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PROCYON CORP
Form 10-Q
November 06, 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 September 30, 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 ☒

(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 October 26, 2009.

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PROCYON CORPORATION & SUBSIDIARIES CONSOLIDATED BALANCE SHEETS September 30, 2009 and June 30, 2009

ASSETS	(unaudited) September 30, 2009	(audited) June 30, 2009
-----	-----	-----
CURRENT ASSETS		
Cash	\$ 703,329	\$ 403,030
Certificates of Deposit, plus accrued interest	53,120	248,796
Accounts Receivable, less allowance for doubtful accounts of \$4,700 and \$4,200, respectively.	198,858	212,725
Inventories	118,219	109,498
Prepaid Expenses	188,146	154,109
Deferred Tax Asset	66,533	48,954
	-----	-----

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TOTAL CURRENT ASSETS	1,328,205	1,177,112
PROPERTY AND EQUIPMENT, NET	529,077	534,339
OTHER ASSETS		
Deposits	2,575	2,575
Deferred Tax Asset	940,054	1,008,213
	-----	-----
	942,629	1,010,788
	-----	-----
TOTAL ASSETS	\$ 2,799,911	\$ 2,722,239
	=====	=====
LIABILITIES AND STOCKHOLDERS' EQUITY		
CURRENT LIABILITIES		
Accounts Payable	\$ 138,759	\$ 135,066
Accrued Expenses	130,225	129,097
Current Portion of Mortgage Payable	24,945	24,498
	-----	-----
TOTAL CURRENT LIABILITIES	293,929	288,661
LONG TERM LIABILITIES		
Mortgage Payable	416,919	423,114
	-----	-----
TOTAL LONG TERM LIABILITIES	416,919	423,114
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	154,950
Common Stock, no par value, 80,000,000 shares authorized; 8,052,388 shares issued and outstanding.	4,416,676	4,416,676
Paid-in Capital	6,000	6,000
Accumulated Deficit	(2,488,563)	(2,567,162)
	-----	-----
TOTAL STOCKHOLDERS' EQUITY	\$ 2,089,063	\$ 2,010,464
	-----	-----
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	\$ 2,799,911	\$ 2,722,239
	=====	=====

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

PROCYON CORPORATION & SUBSIDIARIES
CONSOLIDATED STATEMENTS OF OPERATIONS
Three Months Ended September 30, 2009 and 2008

(unaudited)	(unaudited)
Three Months	Three Months
Ended	Ended
Sep. 30, 2009	Sep. 30, 2008
-----	-----

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NET SALES	\$ 671,816	\$ 59
COST OF SALES	139,018	11
	-----	-----
GROSS PROFIT	532,798	48
OPERATING EXPENSES		
Salaries and Benefits	248,233	18
Selling, General and Administrative	205,900	25
	-----	-----
	454,133	43
INCOME FROM OPERATIONS	78,665	4
OTHER INCOME (EXPENSE)		
Interest Expense	(8,250)	(
Interest Income	2,189	
	-----	-----
	(6,061)	(
INCOME FROM CONTINUING OPERATIONS BEFORE INCOME TAXES	72,604	4
INCOME TAX EXPENSE	(29,291)	(1
	-----	-----
NET INCOME FROM CONTINUING OPERATIONS	43,313	3
DISCONTINUED OPERATIONS		
Income (Loss) from Operations of Discontinued Component	56,576	(2
Provision for Income Tax (Expense) Benefit	(21,289)	
	-----	-----
NET INCOME (LOSS) FROM DISCONTINUED OPERATIONS	35,287	(1
NET INCOME	78,600	1
Dividend requirements on preferred stock	(4,978)	(
	-----	-----
Basic net income available to common shares	\$ 73,622	\$
	=====	=====
Basic net income per common share		
Continuing Operations	\$ 0.01	\$
Discontinued Operations	\$ 0.00	\$
	-----	-----
Total Basic Net Income Per Share	\$ 0.01	\$
	=====	=====
Weighted average number of common shares outstanding	8,055,388	8,05
	=====	=====
Diluted net income per common share		
Continuing Operations	\$ 0.01	\$
Discontinued Operations	\$ 0.00	\$
	-----	-----
Total Diluted Net Income Per Share	\$ 0.01	\$
	=====	=====
Weighted average number of common shares outstanding, basic and diluted	8,254,488	8,42
	=====	=====

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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, 2009 and 2008

	(unaudited) September 30, 2009 -----	(unaudited) September 30, 2008 -----
CASH FLOWS FROM OPERATING ACTIVITIES		
Net Income	\$ 78,600	\$
Adjustments to reconcile net income to net cash used in operating activities:		
Depreciation	7,108	
Deferred Income Taxes	50,580	
Allowance for Doubtful Accounts	500	
Accrued Interest on Certificates of Deposit	4,031	
Decrease (increase) in:		
Accounts Receivable	3,468	
Inventory	(8,721)	
Prepaid Expenses	(34,038)	
Other Assets	--	
Increase (decrease) in:		
Accounts Payable	13,592	
Accrued Expenses	1,128	
	-----	-----
NET CASH PROVIDED BY OPERATING ACTIVITIES	116,248	
CASH FLOW FROM INVESTING ACTIVITIES		
Redemption of Certificate of Deposit	191,645	
Purchase of property & equipment	(1,846)	
	-----	-----
NET CASH USED BY INVESTING ACTIVITIES	189,799	
CASH FLOW FROM FINANCING ACTIVITIES		
Payments on Mortgage Payable	(5,748)	
	-----	-----
NET CASH USED BY FINANCING ACTIVITIES	(5,748)	
NET CHANGE IN CASH	300,299	
CASH AT BEGINNING OF PERIOD	403,030	
	-----	-----
CASH AT END OF PERIOD	\$ 703,329	\$
	=====	=====
SUPPLEMENTAL DISCLOSURES		
Interest Paid	\$ 8,261	\$
Taxes Paid	\$ --	\$
Non Cash Transaction Disclosure		

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Marketing Expense paid for by Accounts Receivable \$ 9,900 \$

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, 2009. 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.

CODIFICATION

In September 2009, the FASB issued new accounting guidance, effective for financial statements issued for interim and annual periods ending after September 15, 2009, which identifies the FASB Accounting Standards Codification ("Codification") as the authoritative source of GAAP in the United States. Rules and interpretive releases of the SEC under federal securities laws are also sources of authoritative GAAP for SEC registrants. Codification is not intended to change GAAP. The adoption of this new accounting guidance had no impact on our financial position or results of operations.

STOCK-BASED COMPENSATION

In December 2004, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards No. 123R ("SFAS 123R"), "Share-Based Payment," (Topic 718 - Compensation -Stock Compensation in the Accounting Standards Codification) is effective for small business publicly traded companies, for interim or annual periods beginning after December 15, 2005. 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 and rescinds the acceptance of pro forma disclosure.

On September 30, 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 September 30, 2009, no options were granted. Therefore, the adoption of Topic 718 does not have an impact on our statement of operations for period ending September 30, 2009.

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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,

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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, 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 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.

RECLASSIFICATION

We have reclassified \$5,971 of accrued interest from accounts receivable to certificates of deposit on the balance sheet for June 30, 2009.

NOTE B - INVENTORIES

Inventories consisted of the following:

	September 30, 2009	June 30, 2009
	-----	-----
Finished Goods	\$ 45,282	\$ 45,217
Raw Materials	\$ 72,937	\$ 64,281
	-----	-----
	\$118,219	\$109,498
	=====	=====

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, 2009 no dividends have been declared. Dividends in arrears on the outstanding preferred shares total \$246,349 as of September 30, 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 returned to the status of authorized but unissued common stock. The plan does not have an expiration date. As of September 30, 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 September 30, 2009, the Company had consolidated income tax net operating loss ("NOL") carryforward for federal income tax purposes of approximately \$2,695,000. The federal NOL will expire in various years ending through the year 2023. 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 taxes (benefits) are attributable to continuing and discontinued operations as follows:

	09/30/2009	09/30/2008
	-----	-----
Current		
Federal	\$ 0	\$ 0
State	0	0
	-----	-----
Deferred Continuing Operations		
Federal	\$ 23,952	\$ 11,187
State	5,339	1,337
	-----	-----
	\$ 29,291	\$ 12,524
Deferred - Discontinued Operations		
Federal	\$ 19,236	\$ (8,964)
State	2,053	(957)
	-----	-----
	21,289	(9,921)
	-----	-----
Total Income Tax Expense (Benefit)	\$ 50,580	\$ 2,603

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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	\$ 64,764	\$ 951,472
Allowance for doubtful accounts	1,769 -----	-- -----
	66,533	951,472
Deferred Tax Liabilities		
Excess of tax over book depreciation	-- -----	(11,418) -----
	66,533 -----	940,054 -----
Net Deferred Tax Asset (Liability)	\$ 66,533 =====	\$ 940,054 =====

The Change in valuation allowance is as follows:

June 30, 2009	\$ --
September 30, 2009	\$ -- -----
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 September 30, 2009 and 2008 differ from the amounts computed by applying the effective income tax rates of 37.63% and 37.63%, respectively, to income taxes as a result of the following:

	Three Months Sep 30, 2009 -----	Three Months Sep 30, 2008 -----
Continuing Operations		
Expected provision at US statutory rate	\$ 24,521	\$ 14,563
State income tax net of federal benefit	2,618	1,555
Nondeductible & Timing Differences	2,152	1,085

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Change in estimates in available NOL carryforwards	--	(4,679)
	-----	-----
Income Tax Expense (Benefit)	\$ 29,291	\$ 12,524
	=====	=====
Discontinued Operations		
Expected provision at US statutory rate	19,236	(8,964)
Sate income tax net of federal benefit	2,054	(957)
	-----	-----
	\$ 21,289	\$ (9,921)
	=====	=====

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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 \$477,000. The mortgage loan is due in 14 years and interest is fixed at 7.25%. Interest expense was \$8,250 for the three months ended September 30, 2009.

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

Year Ending June 30,	

9 months 2010	\$ 18,539
2011	26,335
2012	28,309
2013	30,431
2014	32,712
2015 and thereafter	305,538

	441,864
Less current portion	24,945

	\$ 416,919
	=====

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 \$118,219 and accounts

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receivable assets of \$198,858. The line of credit is renewable annually in April. The C.E.O. of the Company personally guaranteed the line of credit to the

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Company. At September 30, 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 I - RECENTLY ISSUED ACCOUNTING STANDARDS

In June 2009, the Financial Accounting Standards Board ("FASB") issued Statement of Financial Accounting Standards No. 168 ("SFAS 168"), "The FASB Accounting Standards Codification(TM) and the Hierarchy of Generally Accepted Accounting Principles, a replacement of FASB Statement No. 162" (Topic 105 - Generally Accepted Accounting Principles in the Accounting Standards Codification). The FASB Accounting Standards Codification(TM) ("Codification") will become the source of authoritative United States generally accepted accounting principles ("GAAP") recognized by the FASB to be applied by non-government entities. Rules and interpretive releases of the Securities and Exchange Commission ("SEC") under authority of federal securities laws are also sources of authoritative GAAP for SEC registrants. On the effective date of Topic 105, the Codification will supersede all then-existing non-SEC accounting and reporting standards. All other non-grand fathered non-SEC accounting literature not included in the Codification will become non-authoritative. Topic 105 is effective for financial statements issued for interim and annual periods ending after September 15, 2009, after which the FASB will not issue new standards in the form of Statements, FASB Staff Positions or Emerging Issues Task Force Abstracts. Instead, the FASB will issue Accounting Standard Updates, which the FASB will not consider as authoritative in their own right. Accounting Standard Updates will serve only to update the Codification, provide background information about the guidance and provide bases for conclusions on the change(s) in the Codification.

NOTE J - DISCONTINUED OPERATIONS

As previously reported in our current report on Form 8-K, filed on August 3, 2009, we entered into an Asset Purchase Agreement, effective July 31, 2009 with Priority Diabetes Supply, Inc., a Florida corporation, doing business as Diabetes Wellness Supply ("Priority Diabetes"). Pursuant to the Agreement, we sold certain "Purchased Assets," as defined in the Agreement, including Sirius' customer list, to Priority Diabetes. Thus, as of July 31, 2009, Sirius no longer offers testing products to diabetic customers. Management is considering various options for the future direction of Sirius. The sale to date generated a gain of \$80,000, recognized in the income (loss) from operations of discontinued components in the statement of operations. After a hundred and eighty day period, an adjusting payment will be made, based on the results of the production of the patient list that was sold. The agreement also contains a noncompete period of two years, prohibiting Sirius from engaging in the business of the sale of diabetic testing supply products.

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As a result of the sale, the results of the Sirius subsidiary, which had previously been presented as a separate reporting segment, are included in discontinued operations in the Company's consolidated financial statements of operations, no other assets or liabilities were sold in this sale. All prior period information has been reclassified to be consistent with the current period presentation.

The following amounts related to the Sirius subsidiary were derived from historical financial information and have been segregated from continuing operations and reported as discontinued operations.

	2009	2008
	-----	-----
Revenues	\$ 17,753	\$ 77,940
Cost of Sales	13,990	46,446
Salaries and Benefits	5,951	36,533
Selling, General and Administrative	21,907	22,307
	-----	-----
Loss from Operations	(24,095)	(27,346)
Interest Income	671	983
Gain on Sale of Disclosed Assets	80,000	0
	-----	-----
Income (Loss) from Discontinued Operations	56,576	(26,363)
Income Tax Benefit	(21,289)	9,921
	-----	-----
Income (Loss) from Discontinued Operations, net of income taxes	\$ 35,287	\$(16,442)
	=====	=====

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.

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," "anticipate," "continue," "estimate," "project," "intend," "hope," "believe" and similar expressions, variations of these words or the negative of those words, and, any statement regarding possible or assumed future results of operations of the Company's business, the markets for its products, anticipated expenditures, regulatory developments or competition, or other statements regarding matters that are not historical facts, are intended to identify forward-looking statements within the meaning of Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934 regarding events, conditions and financial trends including, without limitation, business conditions in the skin and wound care market, diabetic market and the general economy, competitive

factors, changes in product mix, production delays, manufacturing capabilities, and other risks or uncertainties detailed in other of the Company's Securities and Exchange Commission filings. Such statements are based on management's current expectations and are subject to risks, uncertainties and assumptions. Should one or more of these risks or uncertainties materialize, or should underlying assumptions prove incorrect, the Company's actual plan of operations, business strategy, operating results and financial position could differ materially from those expressed in, or implied by, such forward-looking statements.

CRITICAL ACCOUNTING POLICIES AND ESTIMATES

The Company's condensed financial statements have been prepared in accordance with standards of the Public Company Accounting Oversight Board (United States), which require the Company to make estimates and judgments that affect the reported amounts of assets, liabilities, revenues and expenses, and the related disclosures. A summary of those significant accounting policies can be found in the Notes to the Consolidated Financial Statements included in the Company's annual report on form 10-K, for the year ended June 30, 2009, which was filed with the Securities and Exchange Commission on September 28, 2009. 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.

Codification

In September 2009, the FASB issued new accounting guidance, effective for financial statements issued for interim and annual periods ending after September 15, 2009, which identifies the FASB Accounting Standards Codification ("Codification") as the authoritative source of GAAP in the United States. Rules and interpretive releases of the SEC under federal securities laws are also sources of authoritative GAAP for SEC registrants. Codification is not intended to change GAAP. The adoption of this new accounting guidance had no impact on our financial position or results of operations.

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 September 30, 2009, our allowance for doubtful accounts totaled \$4,700.

Advertising and Marketing

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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"). (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 September 30, 2009. Because the recover ability of deferred tax assets is directly dependent upon future operating results, actual recover ability 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

In December 2004, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards No. 123R ("SFAS 123R"), "Share-Based Payment," (Topic 718 - Compensation -Stock Compensation in the Accounting Standards Codification) is effective for small business publicly traded companies, for interim or annual periods beginning after December 15, 2005. 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 and rescinds the acceptance of pro forma disclosure.

Recent Developments

Effective July 31, 2009, Sirius entered into an Asset Purchase Agreement with Priority Diabetes Supply, Inc. Under the terms of the Agreement Sirius sold certain "Purchased Assets," as defined in the Asset Purchase agreement, to Priority Diabetes, consisting primarily of Sirius' list of diabetic customers. As of August 1, 2009, Sirius no longer markets diabetic testing products. Management is considering various alternatives for Sirius' future business operations.

In December 2008, PDAC (formerly SADMERC), issued change requirements for products to be eligible for Medicare and Medicaid reimbursement. All amorphous hydrogels and all hydrogel gauze dressings require sterility for reimbursement

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as of January 1, 2009. Amerx re-evaluated the process for manufacturing, the cost of changing manufacturing methods, new packaging and testing cost. Amerx moved forward and was able to provide its customers with a new "sterile" form of the Saturated Gauze Dressing. This new "sterile" form of Saturated Gauze Dressing was approved for reimbursement by PDAC in July of 2009.

RECENTLY ISSUED ACCOUNTING STANDARDS

In June 2009, the Financial Accounting Standards Board ("FASB") issued Statement of Financial Accounting Standards No. 168 ("SFAS 168"), "The FASB Accounting Standards Codification(TM) and the Hierarchy of Generally Accepted Accounting Principles, a replacement of FASB Statement No. 162" (Topic 105 - Generally Accepted Accounting Principles in the Accounting Standards Codification). The FASB Accounting Standards Codification(TM) ("Codification") will become the source of authoritative United States generally accepted accounting principles ("GAAP") recognized by the FASB to be applied by non-government entities. Rules and interpretive releases of the Securities and Exchange Commission ("SEC") under authority of federal securities laws are also sources of authoritative GAAP for SEC registrants. On the effective date of Topic 105, the Codification will supersede all then-existing non-SEC accounting and reporting standards. All other non-grand fathered non-SEC accounting literature not included in the Codification will become non-authoritative. Topic 105 is effective for financial statements issued for interim and annual periods ending after September 15, 2009, after which the FASB will not issue new standards in the form of Statements, FASB Staff Positions or Emerging Issues Task Force Abstracts. Instead, the FASB will issue Accounting Standard Updates, which the FASB will not consider as authoritative in their own right. Accounting Standard Updates will serve only to update the Codification, provide background information about the guidance and provide bases for conclusions on the change(s) in the Codification.

FINANCIAL CONDITION

As of September 30, 2009 the Company's principal sources of liquid assets included cash of \$703,329, inventories of \$118,219, and net accounts receivable of \$198,858. The company also has \$53,120 in short term Certificate of Deposits, to take advantage of higher interest rates relative to money market rates. The Company had net working capital of \$1,034,276, and long-term debt of \$416,919 at September 30, 2009.

During the three months ended September 30, 2009, cash increased from \$403,030 as of June 30, 2009, to \$703,329. Operating activities provided cash of \$116,248 during the period, consisting primarily of net income of \$78,600. Cash generated by investing activities was \$189,799 as compared to \$42,392 for the corresponding period in 2008.

The Company recorded a current deferred tax asset of \$66,533, and non-current deferred tax asset of \$940,054, at September 30, 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.

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RESULTS OF OPERATIONS

Comparison of the three ended September 30, 2009 and 2008.

Net sales during the quarter ended September 30, 2009, were \$671,816, as compared to \$596,237 in the quarter ended September 30, 2008, an increase of \$75,579, or approximately 13%. Our net sales for the three months ended

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September 30, 2009 increased from corresponding prior periods primarily because of an increase in skin and wound care product sales.

Gross profit during the quarter ended September 30, 2009, was \$532,798, as compared to \$481,671 during the quarter ended September 30, 2008, an increase of \$51,127, or approximately 11%. As a percentage of net sales, gross profit was approximately 79% in the quarter ended September 30, 2009, and approximately 81% in the corresponding quarter in 2008.

Operating expenses during the quarter ended September 30, 2009, were \$454,133, consisting of \$248,233 in salaries and benefits, and \$205,900 in selling, general and administrative expenses. This compares to operating expenses during the quarter ended September 30, 2008, of \$432,740, consisting of \$182,354 in salaries and benefits, and \$250,386 in selling, general and administrative expenses. Expenses for the quarter ended September 30, 2009, increased by approximately \$21,393, or approximately 5% 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.

Operating profit increased by \$29,734 (approximately 61%) to \$78,665 for the quarter ended September 30, 2009, as compared to \$48,931 in the comparable quarter of the prior year. Net Income from continuing operations was \$43,313 during the quarter ended September 30, 2009, as compared to \$30,471 during the quarter ended September 30, 2008, an increase of 42%. The increase in net income was primarily attributable to growth in sales as Amerx penetrates new markets. Amerx continues efforts to increase market share for its products.

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 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.

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(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, 2009 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.

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During the first fiscal quarter of 2010, the Company continued 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

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 6, 2009

Date

By: /s/ REGINA W. ANDERSON

Regina W. Anderson, Chief Executive Officer