PROCYON CORP
Form 10QSB
November 19, 2003

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, 2003

[ ] 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 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 [X] NO [ ]

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; 8,042,388 shares outstanding as of November 19, 2003

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

PART I. FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

PROCYON CORPORATION & SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS
SEPTEMBER 30, 2003 & JUNE 30, 2003

	(unaudited) September 30 2003	(audited) June 30 2003
ASSETS		
CURRENT ASSETS		
Cash	$ 26,831	$ 41,549
Accounts Receivable, less allowances of $16,700	125,960	148,052
Prepaid Expenses	67,231	28,265
Inventories	91,730	96,522
TOTAL CURRENT ASSETS	311,752	314,388
PROPERTY AND EQUIPMENT		
Office Equipment	85,885	85,884

Furniture and Fixtures	15,164	15,164
Production Equipment	14,235	14,236
	115,284	115,284
Accumulated Depreciation	(70,644)	(66,155)
TOTAL PROPERTY & EQUIPMENT	44,640	49,129
OTHER ASSETS		
Certificates of deposit plus accrued interest, restricted	17,114	17,114
Deposits	1,610	844
TOTAL OTHER ASSETS	18,724	17,958
TOTAL ASSETS	$ 375,116	$ 381,475
LIABILITIES AND STOCKHOLDERS' DEFICIENCY		
Current Liabilities:		
Current portion of longterm note payable to stockholder	6,544	6,319
Current portion of capital lease obligations	8,714	8,202
Accounts Payable	185,007	208,111
Accrued Expenses	29,778	67,402
Note payable to stockholder	291,488	291,488
TOTAL CURRENT LIABILITIES	521,531	581,522
Long Term Liabilities		
Note payable to stockholder	8,196	9,920
Capital lease obligations	8,856	10,931
TOTAL LONG TERM LIABILITIES	17,052	20,851
Stockholders' deficiency		
Preferred stock, 496,000,000 shares authorized; none issued		
Series A Cumulative Convertible Preferred stock, no par value; 4,000,000 shares authorized; 230,100 shares issued and outstanding	185,950	186,950
Common stock, no par value, 80,000,000 shares authorized; 8,021,388 shares issued and outstanding	4,251,678	4,384,676
Paid-in capital	6,000	6,000
Accumulated deficit	(4,607,095)	(4,798,524)
TOTAL STOCKHOLDERS' DEFICIENCY	(163,467)	(220,898)
TOTAL LIABILITIES AND STOCKHOLDERS' DEFICIENCY	$ 375,116	$ 381,475

See accompanying notes

PROCYON CORPORATION & SUBSIDIARIES
CONSOLIDATED STATEMENTS OF OPERATIONS
Three Months Ended September 30, 2003 and 2002

	Three Months Ended Sept. 30, 2003 (unaudited)	Three Months Ended Sept. 30, 2002 (unaudited)
Net Sales	$ 485,669	$ 410,139
Cost of Sales	107,956	82,819
Gross Profit	377,713	327,320
Operating Expenses:		
Salaries and Benefits	144,659	131,001
Selling, General and Administrative	164,832	146,609
Total Operating Expenses	309,491	277,610
Profit (loss) from Operations	68,222	49,710
Other Income (Expense):		
Interest Expense	(10,981)	(9,713)
Interest Income	90	157
Other Income	100	50
Total Other Income (expense)	(10,791)	(9,506)
Net Profit	57,431	40,204
Dividend requirements on preferred stock	(5,053)	(153)
Net Profit applicable to common stock	$ 52,378	$ 40,051
Basic earnings per common share	0.01	0.01
Weighted average number of common shares outstanding	8,041,544	7,866,930

See accompaning notes

PROCYON CORPORATION & SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS
Three Months Ended September 30, 2003 and 2002

	Three Months Ended Sept. 30 2003 (unaudited)	Three Months Ended Sept. 30 2002 (unaudited)
CASH FLOWS FROM OPERATING ACTIVITIES		
Net Profit	$ 57,431	$ 40,204
Adjustments to reconcile net income to net cash used in operating activities:		
Depreciation	4,489	3,048
Allowance for doubtful accounts	(3,800)	0
Decrease (increase) in:		
Accounts Receivable (trade)	25,892	(19,461)
Inventories	4,792	(9,730)
Other Assets	(766)	0
Prepaid Expenses	(38,966)	(255)
Increase (decrease) in:		
Accounts Payable	(23,104)	(7,738)
Excess of checks issued over bank balance	0	(24,168)
Accrued Expenses	(37,624)	(4,538)
Cash Used in Operating Activities	(11,656)	(22,638)
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of Property & Equipment	0	(498)
Cash Used in Investing Activities	0	(498)
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from Commmon Stock subscribed	0	3,000
Payments on Long Term Loan	(1,499)	(1,303)
Payments on Capital Lease Obligations	(1,563)	0
Proceeds from Stockholder Loan	0	24,500
Proceeds from Issuance of Common Stock	0	12,300
Cash provided by financing activities	(3,062)	38,497
Net Increase (decrease) in cash and cash equivalents	(14,718)	15,361
Cash and Cash Equivalents, beginning of period	41,549	0
Cash and Cash Equivalents, end of period	$ 26,831	$ 15,361
SUPPLEMENTAL DISCLOSURES		
Interest Paid	$ 10,981	$ 9,713

Taxes Paid	0	0
NONCASH TRANSACTION DISCLOSURE		
Preferred Shares converted to Common Shares	$ 1,000	$ 12,500

See accompaning notes

Notes to Financial Statements

NOTE A - SUMMARY OF ACCOUNTING POLICIES

The 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, 2003. 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

The Company has adopted SFAS No. 148, "Accounting for Stock-Based Compensation, Transition and Disclosure." The Company accounts for stock-based employee compensation arrangements in accordance with the provisions of Accounting Principles Board Opinion No. 25, "Accounting for Stock Issued to Employees" ("APB No. 25") and has elected to follow the disclosure-only provisions of Statement of Financial Accounting Standards No. 123, "Accounting for Stock-Based Compensation" ("SFAS No. 123"). Under the provisions of APB 25, the Company recognizes compensation expense only to the extent that the exercise price of the Company's employee stock options is less than the market price of the underlying stock on the date of grant. SFAS No. 123 requires the presentation of pro forma information as if the Company has accounted for its employee stock options granted under the fair value method. There were no options granted during the quarters ended September 30, 2003 and 2002.

NOTE B - INVENTORIES

Inventories consisted of the following:

	September 30, 2003	June 30, 2003

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Finished Goods	$ 29,069	$ 32,262
Raw Materials	$ 62,661	$ 64,260
	$ 91,730	$ 96,522

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, 2003, no dividends have been declared. Dividends in arrears on the outstanding preferred shares total $146,564 as of September 30, 2003. The preferred stockholders have the right to convert each share of Series A Preferred Stock into one share of the Company's common stock at any time without additional consideration. However, each share of Series A Preferred Stock is subject to mandatory conversion into one share of common stock of the Company, effective as of the close of a public offering of the Company's common stock provided, however, that the offering must provide a minimum of $1 million in gross proceeds to the Company and the initial offering price of such common stock must be at least $1 per share. In addition to the rights described above, the holders of the Series A Preferred Stock will have equal voting rights as the common stockholders based upon the number of shares of common stock into which the Series A

Preferred Stock is convertible. 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.

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, contains forward-looking statements. When used in this report, the words "may", "will", "expect", "anticipate", "continue", "estimate", "project", "intend", "believe", and similar expressions, variations of these words or the negative of those word 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 otherwise 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, 2003, which was filed with the Securities and Exchange Commission on September 29, 2003. 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.

Advertising and Marketing

Currently most of the Company's advertising is direct response. The Company recognizes expenses from direct response advertising as incurred because insufficient historical data exists. Sirius's management feels additional historical data is necessary to consider changing this policy. Amerx's management feels this policy may never change due to the nature of the customer base and the product lines currently sold.

Stock Based Compensation

Statement of Financial Accounting Standard ("SFAS") No 123, defines the fair-value based method of accounting for stock-based employee compensation plans and transactions in which an entity issues its equity instruments to acquire goods or services from non-employees. SFAS No 123 encourages but does not require companies to record compensation cost for stock-based employee compensation plans at fair value. We have chosen to account for employee stock-based compensation plans using the intrinsic-value method prescribed in Accounting Principles Board Opinion No. 25. Accordingly, employee compensation cost for stock is measured as the excess, if any, of the estimated fair value of our stock at the date of the grant over the amount an employee must pay to acquire the stock.

Financial Condition

As of September 30, 2003, the Company's principal sources of liquid assets included cash and cash equivalents of $26,831, inventories of $91,730, and net accounts receivable of $125,960. The Company had negative working capital of $209,779, and long-term debt of $17,052 at September 30, 2003.

During the three months ended September 30, 2003, cash and cash equivalents decreased from $41,549 as of June 30, 2003 to $26,831. Operating activities used cash of $11,656 during the period, consisting primarily of an increase in prepaid expenses of $38,966. Cash used by financing activities was $3,062 as compared to cash provided by financing activities of $38,497 for the corresponding period in 2002.

The Company has deferred tax assets with a 100% valuation allowance at September 30, 2003. Management is not able to determine if it is more likely than not that the deferred tax assets will be realized.

Results of Operations

Comparison of the three months ended September 30, 2003 and 2002.

Net sales during the quarter ended September 30, 2003 were $485,669, as compared to $410,139 in the quarter ended September 30, 2002, an increase of $75,530, or 18%. Increases in sales continue for the Company as market share increases, and marketing plans continue to reach their target market for the Amerx subsidiary. Sales from the Sirius subsidiary continue to grow as the customer base for diabetics continues to grow.

Gross profit during the quarter ended September 30, 2003 was $377,713, as compared to $327,320 during the quarter ended September 30, 2002, an increase of $50,393, or 15%. As a percentage of net sales, gross profit was 78% in the quarter ended September 30, 2003, as compared to 80% in the corresponding quarter in 2002. Gross profit increased for the three months based on increased sales, however as a percentage of net sales gross profit decreased based on increased manufacturing cost, and an increase in the Sirius subsidiary sales for the period as well.

Operating expenses during the quarter ended September 30, 2003, were $309,491, consisting of $144,659 in salaries and benefits, and $164,832 in selling, general and administrative expenses. This compares to operating expenses during the quarter ended September 30, 2002 of $277,610, consisting of $131,001 in salaries and benefits, and $146,609 in selling, general and administrative expenses. Expenses for the period have increased slightly, which is consistent with the overall growth of the Company. Expenses have seen a shift towards salaries and benefits as the Company has increased its personnel compared to last year's staff along with increased compensation for some employees through incentive based programs.

The Company had an operating profit of $68,222 in the quarter ended September 30, 2003, as compared to an operating profit of $49,710 in the corresponding quarter in 2002. Net Profit (before dividend requirements for Preferred Shares) was $57,431 during the quarter ended September 30, 2003, as compared to a net profit of $40,204 during the quarter ended September 30, 2002. The Company believes it has turned the corner towards profitability after surviving the financial difficulties faced in the past. The Company continues to improve its cash position and profitability.

Commitment

During the quarter, the Company entered into a lease for office space with an unrelated party. The lease calls for monthly rent payment of $3,727 per month for three years with an option to extend the lease for one successive term period of three years. The Company also has the option to purchase the property at a predetermined price after the one-year anniversary from the date of execution of the lease.

The followings are minimum amounts due on the lease for the fiscal year ended June 30:

2004	$ 18,636
2005	44,726
2006	44,726
2007	14,909
	$122,997

ITEM 3. CONTROLS AND PROCEDURES

(a) Evaluation of Disclosure Controls and Procedures

Management of the Company, with the participation of the Chief Executive Officer/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 Officer/Chief Financial Officer, has concluded that, as of the date of 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 quarter of fiscal 2004, 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 6. EXHIBITS AND REPORTS ON FORM 8-K

EXHIBITS -

10.1 Office Lease dated September 23, 2003

31.1 Certification of John C. 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

(B) REPORTS ON FORM 8-K - NONE

SIGNATURES

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

PROCYON CORPORATION

November 19, 2003

Date

By: /s/ John C. Anderson

John C. Anderson,
President and
Chief Financial Officer