PROCYON CORP
Form 10QSB
May 14, 2004

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 March 31, 2004

[ ] 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; 8,045,388 shares outstanding as of May 10, 2004
Transitional Small Business Disclosure Format (check one) Yes [ ] No [x]

PART I. FINANCIAL INFORMATION

Index to Financial Statements

Financial Statements:

PART II. OTHER INFORMATION

PROCYON CORPORATION & SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS
MARCH 31, 2004 & JUNE 30, 2003

	(unaudi March 2004
ASSETS	
CURRENT ASSETS	
Cash	$ 82
Accounts Receivable, less allowances of $16,700 and $20,500 respectively	155
Prepaid Expenses	47
Inventories	83
TOTAL CURRENT ASSETS	368
PROPERTY AND EQUIPMENT	
Office Equipment	116
Furniture and Fixtures	20
Production Equipment	30
Leasehold Improvements	13
	180
Accumulated Depreciation	(81
TOTAL PROPERTY & EQUIPMENT	98

OTHER ASSETS		
	Certificates of deposit plus accrued interest, restricted	17
	Deposits	5
	TOTAL OTHER ASSETS	22
TOTAL ASSETS		$ 489
LIABILITIES AND STOCKHOLDERS' DEFICIENCY		
Current Liabilities:		
	Current portion of long-term note payable to stockholder	7
	Current portion of long-term note payable	
	Current portion of capital lease obligations	9
	Accounts Payable	154
	Accrued Expenses	70
	Note payable to stockholder	291
	TOTAL CURRENT LIABILITIES	533
Long Term Liabilities		
	Note payable to stockholder	4
	Long term note payable	1
	Capital lease obligations	3
	TOTAL LONG TERM LIABILITIES	9
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; 227,100 shares issued and outstanding	182
	Common stock, no par value, 80,000,000 shares authorized; 8,045,388 shares issued and outstanding	4,388
	Paid-in capital	6
	Accumulated deficit	(4,631
	TOTAL STOCKHOLDERS' DEFICIENCY	(53
TOTAL LIABILITIES AND STOCKHOLDERS' DEFICIENCY		$ 489

The accompanying notes are an integral part of these financial statements

PROCYON CORPORATION & SUBSIDIARIES
CONSOLIDATED STATEMENTS OF OPERATIONS
Three Months Ended March 31, 2004 and 2003
Nine Months Ended March 31, 2004 and 2003

	Three Months Ended	Three Months Ended	Nine En

	March 31, 2004	March 31, 2003	March
	(unaudited)	(unaudited)	(unau
Net Sales	$ 510,344	$ 392,679	$ 1,4
Cost of Sales	101,492	88,534	3
Gross Profit	408,852	304,145	1,1
Operating Expenses:			
Salaries and Benefits	164,029	136,492	4
Selling, General and Administrative	170,858	162,245	5
Total Operating Expenses	334,887	298,737	9
Profit (loss) from Operations	73,965	5,408	1
Other Income (Expense):			
Interest Expense	(8,205)	(9,915)	(
Interest Income	57	89	
Other Income	569	0	
Total Other Income (expense)	(7,579)	(9,826)	(
Income (loss) before income taxes	66,386	(4,418)	1
Income Tax Expnese			
Before loss carryforwards	23,000	--	
Current benefit of loss carryforwards	(23,000)	--	(
Net Profit (loss)	66,386	(4,418)	1
Dividend requirements on preferred stock	(3,428)	(18,972)	(
Net Profit (Loss) applicable to common stock	$ 62,958	($ 23,390)	$ 1
Basic earnings per common share	0.01	(0.00)	
Diluted earnings per common share	0.01	0.00	
Weighted average number of common shares outstanding	8,043,742	7,984,397	8,0
Diluted weighted average number of common shares outstanding	8,570,842	8,515,497	8,5

The accompanying notes are an integral part of these financial statements

PROCYON CORPORATION & SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
Nine Months Ended March 31, 2004 and 2003

	Nine Months Ended March 31, 2004 (unaudited)	Nine E Mar 2 (unau
CASH FLOWS FROM OPERATING ACTIVITIES		
Net Profit	$ 167,501	$ 2
Adjustments to reconcile net income to net cash used in operating activities:		
Depreciation	15,792	
Allowance for doubtful accounts	(3,800)	
Common Stock issued for services	0	
Decrease (increase) in:		
Accounts Receivable (trade)	(3,534)	(6
Inventories	13,303	(2
Other Assets	(4,479)	
Prepaid Expenses	(19,387)	
Increase (decrease) in:		
Accounts Payable	(53,836)	3
Excess of checks issued over bank balance	0	(2
Accrued Expenses	(2,933)	(
Cash provided (used) in Operating Activities	108,627	(2
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of Property & Equipment	(57,021)	
Cash Used in Investing Activities	(57,021)	
CASH FLOWS FROM FINANCING ACTIVITIES		
Payments on Long Term Loan	(55)	
Payments on Long Term Loan - Related Party	(4,657)	(
Payments on Capital Lease Obligations	(5,872)	
Proceeds from Stockholder Loan	0	3
Proceeds from Issuance of Common Stock	0	3
Cash provided (used) by financing activities	(10,584)	6
Net Increase (decrease) in cash and cash equivalents	41,022	3
Cash and Cash Equivalents, beginning of period	41,549	
Cash and Cash Equivalents, end of period	$ 82,571	$ 3

SUPPLEMENTAL DISCLOSURES

Interest Paid	$ 28,901	$ 2
Taxes Paid	$ 0	$

NONCASH TRANSACTION DISCLOSURE

Preferred Shares converted to Common Shares	$ 4,000	$ 5
Financing of property & equipment through long term loan	$ 1,563	$
Financing of property & equipment through accrued expenses	$ 6,509	$

The accompanying notes are an integral part of these financial statements

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 March 31, 2004 and 2003.

NOTE B - INVENTORIES

Inventories consisted of the following:

	March 31, 2004	June 30, 2003
Finished Goods	$ 32,946	$ 32,262
Raw Materials	$ 50,273	$ 64,260
	$ 83,219	$ 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 March 31, 2004, no dividends have been declared. Dividends in arrears on the outstanding preferred shares total $155,744 as of March 31, 2004. 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 words 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 some 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 believes that additional historical data is necessary to consider changing this policy. Amerx's management believes that 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 March 31, 2004, the Company's principal sources of liquid assets included cash of $82,571, inventories of $83,219, and net accounts receivable of $155,386. The Company had negative working capital of $164,645, and long-term debt of $9,620 at March 31, 2004.

During the nine months ended March 31, 2004, cash increased from $41,549 as of June 30, 2003 to $82,571. Operating activities provided cash of $115,136 during the period, consisting primarily of net income of $167,501. Cash used by financing activities was $9,021 as compared to cash provided by financing activities of $65,849 for the corresponding period in 2003.

The Company has deferred tax assets with a 100% valuation allowance at March 31, 2004. 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 and nine months ended March 31, 2004 and 2003.

Net sales during the quarter ended March 31, 2004 were $510,344, as compared to $392,679 in the quarter ended March 31, 2003, an increase of $117,665, or 30%. Net sales during the nine months ended March 31, 2004 were $1,496,104, as compared to $1,212,427 in the nine months ended March 31, 2003, an increase of $283,677, or 23%. 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 March 31, 2004 was $408,852, as compared to $304,145 during the quarter ended March 31, 2003, an increase of $104,707, or 34%. Gross profit during the nine months ended March 31, 2004 was $1,166,911, as compared to $949,296 during the nine months ended March 31, 2003, an increase of $217,615, or 23%. As a percentage of net sales, gross profit was 80% in the quarter ended March 31, 2004, as compared to 77% in the corresponding quarter in 2003. As a percentage of net sales, gross profit was 78% in the nine months ended March 31, 2004, as compared to 78% in the corresponding nine months in 2003. Gross profit increased for the nine months based on increased sales, however as a percentage of net sales gross profit remained consistent with the previous period.

Operating expenses during the quarter ended March 31, 2004, were $334,887, consisting of $164,029 in salaries and benefits, and $170,858 in selling, general and administrative expenses. This compares to operating expenses during the quarter ended March 31, 2003 of $298,737, consisting of $136,492 in salaries and benefits, and $162,245 in selling, general and administrative expenses. Operating expenses during the nine months ended March 31, 2004, were $977,868, consisting of $466,118 in salaries and benefits, and $511,750 in selling, general and administrative expenses. This compares to operating expenses during the nine months ended March 31, 2003 of $891,746, consisting of $410,400 in salaries and benefits, and $481,346 in selling, general and administrative expenses. Expenses for the quarter and nine months ended March 31, 2004 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 compensation for some employees through incentive based programs.

Operating profit increased by $68,557 (1,268%) from $73,965 for the quarter ended March 31, 2004, as compared to the comparable quarter in the prior year. Net Profit (before dividend requirements for Preferred Shares) was $66,386 during the quarter ended March 31, 2004, as compared to a net loss of $4,418 during the quarter ended March 31, 2003. 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. The Company had an operating profit of $189,043 in the nine months ended March 31, 2004, as compared to an operating profit of $57,550 in the corresponding nine months in 2003. Net Profit (before dividend requirements for Preferred Shares) was $167,501 during the nine months ended March 31, 2004, as compared to a net profit of $28,970 during the nine months ended March 31, 2003, an increase of 478%. The Company believes that significant increases in sales has come from growth in the Amerx subsidiary as Amerx's products are being stocked by new major medical Physician distribution centers through out the nation. The Amerigel Products overall acceptance has grown steadily in the Podiatric Market.

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 third 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

(A) EXHIBITS

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, there unto duly authorized.

PROCYON CORPORATION

May 14, 2004	By:	/s/ John C. Anderson
Date		John C. Anderson, President and Chief Financial Officer