PROCYON CORP
Form 10-Q
May 16, 2016

SECURITIES & EXCHANGE COMMISSION
WASHINGTON, DC 20549

FORM 10-Q

[x] Quarterly Report Under Section 13 or 15 (d) of
the Securities Exchange Act of 1934

For Quarterly Period Ended March 31, 2016

[ ] 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 (§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 (Do not check if a smaller reporting company) 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; 8,060,388 shares outstanding as of May 13, 2016.

PART I. - FINANCIAL INFORMATION

PROCYON CORPORATION & SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS

March 31, 2016 and June 30, 2015

ASSETS	**(unaudited) March 31, 2016**	**(audited) June 30, 2015**
CURRENT ASSETS		
Cash	$73,400	$204,227
Certificates of Deposit, plus accrued interest	292,083	157,672
Accounts Receivable, less allowance for doubtful accounts of $2,665 and $14,405, respectively.	244,990	260,077
Other Receivables	150,000	—
Inventories	564,664	434,476
Prepaid Expenses	249,468	197,969
Deferred Tax Asset	194,957	98,354
TOTAL CURRENT ASSETS	1,769,562	1,352,775
PROPERTY AND EQUIPMENT, NET	506,542	496,869
OTHER ASSETS		
Other Receivables	75,000	
Deposits	4,192	4,192
Deferred Tax Asset	415,864	662,593
	495,056	666,785
TOTAL ASSETS	$2,771,160	$2,516,429
LIABILITIES AND STOCKHOLDERS' EQUITY		
CURRENT LIABILITIES		
Accounts Payable	$95,435	$121,358
Line of Credit	125,000	80,000
Accrued Expenses	160,244	159,403
TOTAL CURRENT LIABILITIES	380,679	360,761
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;	149,950	149,950

194,100 shares issued and outstanding.		
Common Stock, no par value, 80,000,000 shares authorized; 8,060,388 shares issued and outstanding.	4,421,676	4,421,676
Paid-in Capital	6,000	6,000
Accumulated Deficit	(2,187,145)	(2,421,958)
TOTAL STOCKHOLDERS' EQUITY	2,390,481	2,155,668
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	$2,771,160	$2,516,429

The accompanying notes are an integral part of these financial statements

3

PROCYON CORPORATION & SUBSIDIARIES CONSOLIDATED STATEMENTS OF OPERATIONS Three and Nine Months Ended March 31, 2016 and 2015

	(unaudited) Three Months Ended Mar. 31, 2016	(unaudited) Three Months Ended Mar. 31, 2015	(unaudited) Nine Months Ended Mar. 31, 2016	(unaudited) Nine Months Ended Mar. 31, 2015
NET SALES	$921,764	$656,328	$2,572,347	$2,011,152
COST OF SALES	248,070	212,274	751,455	545,165
GROSS PROFIT	673,694	444,054	1,820,892	1,465,987
OPERATING EXPENSES				
Salaries and Benefits	314,827	318,705	957,511	912,998
Selling, General and Administrative	272,399	260,250	773,038	761,534
	587,226	578,955	1,730,549	1,674,532
INCOME / (LOSS) FROM OPERATIONS	86,468	(134,901)	90,343	(208,545)
OTHER INCOME (EXPENSE)				
Gaing on Sale of Notification and Clearance	—	—	300,000	—
(Loss) on Sale of Assets	—	—	(3,195)	—
Interest Expense	(1,401)	—	(3,129)	—
Interest Income	371	410	920	1,815
	(1,030)	410	294,596	1,815
INCOME / (LOSS) BEFORE INCOME TAXES	85,438	(134,491)	384,939	(206,730)
INCOME TAX (EXPENSE) / BENEFIT	(34,047)	49,195	(150,126)	72,728

NET INCOME / (LOSS)	51,391	(85,296)	234,813	(134,002)
Dividend requirements on preferred stock	(4,853)	(4,853)	(14,558)	(14,558)
Basic net income (loss) available to common shares	$46,538	$(90,149)	$220,255	$(148,560)
Basic net income (loss) per common share	$0.01	$(0.01)	$0.03	$(0.02)
Weighted average number of common shares outstanding	8,060,388	8,060,388	8,060,388	8,060,388
Diluted net income (loss) per common share	$0.01	$(0.01)	$0.03	$(0.02)
Weighted average number of common shares outstanding, diluted	8,254,488	8,060,388	8,254,488	8,060,388

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, 2016 and 2015

	(unaudited) March 31, 2016	**(unaudited) March 31, 2015**
CASH FLOWS FROM OPERATING ACTIVITIES		
Net Income (Loss)	$ 234,813	$ (134,002)
Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities:		
Depreciation	30,008	25,884
Loss on disposal of Assets	3,195	—
Deferred Income Taxes	150,126	(72,728)
Accrued Interest on Certificates of Deposit	161	57
Other Receivables	(225,000)	
Decrease (increase) in:		
Accounts Receivable	15,087	97,875
Inventory	(130,188)	(229,953)
Prepaid Expenses	(51,499)	(8,384)
Increase (decrease) in:		
Accounts Payable	(25,923)	(21,252)
Accrued Expenses	841	3,072
NET CASH PROVIDED BY / (USED) IN OPERATING ACTIVITIES	1,621	(339,431)
CASH FLOW FROM INVESTING ACTIVITIES		
Purchase of Certificate of Deposit	(190,000)	(451)
Redemption of Certificate of Deposit	55,428	—
Purchase of Property & Equipment	(42,876)	(46,137)
NET CASH (USED) IN INVESTING ACTIVITIES	(177,448)	(46,588)
CASH FLOW FROM FINANCING ACTIVITIES		
Repayment of Line of Credit	(25,000)	—
Proceeds from Line of Credit	70,000	—
NET CASH PROVIDED BY FINANCING ACTIVITIES	45,000	—
NET CHANGE IN CASH	(130,827)	(386,019)
CASH AT BEGINNING OF PERIOD	204,227	582,776
CASH AT END OF PERIOD	$ 73,400	$ 196,757
SUPPLEMENTAL DISCLOSURES		
Interest Paid	$ 3,129	$ —

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, 2015. 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 March 2009, our shareholders approved the adoption of a new stock option plan, providing the Company a continued means of offering stock-based compensation.

The fair value of a stock option is determined using the Black-Scholes option-pricing model, which values options based on the stock price at the grant date, the expected life of the option, the estimated volatility of the stock, the expected dividend payments, and the risk-free interest rate over the life of the option. There were no options granted during the quarters ended March 31, 2016 and 2015.

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 three and nine months ended March 31, 2016, the potential dilutive effects of the preferred stock was included in the weighted-average shares outstanding.

NOTE B- OTHER RECEIVABLES

Other receivables are the result of the Company selling a notification and clearance it held that was not being utilized (510k Clearance).

NOTE C - INVENTORIES

Inventories consisted of the following:	March 31, 2016	June 30, 2015
Finished Goods	$324,139	$178,107
Raw Materials	240,525	256,369
	$564,664	$434,476

NOTE D - 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, 2016, no dividends have been declared. Dividends in arrears on the outstanding preferred shares total $365,889 as of March 31, 2016.

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 E - INCOME TAXES AND AVAILABLE CARRYFORWARD

As of March 31, 2016, the Company had consolidated income tax net operating loss ("NOL") carryforward for federal income tax purposes of approximately $1,604,000. The NOL will expire in various years ending through the year 2035. 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 tax benefits (expense) attributable to continued operations are as follows:

	Nine Months 3/31/2016	Nine Months 3/31/2015
Current		
Federal	$0	$0
State	0	0
	$0	$0
Deferred		
Federal	$(128,184)	$62,098
State	(21,942)	10,630
	$(150,126)	$72,728
Total Income Tax Benefit (Expense)	$(150,126)	$72,728

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:

8

	Current	Non-Current
Deferred tax assets		
NOL and contribution carryforwards	$184,407	$419,264
PTO Accounts	9,547	—
Excess of tax over book depreciation	—	(3,400)
Allowance for doubtful accounts	1,003	—
Net deferred tax asset	$194,957	$415,864

Management believes it is more likely than not that it will realize the benefit of the NOL carryforward, because of its previous trend of earnings. Therefore, a valuation allowance is not considered necessary at this time.

Income taxes for the periods ended March 31, 2016 and 2015 differ from the amounts computed by applying the effective income tax rates of 37.63%, to income taxes as a result of the following:

	Nine Months Mar. 31, 2016	Nine Months Mar. 31, 2015
Expected benefit (provision) at US statutory rate	$(130,878)	$70,288
State income tax net of federal benefit (provision)	(13,973)	7,504
Nondeductible Expense	(5,275)	(3,665)
Change in estimates in available NOL carryforwards	—	(1,399)
Income Tax Benefit (Expense)	$(150,126)	$72,728

The earliest tax year still subject to examination by a major taxing jurisdiction is fiscal year end June 30, 2012.

The Company made a review of its uncertain tax positions in accordance with applicable standards of the Financial Accounting Standards Board ("FASB"). 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 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 $564,664 and net receivables of $244,990. The line of credit is renewable annually in April. Our Chief Executive Officer personally guaranteed the line of credit to the Company. At March 31, 2016 and June 30, 2015, the Company owed $125,000 and $80,000, respectively, on the line of credit. The line of credit extends terms of cash advances at a variable rate set equal to the prime rate at the time of advance. The interest rate can fluctuate according to the changes in its published prime rate.

NOTE G - RELATED PARTY TRANSACTIONS

Our Chief Executive Officer, Regina W. Anderson, guarantees a $250,000 line of credit for the Company.

NOTE H - CONTINGENCIES

As of March 31, 2016, the Company is involved with two voluntary product recalls initiated November 10, 2014 and March 9, 2015 respectively. Total recall costs incurred through March 31, 2016 were $202,658, of which $2,366 occurred in the quarter ending March 31, 2016. Future recall costs are expected, but cannot be accrued at this point because they are not able to be reasonably estimated. Our industry continues to be subject to monitoring in the normal course of business by the Food and Drug Administration (FDA). Management believes there is no material impact to report at this time.

NOTE I - SUBSEQUENT EVENTS

We have evaluated subsequent events through May 13, 2016, which is the date the financial statements were available to be issued.

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 negativ 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

The Company is currently involved with two voluntary product recalls initiated November 10, 2014 and March 9, 2015 respectively. The original recall from July 21, 2014, has been closed. The Company is currently resolving these issues. There was very little activity regarding these recalls in the quarter ended March 31, 2016. As such the Company is trying to close these recalls with the FDA. The Company is unable to determine at this time whether or not there will be a long term adverse material effect to our financial operations from the voluntary recalls. The short term effects of the voluntary recalls have been documented showing increased legal fees, research and development fees, postage, delivery costs, back ordered product and increased cost of goods from replacement of recalled products. The cost incurred by the Company related to the recalls as of March 31, 2016 was $202,658. No further accrual can be made for future expenses as these expenses cannot be reasonably calculated. Amerx is actively addressing all concerns surrounding the recalls and is working directly with the FDA to ensure full compliance moving forward. The

Company has also hired a Quality Assurance Manager to this end.

Amerx recently completed its largest wound care product expansion plans since the company’s inception to include Calcium Alginate, Foam, Hydrocolloid and Bordered Gauze Dressings. This product expansion under the Amerx brand allows the company to offer a comprehensive line of advanced wound care products to its current customer base while providing new opportunities for the company to grow into new and larger segments of the advanced wound care market. According to a recently published market research report “Advanced Wound Care Market by Type (Dressings, Therapy Devices, Active Wound Care), Application (Surgical Wounds, Ulcers), End User (In-Patient Facility, Out-Patient Facility), and Geography - Global Forecast to 2020”, by Markets and Markets, this market is expected to reach $14.9 billion by 2020 and is estimated to grow at a Compound Annual Growth Rate of 7.0% from 2015 to 2020.

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, 2015, which was filed with the Securities and Exchange Commission on September 28, 2015. 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 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 March 31, 2016, and June 30, 2015, our allowance for doubtful accounts totaled $2,665 and $14,405, 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. We did not have a valuation allowance as of March 31, 2016. 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 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) collectability is reasonably assured.

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, 2016 the Company's principal sources of liquid assets included cash of $73,400, inventories of $564,664 and net trade receivables of $224,990. The Company also has $292,083 in short term Certificate of Deposits. The Company had net working capital of $1,388,883, and no long-term debt at March 31, 2016.

During the nine months ended March 31, 2016 cash decreased from $204,227 as of June 30, 2015, to $73,400. The change is primarily the result of the purchase of $140,000 in new CDs and increases in inventory. All of these CDs are considered short term.

The Company reflected a current deferred tax asset of $194,957, and non-current deferred tax asset of $415,864, at March 31, 2016. 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, 2016 and 2015.

Gross Sales during the quarter ended March 31, 2016, were $921,764 as compared to the previous year’s gross sales of $656,328, an increase of $265,436, or approximately 40%. Gross Sales during the nine months ended March 31, 2016, were $2,572,347 as compared to the previous year’s gross sales of $2,011,152, an increase of $561,195, or approximately 28%. Sales have been on the rise predominately from our core product sales, new product lines and international sales.

Gross profit during the quarter ended March 31, 2016, was $673,694 as compared to $444,054 during the quarter ended March 31, 2015, an increase of $229,640 or 52%. As a percentage of net sales, gross profit was approximately 73% in the quarter ended March 31, 2016, and approximately 68% in the corresponding quarter in 2015. Gross profit during the nine months ended March 31, 2016, was $1,820,892 as compared to $1,465,987 during the nine months ended March 31, 2015, an increase of $354,905 or 24%. As a percentage of net sales, gross profit was approximately 71% in the nine months ended March 31, 2016, and approximately 73% in the corresponding nine months in 2015. We expect gross profit as a percentage of sales to continue to decrease slightly as sales from the new product lines and international sales, which involve lower margins, continue to increase relative to other products.

Operating expenses during the quarter ended March 31, 2016 were $587,226 consisting of $314,827 in salaries and benefits and $272,399 in selling, general and administrative expenses. This compares to operating expenses during the quarter ended March 31, 2015, of $578,955 consisting of $318,705 in salaries and benefits; and $260,250 in selling, general and administrative expenses. Expenses for the quarter ended March 31, 2016, increased by $8,271 or approximately 1% compared to the corresponding quarter in 2015. Salaries and benefits expenses decreased for the quarter primarily due to an adjustment to accrued payroll. Selling, general and administrative expenses increased from the corresponding period with increases in various operational expenses including postage and delivery fees, warehouse rent and credit card fees. Operating expenses during the nine months ended March 31, 2016, were $1,730,549 consisting of $957,511 in salaries and benefits and $773,038 in selling, general and administrative expenses. This compares to operating expenses during the nine months ended March 31, 2015, of $1,674,532 consisting of $912,998 in salaries and benefits and $761,534 in selling, general and administrative expenses. Expenses for the nine months ended March 31, 2016, increased by $56,017 or approximately 3% compared to the corresponding quarter in 2015. Salaries and benefits expenses increased for the nine months primarily due to commissions paid on increased sales and additional sales staff. Selling, general and administrative expenses increased for the nine months primarily due to increases in marketing expenses when compared to the previous corresponding period.

Operating profit increased by $221,369 to an operating profit of $86,468 for the quarter ended March 31, 2016, as compared to an operating loss of $134,901 in the comparable quarter of the prior year. Income before income taxes was $85,438 during the quarter ended March 31, 2016, as compared to net loss of $134,491 during the quarter ended March 31, 2015. Operating profit increased by $298,888 to an operating profit of $90,343 for the nine months ended March 31, 2016, as compared to an operating loss of $208,545 in the comparable nine months of the prior year. Income before income taxes was $384,939 during the nine months ended March 31, 2016, as compared to net loss of $206,730 during the nine months ended March 31, 2015. The increase in net income before income taxes was primarily attributable to the sale of the previously reported Notification and Clearance in November 2015.

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 certain material weakness in our internal controls over financial reporting which is 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, 2015 revealed a deficiency that we consider to be a material weakness: inadequate segregation of duties consistent with control objectives.

During fiscal 2016, 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 5. OTHER INFORMATION

The matters reported in “Recent Developments” in Item 2 of Part 1 are incorporated herein by this reference.

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.§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, 2013, 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 13, 2016	By:/s/ REGINA W. ANDERSON
Date	Regina W. Anderson, Chief Executive Officer

15