PROCYON CORP
Form 10QSB
November 14, 2006

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 September 30, 2006

[ ] 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; 8,049,588 shares outstanding as of November 13, 2006

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

PART I. FINANCIAL INFORMATION

PROCYON CORPORATION & SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS
September 30, 2006 and June 30, 2006

	(unaudited) September 30 2006	(audited) June 30 2006
ASSETS		
CURRENT ASSETS		
Cash	$ 304,799	$ 288,377
Accounts receivable, less allowance of $2,500 for doubtful accounts	161,432	146,446
Inventories	139,619	150,865
Prepaid Expenses	108,641	120,516
Deferred Tax Asset	152,213	133,245
Total Current Assets	866,704	839,449
PROPERTY AND EQUIPMENT, NET	597,923	62,962
OTHER ASSETS		
Deposits	1,513	8,748

TOTAL ASSETS	$ 1,466,140	$ 911,159
LIABILITIES AND STOCKHOLDERS' EQUITY		
CURRENT LIABILITIES		
Accounts Payable	$ 135,293	$ 125,648
Accrued Expenses	75,448	82,220
Current Portion of Mortgage Payable	20,082	--
TOTAL CURRENT LIABILITIES	230,823	207,868
LONG TERM LIABILITIES		
Deferred Tax Liability	$ 8,769	$ 9,063
Mortgage Payable	484,915	--
TOTAL LONG TERM LIABILITIES	493,684	9,063
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; 204,900 shares issued and outstanding	160,750	160,750
Common stock, no par value, 80,000,000 shares authorized; 8,049,588 shares issued and outstanding	4,410,876	4,410,876
Paid-in capital	6,000	6,000
Accumulated Deficit	(3,835,993)	(3,883,398)
TOTAL STOCKHOLDERS' EQUITY	741,633	694,228
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	$ 1,466,140	$ 911,159

The accompanying notes are an integral part of these financial statements

PROCYON CORPORATION & SUBSIDIARIES
CONSOLIDATED STATEMENTS OF OPERATIONS
Three Months Ended September 30, 2006 and 2005

	Three Months Ended September 30, 2006 (unaudited)	Three Months Ended September 30, 2005 (unaudited)
NET SALES	$ 586,160	$ 550,103
COST OF SALES	146,379	133,994
GROSS PROFIT	439,781	416,109
OPERATING EXPENSES		
Salaries and Benefits	188,725	153,305
Selling, General and Administrative	219,076	163,270

	407,801	316,575
INCOME FROM OPERATIONS	31,980	99,534
OTHER INCOME (EXPENSE)		
Interest Expense	(6,333)	(2,647)
Interest Income	2,496	340
	(3,837)	(2,307)
INCOME BEFORE INCOME TAXES	28,143	97,227
INCOME TAX BENEFIT	19,262	14,051
NET INCOME	47,405	111,278
Dividend requirement on preferred stock	5,123	5,373
Basic net income availabe to common shares	$ 42,282	$ 105,905
Basic net income per common share	$ 0.01	$ 0.01
Weighted average number of common shares outstanding	8,049,588	8,055,827
Diluted net income per common share	$ 0.01	$ 0.01
Weighted average number of common shares outstanding, basic and diluted	8,371,765	8,382,294

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 Three Months Ending September 30, 2006 and 2005

	Three Months Ended September 30, 2006 (unaudited)	Thr Sep (un
CASH FLOWS FROM OPERATING ACTIVITIES		
Net Income	$ 47,405	$
Adjustments to reconcile net income to net cash used in operating activities:		
Depreciation	8,287	
Deferred Income Taxes	(19,262)	
Decrease (increase) in:		
Accounts Receivable	(14,986)	

Inventory	11,246	
Prepaid Expenses	11,875	
Other Assets	7,235	
Increase (decrease) in:		
Accounts payable	9,645	
Accrued expenses	(6,772)	
	---------	--
NET CASH PROVIDED BY OPERATING ACTIVITIES	54,673	
CASH FLOW FROM INVESTING ACTIVITIES		
Purchase of property & equipment	(35,248)	
	---------	--
NET CASH USED BY INVESTING ACTIVITIES	(35,248)	
CASH FLOW FROM FINANCING ACTIVITIES		
Payments on note payable - related party	--	
Payments on Mortgage Payable	(3,003)	
Payments on capital lease obligations	--	
	---------	--
NET CASH USED BY FINANCING ACTIVITIES	(3,003)	
NET CHANGE IN CASH	16,422	
CASH AT BEGINNING OF PERIOD	288,377	
	---------	--
CASH AT END OF PERIOD	$ 304,799	$
	=========	==
SUPPLEMENTAL DISCLOSURES		
Interest Paid	$ 6,333	$
Taxes Paid	--	
NONCASH TRANSACTION DISCLOSURE		
Purchase of Office Building Financed by Mortgage	$ 508,000	

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 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, 2006. 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. 123(R) ("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 September 30, 2006, 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 September 30, 2006, no options were granted. Therefore, the adoption of SFAS 123R does not have an impact on the statement of operations for period ending September 30, 2006.

Previously, 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.

If we had previously accounted for stock-based compensation in the interim period using the fair value method rather than the intrinsic value method, the pro forma amounts of our net income and income per common share would have been reported as follows:

	3 months ended September 30, 2005
Net income applicable to common stock:	
As reported	$ 105,905
Pro forma adjustments for compensation	--
Pro forma	$ 105,905
Income per common share:	
Basic - as reported	$ 0.01
Basic - pro forma	$ 0.01
Diluted - as reported	$ 0.01
Diluted - pro forma	$ 0.01

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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 September 30, 2006 and 2005.

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:

	September 30, 2006	June 30, 2006
Finished Goods	$ 31,254	$ 61,330
Raw Materials	$108,365	$ 89,535
	$139,619	$150,865

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 September 30, 2006, no dividends have been declared. Dividends in arrears on the outstanding preferred shares total $191,984 as of September 30, 2006.

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.

NOTE D - INCOME TAXES AND AVAILABLE CARRYFORWARD

As of September 30, 2006, the Company had consolidated income tax net operating loss ("NOL") carryforward for federal income tax purposes of approximately $3,962,000. The federal NOL will expire in various years ending through the year 2022.

For the three months periods ended September 30, 2006 and 2005, the components of the provision for income taxes (benefits) are attributable to continuing operations as follows:

		September 30, 2006	September 30, 2005
Current			
	Federal	$ --	$ --
	State	--	--
		$ --	$ --
Deferred			
	Federal	$ (16,447)	$ (12,696)
	State	(2,815)	(1,355)
		$ (19,262)	$ (14,051)

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	$ 151,273	$ 1,343,377
Allowance for doubtful accounts	941	
Less: Valuation allowance		(1,343,377)
	$ 152,214	$ --
Deferred tax (liabilities):		
Excess of tax over book depreciation		(8,769)
	--	(8,769)
Net deferred tax asset (liability)	$ 152,214	$ (8,769)

The change in the valuation allowance is as follows:

September 30, 2006	$ 1,343,377
June 30, 2006	1,373,049
Change in valuation allowance	$ (29,672)

The decrease in the valuation allowance is due to the expected utilization of net operating loss carryforwards. A valuation allowance of approximately $1,343,000 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 three month periods ended September 30, 2006 and September 30, 2005 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:

	September 30, 2006	September 30, 2005
Expected provision (benefit)	$ 9,569	$ 33,057
State income taxes net of federal benefits	1,004	3,571
Nondeductible (income) expense	786	46
Change in valuation allowance	(29,672)	(50,688)
Other, net	(949)	(37)
	$(19,262)	$(14,051)

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. Interest is fixed at 7.25%. Interest expense was $6,129 for the three months ended September 30, 2006.

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

Year Ending June 30,		
9 months 2007	$	14,925
2008		21,201
2009		22,790
2010		24,498
2011		26,335
2012 and thereafter		395,248
		504,997
Less current portion		20,082
	$	484,915

NOTE F - RECENT ACCOUNTING PRONOUNCEMENT

In December 2004, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards No. 123(R) ("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.

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

General

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

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

This Report on Form 10-QSB, including Management's Discussion and Analysis 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 accounting principles generally accepted in the United States of America, 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, 2006, which was filed with the Securities and Exchange Commission on September 29, 2006. 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.

Accounts receivable allowance

Accounts receivable allowance consists of an allowance for doubtful accounts. 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.

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.

Income Tax

The Company accounts for income taxes under Statement of Financial Accounting Standards No. 109, "Accounting for Income Taxes" ("SFAS 109"). SFAS 109 requires the recognition of deferred tax assets and liabilities for the expected future tax consequences of events that have been included in the financial statements or tax returns. Under this method, deferred tax assets and liabilities are determined based on the differences between the financial statement and the tax basis of assets and liabilities using enacted tax provisions currently in effect and rates applicable to the periods in which the differences are expected to affect taxable income.

Revenue Recognition

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. 123(R) ("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 September 30, 2006, the Company's principal sources of liquid assets included cash of $304,799, inventories of $139,619, and net accounts receivable of $161,432. The Company had net working capital of $635,881, and long-term debt of $493,684 at September 30, 2006.

During the three months ended September 30, 2006, cash increased from $288,377 as of June 30, 2006 to $304,799. Operating activities provided cash of $54,673 during the period, consisting primarily of net income of $47,405. Cash used by financing activities was $3,003 as compared to cash used by financing activities of $90,856 for the corresponding period in 2005.

The Company recorded deferred tax assets of $152,213, and deferred tax liability of $8,769, at September 30, 2006. A valuation allowance of approximately $1,343,000 has been recorded to reduce the asset to the net amount of expected tax benefit management believes it will more likely than not realize. As time passes, management will be able to better assess the amount of tax benefit the Company expects to realize.

Results of Operations

Comparison of the three months and ended September 30, 2006 and 2005.

Net sales during the quarter ended September 30, 2006 were $586,160, as compared to $550,103 in the quarter ended September 30, 2005, an increase of $36,057, or 7%. The increase in sales was mainly attributable to increased sales to distributors. Sales from the Sirius subsidiary have leveled off, as management continues to find ways to reach its intended market. We continue to believe there is great potential for Sirius as the number of diagnosed diabetics increases each day.

Gross profit during the quarter ended September 30, 2006 was $439,781, as compared to $416,109 during the quarter ended September 30, 2005, an increase of 23,762, or 6%. As a percentage of net sales, gross profit was 75% in the quarter ended September 30, 2006 and 76% in the corresponding quarter in 2005.

Operating expenses during the quarter ended September 30, 2006, were $407,801, consisting of $188,725 in salaries and benefits, and $219,076 in selling, general and administrative expenses. This compares to operating expenses during the quarter ended September 30, 2005 of $316,575, consisting of $153,305 in salaries and benefits, and $163,270 in selling, general and administrative expenses. Expenses for the quarter ended September 30, 2006 increased compared to the corresponding quarter in 2005. Increases in the salaries and benefits for the period was due to lower wages paid, secondary to the absence of a CEO for a brief period between first and second quarters of Fiscal 2006, and increased commissions. Selling, general and administrative cost increased heavily for the quarter ended September 30, 2006 compared to the quarter ended September 30, 2005. This increase was mainly attributable to purchasing our office building including but not limited to pre-purchase expenses, insurance cost, legal fees and property taxes. The Company also purchased and implemented a new accounting software program that is more suitable for growth. The Company also introduced a new product to the market, and incurred cost accordingly with its launch.

Operating profit decreased by $67,554 (68%) to $31,980 for the quarter ended September 30, 2006, from $99,534 in the comparable quarter of the prior year. Net Profit (before dividend requirements for Preferred Shares) was $47,405 during the three months ended September 30, 2006, as compared to $111,278 during the three months ended September 30, 2005. The decrease in profit comes largely from an increase in prepurchase expenses related to acquiring our office building, training costs related to new software and launching a new product. We have improved our cash position. 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.

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ITEM 3. CONTROLS AND PROCEDURES

(a) Evaluation of Disclosure Controls and Procedures

Management of the Company, with the participation of the President and Principal Executive, Financial and Accounting 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 President and Principal Executive, Financial and Accounting 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 first fiscal quarter of 2007, 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 5. OTHER INFORMATION

In July 2006, we closed on the purchase of our previously leased office property located at 1300 S. Highland Ave., Clearwater, FL 33756, from G.E.A.P. Corporation, in the amount of $550,000, pursuant to a Lease Agreement, which contains a purchase option. In addition, at the same time, we closed on a loan provided by Bank of America, N.A., evidenced by a promissory note, in the amount of $508,000. Further, the purchase and loan were secured by a Mortgage, between the Company and Bank of America. Regina W. Anderson, our Chairman and Chief Executive Officer, personally guaranteed the loan we secured from Bank of America, N.A.

On October 17, 2006, the Board of Directors approved a resolution to increase the number of board members to eight.

On October 19, 2006, Richard T. Thompson, who had served as a director since 1998, died.

On October 26, 2006, the Board of Directors nominated James B. Anderson, Justice W. Anderson and Michael T. Foley to stand for election as directors in the upcoming annual shareholders meeting. If Mr. Foley is elected, the Board of Directors intends to nominate him to act as sole member and Chair of the Audit Committee.

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

November 14, 2006	By: /s/ REGINA W. ANDERSON
Date	Regina W. Anderson, Chief Executive Officer