PROCYON CORP
Form 10-Q
May 15, 2018

UNITED STATES SECURITIES & EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

[x] QUARTERLY REPORT PURSUANT TO SECTION 13 or 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For Quarterly Period Ended March 31, 2018

or

[ ] TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the transition period from to

Commission File Number: 0-17449

PROCYON CORPORATION

(Exact Name of Registrant as specified in its charter)

COLORADO	59-3280822
(State of Incorporation)	(I.R.S. Employer Identification Number)

1300 S. Highland Ave. Clearwater, FL 33756

(Address of Principal Executive Offices)

(727) 447-2998

(Registrant’s Telephone Number, Including Area Code)

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, smaller reporting company, or an emerging growth company. See the definitions of "large accelerated filer," "accelerated filer," "smaller reporting company," and “emerging growth 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
Emerging growth company	

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the 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; 8,077,388 shares outstanding as of May 10, 2018.

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PROCYON CORPORATION & SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS
March 31, 2018 and June 30, 2017

	(unaudited) March 31, 2018	(audited) June 30, 2017
ASSETS		
CURRENT ASSETS		
Cash	$166,578	$173,173
Certificates of Deposit, plus accrued interest	153,259	102,141
Accounts Receivable, less allowance for doubtful accounts of $2,855 and $1,001 respectively	359,071	391,539
Inventories	580,275	506,719
Prepaid Expenses	295,869	175,206
TOTAL CURRENT ASSETS	1,555,052	1,348,778
CERTIFICATES OF DEPOSIT, PLUS ACCRUED INTEREST	-	111,669
PROPERTY AND EQUIPMENT, NET	487,779	513,779
OTHER ASSETS		
Deposits	4,192	4,192
Inventories	70,655	70,655
Intangible Asset	17,000	17,000
Deferred Tax Asset, net valuation allowance of $ 108,150 and $ 0, respectively	234,364	663,738
	326,211	755,585
TOTAL ASSETS	$2,369,042	$2,729,811
LIABILITIES AND STOCKHOLDERS' EQUITY		
CURRENT LIABILITIES		
Accounts Payable	$187,513	$120,584
Capital Lease Liability	3,057	3,788
Accrued Expenses	200,578	315,829
TOTAL CURRENT LIABILITIES	391,148	440,201
CAPITAL LEASE LIABILITY	-	2,110
COMMITMENTS AND CONTINGENCIES (NOTE G)	-	-
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; 177,100 shares issued and outstanding.	136,860	136,860
Common Stock, no par value, 80,000,000 shares authorized; 8,077,388 shares issued and outstanding.	4,434,766	4,434,766
Paid-in Capital	15,885	15,885
Accumulated Deficit	(2,609,617)	(2,300,011)
TOTAL STOCKHOLDERS' EQUITY	1,977,894	2,287,500
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	$2,369,042	$2,729,811

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

PROCYON CORPORATION & SUBSIDIARIES
CONSOLIDATED STATEMENTS OF OPERATIONS
Three and Nine Months Ended March 31, 2018 and 2017

	(unaudited) Three Months Ended March 31, 2018	(unaudited) Three Months Ended March 31, 2017	(unaudited) Nine Months Ended March 31, 2018	(unaudited) Nine Months Ended March 31, 2017
NET SALES	$ 1,107,018	$ 928,636	$ 2,955,868	$ 2,848,204
COST OF SALES	297,889	259,591	793,622	829,244
GROSS PROFIT	809,129	669,045	2,162,246	2,018,960
OPERATING EXPENSES				
Salaries and Benefits	390,860	374,153	1,119,944	1,115,406
Selling, General and Administrative	335,590	309,836	923,174	830,964
	726,450	683,989	2,043,118	1,946,370
INCOME / (LOSS) FROM OPERATIONS	82,679	(14,944)	119,128	72,590
OTHER INCOME (EXPENSE)				
Interest Expense	-	(36)	-	(2,846)
Interest Income	178	339	639	1,505
	178	303	639	(1,341)
INCOME / (LOSS) BEFORE INCOME TAXES	82,857	(14,641)	119,767	71,249
INCOME TAX (EXPENSE) / BENEFIT	(23,933)	3,979	(429,374)	(30,700)
NET INCOME / (LOSS)	58,924	(10,662)	(309,607)	40,549
Dividend requirements on preferred stock	(4,428)	(4,853)	(13,283)	(14,558)
Basic net income (loss) available to common shares	$ 54,496	$ (15,515)	$ (322,890)	$ 25,991
Basic net income (loss) per common share	$ 0.01	$ (0.00)	$ (0.04)	$ 0.00
Weighted average number of common shares outstanding	8,077,388	8,060,388	8,077,388	8,060,388
Diluted net income (loss) per common share	$ 0.01	$ (0.00)	$ (0.04)	$ 0.00

Weighted average number of common shares outstanding, diluted	8,300,669	8,060,388	8,077,388	8,284,488

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

PROCYON CORPORATION & SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
For the Nine Months Ending March 31, 2018 and 2017

	(unaudited) March 31, 2018	**(unaudited) March 31, 2017**
CASH FLOWS FROM OPERATING ACTIVITIES		
Net (Loss) / Income	$ (309,607)	$ 40,549
Adjustments to reconcile net (loss) / income to net cash (used in) / provided by operating activities:		
Depreciation	35,375	33,877
Increase in Allowance for Doubtful Accounts	1,854	10,632
Deferred Income Taxes	429,374	30,700
Accrued Interest on Certificates of Deposit	-	(335)
Decrease (increase) in:		
Accounts Receivable	30,614	174,262
Other Receivables	-	150,000
Inventory	(73,556)	55,385
Prepaid Expenses	(120,663)	(63,391)
Increase (decrease) in:		
Accounts Payable	66,931	(211,032)
Accrued Expenses	(115,251)	(134,296)
NET CASH (USED IN) / PROVIDED BY OPERATING ACTIVITIES	(54,929)	86,351
CASH FLOW FROM INVESTING ACTIVITIES		
Redemption of CD	60,551	79,194
Purchase of property & equipment	(9,376)	(8,995)
NET CASH PROVIDED BY INVESTING ACTIVITIES	51,175	70,199
CASH FLOW FROM FINANCING ACTIVITIES		
Capital Lease Liability payments	(2,841)	(2,841)
Repayment of Line of Credit	-	(125,000)
NET CASH (USED IN) FINANCING ACTIVITIES	(2,841)	(127,841)
NET CHANGE IN CASH	(6,595)	28,709
CASH AT BEGINNING OF PERIOD	173,173	59,173
CASH AT END OF PERIOD	$ 166,578	$ 87,882

SUPPLEMENTAL DISCLOSURES

Interest Paid	$ -	$ 2,846
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 consolidated 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 consolidated financial statements should be read in conjunction with the Company's audited consolidated financial statements dated June 30, 2017. 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 consolidated 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 March 31, 2018, there were 65,000 outstanding options to purchase shares of our common stock.

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 nine months ended March 31, 2018.

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 nine months ended March 31, 2018, the potential dilutive effects of the preferred stock and stock options were excluded in the weighted-average shares outstanding, as the shares would have an anti-dilutive effect on the loss from continuing operations.

NOTE B - INVENTORIES

Inventories consisted of the following:	March 31, 2018	June 30, 2017
Finished Goods	$460,975	$384,350
Raw Materials	189,955	193,024
	$650,930	$577,374

At March 31, 2018 and June 30, 2017, $70,655 of our inventory was considered non-current as it will not be used within a one year period.

NOTE C - STOCKHOLDERS' EQUITY

During January 1995, the Company's Board of Directors authorized the issuance of up to 4,000,000 shares of Series A Cumulative Convertible Preferred Stock ("Series A Preferred Stock"). The preferred stockholders are entitled to receive, as and if declared by the board of directors, quarterly dividends at an annual rate of $.10 per share of Series A Preferred Stock per annum. Dividends will accrue without interest and will be cumulative from the date of issuance of the Series A Preferred Stock and will be payable quarterly in arrears in cash or publicly traded common stock when and if declared by the Board of Directors. As of March 31, 2018, no dividends have been declared. Dividends in arrears on the outstanding preferred shares total $370,709 as of March 31, 2018.

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.

NOTE D - INCOME TAXES AND AVAILABLE CARRYFORWARD

As of March 31, 2018, the Company had consolidated income tax net operating loss ("NOL") carryforwards for federal income tax purposes of approximately $1,560,000. The NOL will expire in various years ending through the year 2035. The utilization of certain loss carryforwards are limited under Section 382 of the Internal Revenue Code.

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

	Nine Months 3/31/2018	Nine Months 3/31/2017
Current		
Federal	$0	$0
State	0	0
	$0	$0
Deferred		
Federal	$(376,305)	$(26,015)
State	(53,069)	(4,685)
	$(429,374)	$(30,700)
Total Income Tax (Expense)	$(429,374)	$(30,700)

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:

	Non-Current
Deferred tax assets	
NOL and contribution carryforwards	$ 323,759
Accrued compensated absences	8,657
Accrued bonus	9,965
Allowance for doubtful accounts	914
Total deferred tax assets	343,294
Deferred tax (liabilities)	
Excess of tax over book depreciation	(781)

Total deferred tax (liabilities)	(781)
Total deferred tax asset	$ 342,514
Valuation Allowance	$ (108,150)
Net deferred tax asset	$ 234,364

The change in valuation allowance is as follows:

March 31, 2018	$(108,150)
June 30, 2017	0
	$(108,150)

Management believes it is more likely than not that the tax benefit of approximately $322,000 of NOL carryforwards will not be realized because management estimates that they will expire prior to their utilization. Therefore, management provided a valuation allowance of $108,150 against its deferred tax asset. Management will continue to evaluate its operating results each reporting period and assess whether it will be able to utilize all available NOL carryforwards before expiration.

During the nine months ended March 31, 2018, the Company revised its estimated annual effective rate to reflect a change in the federal statutory rate from 35% to 21%, resulting from legislation that was enacted on December 22, 2017. The rate change is administratively effective at the beginning of our fiscal year, using a blended rate for the annual period. As a result, the blended statutory tax rate for the year is 28.06%. As a result, income tax expense reported for the first nine months was adjusted to reflect the effects of the change in the tax law and resulted in an increase in income tax expense of $278,999 for the nine months ended March 31, 2018 from application of the newly enacted rates to existing deferred balances.

The accounting for the effects of the rate change on deferred tax balances is complete and no provisional amounts were recorded for this item.

Income taxes for the nine months ended March 31, 2018 and 2017 differ from the amounts computed by applying the effective income tax rate of 32.01% and 37.63%, respectively, to income before income taxes as a result of the following:

	Nine Months March 31, 2018	Nine Months March 31, 2017
Expected (provision) at US statutory rate	$(33,604)	$(24,224)
State income tax net of federal (provision)	(4,740)	(2,586)
Nondeductible Expense	(3,881)	(3,890)
Change in valuation allowance	$(108,150)	-

Effect of remeasurement due to tax reform	$(278,999)	-
Income Tax (Expense)	$(429,374)	$(30,700)

The earliest tax year still subject to examination by a major taxing jurisdiction is fiscal year end June 30, 2015.

The Company performed a review of its uncertain tax positions in accordance with Accounting Standards Codification ASC 740-10 "*Uncertainty in Income Taxes*". 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 had a $250,000, due-on-demand line of credit with a financial institution, collateralized by the Company's inventory of $650,930 and net accounts receivable assets of $359,071. The line of credit expired in April 2018. The Company is currently looking to establish a line of credit with a different financial institution.

NOTE F - RELATED PARTY TRANSACTIONS

Our Chairman of the Board , Regina W. Anderson, guaranteed a $250,000 line of credit for the Company, through April 2018.

NOTE G - SUBSEQUENT EVENTS

We have evaluated subsequent events through May 15, 2018, which is the date the financial statements were available to be issued.

NOTE H - RECENT ACCOUNTING PRONOUNCEMENTS

In May 2017, the FASB issued ASU No. 2017-09, Compensation-Stock Compensation (Topic 718): Scope of Modification Accounting, which clarifies when to account for a change to the terms or conditions of a share-based payment award as a modification. Under the new guidance, modification accounting is required only if the fair value, the vesting conditions, or the classification of the award (as equity or liability) changes as a result of the change in terms or conditions. It is effective prospectively for the annual period ending June 30, 2019 and interim periods within that annual period. Early adoption is permitted. The Company is currently evaluating the effect that ASU No. 2017-09 will have on its consolidated financial statements and related disclosures.

On June 16, 2016, the FASB issued Accounting Standards Update 2016-13, Financial Instruments - Credit Losses (Topic 326) (the "ASU"), which introduces new guidance for the accounting for credit losses on instruments within its scope. Given the breadth of that scope, the new ASU will impact both financial services and non-financial services entities. The guidance in this ASU is effective for public entities that meet the definition of an SEC filer for fiscal years beginning after December 15, 2019, and interim periods within those years. Early adoption is permitted in annual periods beginning after December 15, 2018. The Company is currently evaluating the effect that ASU No. 2016-13 will have on its consolidated financial statements and related disclosures.

In February 2016, the FASB issued ASU No. 2016-02, Leases, related to the recognition of lease assets and lease liabilities. The new guidance requires lessees to recognize almost all leases on their balance sheet as a right-of-use asset and a lease liability, other than leases that meet the definition of a short- term lease, and requires expanded disclosures about leasing arrangements. The recognition, measurement, and presentation of expenses and cash flows arising from a lease by a lessee have not significantly changed from the current guidance. Lessor accounting is similar to the current guidance, but updated to align with certain changes to the lessee model and the new revenue recognition standard. The new guidance is effective for the Company on July 1, 2019, with early adoption permitted. The Company is currently evaluating the impact that ASU No. 2016-02 will have on its consolidated financial statements and related disclosures.

On November 20, 2015, FASB issued Accounting Standards Update (ASU) No. 2015-17, Income Taxes (Topic 740): Balance Sheet Classification of Deferred Taxes. Under the ASU, all deferred tax assets and liabilities, as well any valuation allowances, will be netted and presented in a classified balance sheet as one noncurrent amount. ASU No. 2015-17 becomes effective for public entities for annual periods beginning after December 15, 2016, and for interim periods within those annual periods. The Company applied this standard on a retrospective basis and the balance sheet at June 30, 2017, has been adjusted to conform to this new presentation by combining the current deferred tax asset of $242,841 to the non-current deferred tax asset of $420,897, resulting in a non-current deferred asset of $663,738.

On May 28, 2014, the FASB completed its Revenue Recognition project by issuing Accounting Standards Update No. 2014-09, Revenue from Contracts with Customers (Topic 606). The new guidance establishes the principles to report useful information to users of financial statements about the nature, timing, and uncertainty of revenue from contracts with customers. The new guidance on revenue recognition is effective for annual reporting periods beginning after December 15, 2017, including interim reporting periods within that reporting period.

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 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 and the general economy, competitive factors, changes in product mix, production delays, product recalls, 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.

Recent Developments

In January 2017, Amerx expanded its product line by introducing wound care kits in various sizes and formats to fit specific needs. The new kits include Helix3 Collagen kits, Amerx Brand Calcium Alginate kits, Hydrocolloid kits, Bordered Gauze kits, Foam kits and Hydrogel Kits. All of these new kits are focused on wound care.

In fiscal 2017, Amerx further expanded its product line to include a new segment of the wound care market by introducing the EXTREMIT-EASE® Compression Garment line, a patent-pending product. These new products have demonstrated early success and product expansion has made it possible for Amerx to have success in providing treatments outside its historical niche. Amerx looks to continue this new product trend in fiscal 2018.

CRITICAL ACCOUNTING POLICIES AND ESTIMATES

The Company's condensed consolidated 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, 2017, which was filed with the Securities and Exchange Commission on October 12, 2017. 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 consolidated 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 creditworthiness of customers and third-party payers as well as historical collection experience. Allowances for doubtful accounts are recorded as a selling, general and administrative expense for estimated amounts expected to be uncollectible from third-party payers and customers. The Company bases its estimates on its historical collection experience, current trends, credit policy and on the analysis of accounts by aging category. At March 31, 2018, and June 30, 2017, our allowance for doubtful accounts totaled $2,855 and $1,001, respectively.

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. As of March 31, 2018, the Company had a valuation allowance of $108,150. 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 the Financial Accounting Standards Board's (FASB) release of Accounting Standards Update (ASU) 2014-09, Revenue from Contracts with Customers (Topic 606) which requires that five basic criteria must be met before revenue can be recognized: (1) identify the contract with a customer; (2) identify the performance obligations in the contract; (3) determine the transaction price; (4) allocate the transaction price to the performance obligations in the contract, and (5) recognize revenue when (or as) the entity satisfies a performance obligation.

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 March 31, 2018 the Company's principal sources of liquid assets included cash of $166,578, inventories of $580,275, and net accounts receivable of $359,071. The Company also has $153,259 in Certificate of Deposits. The Company had net working capital of $1,163,904, and no long-term debt of $2,000 at March 31, 2018.

During the nine months ended March 31, 2018 cash decreased from $173,173 as of June 30, 2017, to $166,578. Operating activities used cash of $54,929 during the period. The change is primarily the result of non-cash adjustments which provided cash of $466,603 and working capital adjustments and net loss which used cash of $211,925 and 309,607, respectively.

The Company reflected a non-current deferred tax asset of $234,364, at March 31, 2018. Because the recoverability of deferred tax assets is directly dependent upon future operating results, actual recoverability of deferred tax assets may differ materially from our estimates.

RESULTS OF OPERATIONS

Comparison of the three and nine months ended March 31, 2018 and 2017.

Net Sales during the quarter ended March 31, 2018, were $1,107,018 as compared to the previous year's quarter net sales of $928,636, an increase of $178,382, or approximately 19%. Net Sales during the nine months ended March 31, 2018, were $2,955,868 as compared to the previous year's period net sales of $2,848,204, an increase of $107,664, or approximately 4%. We believe sales were affected by a shift in distributor purchasing trends and increased competition in the marketplace, offset by new sales programs added as well as an increase in institutional and international sales.

Gross profit during the quarter ended March 31, 2018, was $809,129 as compared to $669,045 during the quarter ended March 31, 2017, an increase of $140,084 or 21%. As a percentage of net sales, gross profit was approximately 73% in the quarter ended March 31, 2018, and approximately 72% in the corresponding quarter in 2017. Gross profit during the nine months ended March 31, 2018, was $2,162,246 as compared to $2,018,960 during the nine months ended March 31, 2017, an increase of $143,286 or 7%. As a percentage of net sales, gross profit was approximately 73% in the nine months ended March 31, 2018, and approximately 71% in the corresponding period in 2017. We believe the Gross Profit increase was affected due to discarding expired inventory in the prior nine month period.

Operating expenses during the quarter ended March 31, 2018, were $726,450, consisting of $390,860 in salaries and benefits and $335,590 in selling, general and administrative expenses. This compares to operating expenses during the quarter ended March 31, 2017, of $683,989, consisting of $374,153 in salaries and benefits; and $309,836 in selling, general and administrative expenses. Expenses for the quarter ended March 31, 2018, increased by $42,461 or approximately 6% compared to the corresponding quarter in 2017. Operating expenses during the nine months March 31, 2018, were $2,043,118, consisting of $1,119,944 in salaries and benefits and $923,174 in selling, general and administrative expenses. This compares to operating expenses during the nine months ended March 31, 2017, of $1,946,370, consisting of $1,115,406 in salaries and benefits; and $830,964 in selling, general and administrative expenses. Expenses for the nine months ended March 31, 2018, increased by $96,748 or approximately 5% compared to the corresponding nine months in 2017. Increases in selling, general and administrative expenses in both three and nine month periods of 2018, were a direct result of increased marketing to promote new products.

Operating profit increased by $97,623 to an operating profit of $82,679 for the quarter ended March 31, 2018, as compared to an operating loss of $14,944 in the comparable quarter of the prior year. The increase in operating profit for the three month period, to the comparable quarter of the prior quarter, was primarily attributable to the increase in sales. Operating profit increased by $46,538 to an operating profit of $119,128 for the nine months ended March 31, 2018, as compared to an operating profit of $72,590 in the comparable nine months of the prior year. The increase in net income for the nine month period, to the comparable period of the prior year, was primarily attributable to the increase in sales and decrease in cost of sales.

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 material weakness in our internal controls over financial reporting, 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, 2017 revealed a deficiency that we consider to be a material weakness: inadequate segregation of duties consistent with control objectives.

During fiscal 2018, 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 6. EXHIBITS

(A) EXHIBITS

31.1	Certification of Justice 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
101.1*	The following materials from the Company's Quarterly Report on Form 10-Q for the quarter ended March 31, 2018, 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
May 15, 2018	By:/s/ JUSTICE W. ANDERSON
Date	Justice W. Anderson, Chief Executive Officer