Accounting Standards Codification. All share-based payments to employees, including grants of employee stock options, are to be recognized in the statement of operations based upon their fair values. Topic 718 rescinds the acceptance of pro forma disclosure.

FINANCIAL CONDITION

As of December 31, 2014 the Company's principal sources of liquid assets included cash of $420,670, inventories of $518,375, and net accounts receivable of $240,577. The Company also has $157,485 in short term Certificate of Deposits. The Company had net working capital of $1,246,424, and no long-term debt at December 31, 2014.

During the six months ended December 31, 2014 cash decreased from $582,776 as of June 30, 2014, to $420,670. Operating activities used cash of $117,389 during the period, consisting of normal changes in operating assets.

The Company reflected a current deferred tax asset of $79,401, and non-current deferred tax asset of $583,863, at December 31, 2014. 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, 2014 and 2013.

Net sales during the quarter ended December 31, 2014, were $735,871, as compared to $792,449 in the quarter ended December 31, 2013, a decrease of $56,578, or approximately 7%. We believe that sales for the current three-month period decreased when compared to the previous year primarily due to the effects of the recall. Net sales during the six months ended December 31, 2014, were $1,354,824, as compared to $1,524,013 in the six months ended December 31, 2013, a decrease of $169,189, or approximately 11%. We believe that sales for the current six month period decreased when compared to the previous year primarily due to the effects of the recall.

Gross profit during the quarter ended December 31, 2014 was $545,257, as compared to $596,345 during the quarter ended December 31, 2013, a decrease of $51,088, or 9%. As a percentage of net sales, gross profit was approximately 74% in the quarter ended December 31, 2014, and approximately 75% in the corresponding quarter in 2013. Gross profit during the six months ended December 31, 2014 was $1,021,933, as compared to $1,155,484 during the six months ended December 31, 2013, a decrease of $133,551, or 12%. As a percentage of net sales, gross profit was approximately 75% in the six months ended December 31, 2014, and approximately 76% in the corresponding six months in 2013.

Operating expenses during the quarter ended December 31, 2014 were $570,435, consisting of $298,304 in salaries and benefits and $271,131 in selling, general and administrative expenses. This compares to operating expenses during the quarter ended December 31, 2013 of $502,779, consisting of $276,506 in salaries and benefits, and $226,273 in selling, general and administrative expenses. Expenses for the quarter ended December 31, 2014, increased by $67,656, or approximately 13%, compared to the corresponding quarter in 2013. Salaries and benefit expenses were increased for the quarter primarily due to the hiring of outside sales reps. Selling, general and administrative expenses increased primarily due to increases in legal fees and research and development cost. Operating expenses during the six months ended December 31, 2014 were $1,095,577, consisting of $594,293 in salaries and benefits and $501,284 in selling, general and administrative expenses. This compares to operating expenses during the six months ended December 31, 2013 of $963,053, consisting of $558,509 in salaries and benefits, and $404,544 in selling, general and administrative expenses. Expenses for the six months ended December 31, 2014, increased by $132,524, or approximately 14%, compared to the corresponding six months in 2013. Salaries and benefit expenses were increased for the six months primarily due to the hiring of outside sales reps. Selling, general and administrative expenses increased primarily due to increases in legal fees, research and development cost and cost associated with the recall.

Operating profit decreased by $118,744 to an operating loss of $25,178 for the quarter ended December 31, 2014, as compared to an operating profit of $93,566 in the comparable quarter of the prior year. Net Loss before income taxes was $25,178 during the quarter ended December 31, 2014, as compared to net income of $93,566 during the quarter ended December 31, 2013. We believe that the decrease in net income before income taxes was primarily attributable to the combination of the decrease in sales from the recall of our main products combined with higher than usual expenses for legal fees, recall fees and Research & Development expenses related to resolving the issues with the FDA. Operating profit decreased by $266,075 to an operating loss of $73,644 for the six months ended December 31, 2014, as compared to an operating profit of $192,431 in the comparable six months of the prior year. Net Loss before income taxes was $72,239 during the six months ended December 31, 2014, as compared to net income of $194,246 during the six months ended December 31, 2013. We believe that the decrease in net income before income taxes was primarily attributable to the combination of the decrease in sales from the effects of the recall combined with higher than usual expenses for legal fees and Research & Development expenses associated with response to the FDA concerns.

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 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 not 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, because of the identification of a certain material weakness in our internal controls over financial reporting which are identified below, which we view as an integral part of our disclosure controls and procedures.

(b) Changes in Internal Controls Over Financial Reporting

As previously reported, our annual assessment of the internal controls over financial reporting as of June 30, 2014 revealed a deficiency that we consider to be a material weakness: inadequate segregation of duties consistent with control objectives.

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During fiscal 2015, the Company will continue to address changes needed to improve segregation of duties consistent with control objectives. We have added staff to grow sales. We expect that increased sales will enable us to add support staff, specifically in the accounting and shipping departments. A secondary effect of adding more staff will address needed improvements in segregation of duties consistent with control objectives.

PART II. OTHER INFORMATION

ITEM 5. OTHER INFORMATION

On September 26, 2014 Chester Wallack a Board member and Chairman of the Compensation Committee resigned.

On October 1, 2014 the Board of Director's approved the reduction of the number of Board members from 8 to 7.

We held our annual meeting for fiscal 2015 on Tuesday, November 11, 2014, at 4:00 p.m. EST. The following matters were considered and approved by the shareholders:

The following seven 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 Votes
Regina W. Anderson	4,157,670	19,188	4,176,858
James B. Anderson	4,152,277	24,581	4,176,858
Justice W. Anderson	4,157,670	19,188	4,176,858
Paul E. Kudelko	4,159,670	17,188	4,176,858

Michael T. Foley	4,152,277	24,581	4,176,858
Fred W. Suggs	4,152,677	24,181	4,176,858
Joseph R. Treshler	4,159,670	17,188	4,176,858

Pursuant to the following vote, the appointment of Ferlita, Walsh, Gonzalez and Rodriguez, P.A. as our independent certified public accountants for the 2015 fiscal year, was ratified:

Votes For	Votes Against	Votes Abstaining	Total Votes
4,981,032	1,000	55,340	5,037,372

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.§1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act Of 2002
I01.1*	The following materials from the Company's Quarterly Report on Form 10-Q for the quarter ended December 31, 2013, formatted in XBRL (Extensible Business Reporting Language): (I) the Condensed Balance Sheets, (ii) the Condensed Consolidated Statements of Operations, (iii) the Consolidated Statements of Cash Flows, and (iv) the Notes to Condensed Consolidated Financial Statements

* Furnished, not filed

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 17, 2015	By: /s/ REGINA W. ANDERSON
Date	Regina W. Anderson, Chief Executive Officer