

SECURITIES & EXCHANGE COMMISSION  
WASHINGTON, DC 20549

**FORM 10-Q**

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

For Quarterly Period Ended December 31, 2011

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**  
(State of Incorporation)

**59-3280822**  
(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; 8,055,388 shares outstanding as of February 14, 2012.

## PART I. - FINANCIAL INFORMATION

Item	<u>Page</u>
ITEM 1. FINANCIAL STATEMENTS	3
<u>Index to Financial Statements</u>	
Financial Statements:	
Consolidated Balance Sheets	3
Consolidated Statements of Operations	4
Consolidated Statements of Cash Flows	5
Notes to Financial Statements	6
ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS	11
ITEM 4. CONTROLS AND PROCEDURES	14

## PART II. - OTHER INFORMATION

ITEM 5. OTHER INFORMATION	15
ITEM 6. EXHIBITS	16
SIGNATURES	16

**PROCYON CORPORATION & SUBSIDIARIES**  
**CONSOLIDATED BALANCE SHEETS**  
**December 31, 2011 and June 30, 2011**

ASSETS	(unaudited) December 31, 2011	(audited) June 30, 2011
<b>CURRENT ASSETS</b>		
Cash	\$ 783,158	\$ 721,054
Certificates of Deposit, plus accrued interest	155,548	155,142
Accounts Receivable, less allowance for doubtful accounts of \$1,000.	137,337	311,493
Inventories	269,773	204,733
Prepaid Expenses	131,379	147,449
Other Receivable	-	8,762
Deferred Tax Asset	128,069	140,577
TOTAL CURRENT ASSETS	<u>1,605,264</u>	<u>1,689,210</u>
PROPERTY AND EQUIPMENT, NET	518,764	535,040
<b>OTHER ASSETS</b>		
Deposits	792	792
Deferred Tax Asset	706,212	724,681
	<u>707,004</u>	<u>725,473</u>
<b>TOTAL ASSETS</b>	<u>\$ 2,831,032</u>	<u>\$ 2,949,723</u>
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>		
<b>CURRENT LIABILITIES</b>		
Accounts Payable	\$ 113,083	\$ 130,453
Accrued Expenses	122,395	146,753
Current Portion of Mortgage Payable	40,480	32,211
TOTAL CURRENT LIABILITIES	<u>275,958</u>	<u>309,417</u>
<b>LONG TERM LIABILITIES</b>		
Mortgage Payable	188,595	314,173
TOTAL LONG TERM LIABILITIES	<u>188,595</u>	<u>314,173</u>
<b>STOCKHOLDERS' EQUITY</b>		
Preferred Stock, 496,000,000 shares authorized, none issued.	-	-
Series A Cumulative Convertible Preferred Stock, no par value; 4,000,000 shares authorized; 199,100 shares issued and outstanding.	154,950	154,950
Common Stock, no par value, 80,000,000 shares authorized; 8,055,388 shares issued and outstanding.	4,416,676	4,416,676
Paid-in Capital	6,000	6,000
Accumulated Deficit	(2,211,147)	(2,251,493)
TOTAL STOCKHOLDERS' EQUITY	<u>\$ 2,366,479</u>	<u>2,326,133</u>
<b>TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY</b>	<u>\$ 2,831,032</u>	<u>\$ 2,949,723</u>

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

**PROCYON CORPORATION & SUBSIDIARIES**  
**CONSOLIDATED STATEMENTS OF OPERATIONS**  
**Three and Six Months Ended December 31, 2011 and 2010**

	(unaudited) Three Months Ended Dec. 31, 2011	(unaudited) Three Months Ended Dec. 31, 2010	(unaudited) Six Months Ended Dec. 31, 2011	(unaudited) Six Months Ended Dec. 31, 2010
NET SALES	\$ 610,158	\$ 744,234	\$ 1,199,606	\$ 1,398,479
COST OF SALES	<u>130,610</u>	<u>158,324</u>	<u>258,381</u>	<u>296,970</u>
GROSS PROFIT	479,548	585,910	941,225	1,101,509
OPERATING EXPENSES				
Salaries and Benefits	223,787	248,551	456,698	464,425
Selling, General and Administrative	<u>184,915</u>	<u>203,681</u>	<u>405,039</u>	<u>376,904</u>
	408,702	452,232	861,737	841,329
INCOME FROM OPERATIONS	70,846	133,678	79,488	260,180
OTHER INCOME (EXPENSE)				
Interest Expense	(4,235)	(7,261)	(9,571)	(14,994)
Interest Income	<u>574</u>	<u>907</u>	<u>1,406</u>	<u>1,860</u>
	(3,661)	(6,354)	(8,165)	(13,134)
INCOME BEFORE INCOME TAXES	67,185	127,324	71,323	247,046
INCOME TAX EXPENSE	<u>(25,590)</u>	<u>(48,419)</u>	<u>(30,977)</u>	<u>(97,073)</u>
NET INCOME	41,595	78,905	40,346	149,973
Dividend requirements on preferred stock	<u>(4,978)</u>	<u>(4,977)</u>	<u>(9,955)</u>	<u>(9,955)</u>
Basic net income available to common shares	<u>\$ 36,617</u>	<u>\$ 73,928</u>	<u>\$ 30,391</u>	<u>\$ 140,018</u>
Basic net income per common share	\$ 0.00	\$ 0.01	\$ 0.00	\$ 0.02
Weighted average number of common shares outstanding	<u>8,055,388</u>	<u>8,055,388</u>	<u>8,055,388</u>	<u>8,055,388</u>
Diluted net income per common share	\$ 0.00	\$ 0.01	\$ 0.00	\$ 0.02
Weighted average number of common shares outstanding, diluted	<u>8,254,488</u>	<u>8,254,488</u>	<u>8,254,488</u>	<u>8,254,488</u>

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

**PROCYON CORPORATION & SUBSIDIARIES**  
**CONSOLIDATED STATEMENTS OF CASH FLOWS**  
**For the Six Months Ending December 31, 2011 and 2010**

	<u>(unaudited)</u> <u>December 31,</u> <u>2011</u>	<u>(unaudited)</u> <u>December 31,</u> <u>2010</u>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Net Income (loss)	\$ 40,346	\$ 149,973
Adjustments to reconcile net income to net cash used in operating activities:		
Depreciation	17,869	15,923
Deferred Income Taxes	30,977	97,073
Accrued Interest on Certificates of Deposit	(406)	685
Decrease (increase) in:		
Accounts Receivable	174,156	(70,167)
Other Receivables	8,762	-
Inventory	(65,040)	(45,494)
Prepaid Expenses	16,070	3,447
Other Assets	-	1,062
Increase (decrease) in:		
Accounts Payable	(17,370)	(44,258)
Accrued Expenses	(24,358)	(5,570)
NET CASH PROVIDED BY OPERATING ACTIVITIES	<u>181,006</u>	<u>102,674</u>
<b>CASH FLOW FROM INVESTING ACTIVITIES</b>		
Purchase of Certificate of Deposit	-	(51,240)
Purchase of property & equipment	(1,593)	(51,239)
NET CASH USED BY INVESTING ACTIVITIES	<u>(1,593)</u>	<u>(102,479)</u>
<b>CASH FLOW FROM FINANCING ACTIVITIES</b>		
Payments on Mortgage Payable	(117,309)	(12,676)
NET CASH USED BY FINANCING ACTIVITIES	<u>(117,309)</u>	<u>(12,676)</u>
NET CHANGE IN CASH	62,104	(12,481)
CASH AT BEGINNING OF PERIOD	<u>721,054</u>	<u>827,512</u>
CASH AT END OF PERIOD	<u>\$ 783,158</u>	<u>\$ 815,031</u>
<b>SUPPLEMENTAL DISCLOSURES</b>		
Interest Paid	\$ 10,164	\$ 14,976
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 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 financial statements should be read in conjunction with the Company’s audited financial statements dated June 30, 2011. 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

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 December 31, 2011, there were no outstanding options to purchase shares of our common stock. The previously reported 65,000 options outstanding, expired in November 2010. Therefore, the adoption of Topic 718 does not have a material impact on our statement of operations for period ending December 31, 2011.

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 December 31, 2011 and 2010.

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.

## SUBSEQUENT EVENTS

We have evaluated subsequent events through February 2, 2012, which is the date the financial statements were available to be issued.

## NOTE B - INVENTORIES

Inventories consisted of the following:

	December 31, 2011	June 30, 2011
Finished Goods	\$ 183,404	\$ 116,576
Raw Materials	\$ 86,369	\$ 88,157
	<u>\$ 269,773</u>	<u>\$ 204,733</u>

## 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 December 31, 2011, no dividends have been declared. Dividends in arrears on the outstanding preferred shares total \$291,147 as of December 31, 2011.

Holder of the Preferred Stock have the right to convert their shares of Preferred Stock into an equal number of shares of Common Stock of the Company. In addition, Preferred Stock holders have the right to vote the number of shares into which their shares are convertible into Common Stock. Such preferred shares will automatically convert into one share of Common Stock at the close of a public offering of Common Stock by the Company provided the Company receives gross proceeds of at least \$1,000,000, and the initial offering price of the Common Stock sold in such offering is equal to or in excess of \$1 per share. The Company is obligated to reserve an adequate number of shares of its common stock to satisfy the conversion of all the outstanding Series A Preferred Stock. There were no shares converted during the reporting period.

The Board of Directors of the Company approved a plan on December 8, 2007 to repurchase shares of Procyon Corporation's outstanding common stock. The repurchase plan authorizes management to repurchase from time to time up to 10% of the total outstanding shares of common stock as of December 8, 2007, subject to applicable SEC regulations and compliance with the Company's trading window policies. The Board's authorization is based on its belief that Procyon's common stock is underpriced at times given the Company's working capital, liquidity, assets, book value and future prospects. The shares may be repurchased from time

to time in the open market, through block purchases or in privately negotiated transactions depending upon market conditions and other factors, in accordance with SEC Rule 10b-18. Procyon has no commitment or obligation to purchase all or any portion of the authorized shares. All shares purchased are canceled and returned to the status of authorized but unissued common stock. The plan does not have an expiration date. As of December 31, 2011, no shares of common stock had been repurchased by the Company pursuant to its repurchase plan.

#### **NOTE D - INCOME TAXES AND AVAILABLE CARRYFORWARD**

As of December 31, 2011, the Company had consolidated income tax net operating loss ("NOL") carryforward for federal income tax purposes of approximately \$2,247,000. The NOL will expire in various years ending through the year 2022. 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 expense (benefits) attributable to continuing and discontinued operations are as follows:

	Six Months 12/31/2011	Six Months 12/31/2010
Current		
Federal	\$ 0	\$ 0
State	0	0
	<u>\$ 0</u>	<u>\$ 0</u>
Deferred		
Federal	\$ 26,449	\$ 82,885
State	4,528	14,188
	<u>\$ 30,977</u>	<u>\$ 97,073</u>
Total Income Tax Expense	<u>\$ 30,977</u>	<u>\$ 97,073</u>

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:

	<u>Current</u>	<u>Non-Current</u>
Deferred tax assets		
NOL and contribution carryforwards	\$ 128,445	\$ 717,106
Allowance for doubtful accounts	(376)	-
	<u>128,069</u>	<u>717,106</u>
Deferred tax (liabilities)		
Excess of tax over book depreciation	-	(10,894)
	<u>128,069</u>	<u>706,212</u>
Net deferred tax asset (liability)	<u>\$ 128,069</u>	<u>\$ 706,212</u>

The Change in valuation allowance is as follows:

June 30, 2011	\$ -
December 31, 2011	<u>\$ -</u>
Change in valuation allowance	<u>\$ -</u>

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

Income taxes for the periods ended December 31, 2011 and 2010 differ from the amounts computed by applying the effective income tax rates of 37.63%, to income taxes as a result of the following:

	<u>Six Months Dec. 31, 2011</u>	<u>Six Months Dec. 31, 2010</u>
Expected provision at US statutory rate	\$ 24,135	\$ 82,378
State income tax net of federal benefit	2,577	8,795
Nondeductible Expense	1,419	1,514
Change in estimates in available NOL carryforwards	<u>2,846</u>	<u>4,386</u>
Income Tax Expense	<u>\$ 30,977</u> 0	<u>\$ 97,073</u>

The earliest tax year still subject to examination by a major taxing jurisdiction is fiscal year end June 30, 2009.

## NOTE E - MORTGAGE PAYABLE

On July 21, 2006, we entered into a mortgage loan, guaranteed by our C.E.O. Regina W. Anderson, for \$508,000 with the Bank of America for the purchase of our corporate office building which has a net book value of approximately \$470,000. The mortgage loan is due in July 2021 and interest is fixed at 7.25%. Interest expense was \$9,571 for the six months ended December 31, 2011. As of September 21, 2010, the interest rate on the mortgage was adjusted to 6.85% for the remainder of the term of the loan.

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

Year Ending June 30,	
6 months 2012	\$ 19,895
2013	41,887
2014	44,848
2015	48,018
2016	51,413
2017 and thereafter	23,014
	229,075
Less current portion	40,480
	\$ 188,595

## 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 \$269,773 and net accounts receivable assets of \$137,337. The line of credit is renewable annually in April. The C.E.O. of the Company personally guaranteed the line of credit to the Company. At December 31, 2011, the Company owed \$0 on the line of credit. The line of credit extends terms of cash advances at a variable rate set equal to the 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, guaranteed a loan for the Company in the amount of \$508,000, issued in connection with our purchase of our office building in July 2006, as well as the \$250,000 line of credit.

## **ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS.**

### General

The following discussion and analysis should be read in conjunction with the unaudited Condensed Financial Statements and Notes thereto appearing elsewhere in this report.

This Report on Form 10-Q, including Management's Discussion and Analysis of Financial Condition and Results of Operation, contains forward-looking statements. When used in this report, the words "may," "will," "expect," "anticipate," "continue," "estimate," "project," "intend," "hope," "believe" and similar expressions, variations of these words or the negative of those words, and, any statement regarding possible or assumed future results of operations of the Company's business, the markets for its products, anticipated expenditures, regulatory developments or competition, or other statements regarding matters that are not historical facts, are intended to identify forward-looking statements within the meaning of Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934 regarding events, conditions and financial trends including, without limitation, business conditions in the skin and wound care market and the general economy, competitive factors, changes in product mix, production delays, manufacturing capabilities, and other risks or uncertainties detailed in other of the Company's Securities and Exchange Commission filings. Such statements are based on management's current expectations and are subject to risks, uncertainties and assumptions. Should one or more of these risks or uncertainties materialize, or should underlying assumptions prove incorrect, the Company's actual plan of operations, business strategy, operating results and financial position could differ materially from those expressed in, or implied by, such forward-looking statements.

### CRITICAL ACCOUNTING POLICIES AND ESTIMATES

The Company's condensed financial statements have been prepared in accordance with standards of the Public Company Accounting Oversight Board (United States), which require the Company to make estimates and judgments that affect the reported amounts of assets, liabilities, revenues and expenses, and the related disclosures. A summary of those significant accounting policies can be found in the Notes to the Consolidated Financial Statements included in the Company's annual report on form 10-K, for the year ended June 30, 2011, which was filed with the Securities and Exchange Commission on September 28, 2011. The estimates used by management are based upon the Company's historical experiences combined with management's understanding of current facts and circumstances. Certain of the Company's accounting policies are considered critical as they are both important to the portrayal of the Company's financial condition and the results of its operations and require significant or complex judgments on the part of management. We believe that the following critical accounting policies affect the more significant judgments and estimates used in the preparation of our financial statements.

#### 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 December 31, 2011 our allowance for doubtful accounts totaled \$1,000.

#### 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 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 December 31, 2011. 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) collectibility 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 December 31, 2011 the Company's principal sources of liquid assets included cash of \$783,158, inventories of \$269,773, and net accounts receivable of \$137,337. The company also has \$155,548 in short term Certificate of Deposits. The Company had net working capital of \$1,329,306, and long-term debt of \$188,595 at December 31, 2011.

During the six months ended December 31, 2011, cash increased from \$721,054 as of June 30, 2011, to \$783,158. Operating activities provided cash of \$181,006 during the period, consisting primarily of collection of accounts receivable of \$174,156. Cash used by investing activities was \$1,593 as compared to cash used of \$102,479 for the corresponding period in 2010.

The Company recorded a current deferred tax asset of \$128,069, and non-current deferred tax asset of \$706,212, at December 31, 2011. 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 six months ended December 31, 2011 and 2010.

Net sales during the quarter ended December 31, 2011, were \$610,158, as compared to \$744,234 in the quarter ended December 31, 2010, a decrease of \$134,076, or approximately 18%. We believe that sales for the current three month period decreased when compared to the previous year, primarily due to the effects of the price increase that was instituted January 1, 2011, increasing sales significantly in the prior period. Net sales during the six months ended December 31, 2011, were \$1,199,606, as compared to \$1,398,479 in the prior period end December 31, 2010, a decrease of \$198,873, or approximately 14%. Again, we believe the price increase had a significant impact on the prior year period.

Gross profit during the quarter ended December 31, 2011, was \$479,548, as compared to \$585,910 during the quarter ended December 31, 2010, a decrease of \$106,362, or approximately 18%. As a percentage of net sales, gross profit was approximately 79% in the quarter ended December 31, 2011, and approximately 79% in the corresponding quarter in 2010. Gross profit during the six months ended December 31, 2011, was \$941,225, as compared to \$1,101,509 during the six months ended December 31, 2010, a decrease of \$160,284, or approximately 15%. As a percentage of net sales, gross profit was approximately 78% in the period ended December 31, 2011, and approximately 79% in the corresponding period in 2010.

Operating expenses during the quarter ended December 31, 2011 were \$408,702, consisting of \$223,787 in salaries and benefits, and \$184,915 in selling, general and administrative expenses. This compares to operating expenses during the quarter ended December 31, 2010 of \$452,232, consisting of \$248,551 in salaries and benefits, and \$203,681 in selling, general and administrative expenses. Expenses for the quarter ended December 31, 2011 decreased by \$43,530, or approximately 10%, compared to the corresponding quarter in 2010. The decrease in expenses were directly attributable to salaries and benefits decreases seen this year over last, due to less commission being paid on significantly lower sales. Reduced selling, general and administrative expenses were attributable to reduced expenses in marketing, specifically trade shows. The reduction comes largely from the change in schedule of the trade shows this year, when compared to the previous year, not a reduction in the number of shows attended. Operating expenses during the period ended December 31, 2011 were \$861,737, consisting of \$456,698 in salaries and benefits, and \$405,039 in selling, general and administrative expenses. This compares to operating expenses during the period ended December 31, 2010 of \$841,329, consisting of \$464,425 in salaries and benefits, and \$376,904 in selling, general and administrative expenses. Expenses for the period ended December 31, 2011 increased by \$20,408, or approximately 2%, compared to the corresponding quarter in 2010. The decrease in expenses attributable to salaries and benefits seen this year over last, was primarily due to less commission being paid on significantly lower sales. Increased selling, general and administrative expenses were attributable to increased overall marketing, and professional

fees.

Operating profit decreased by \$62,832 to a \$70,846 for the quarter ended December 31, 2011, as compared to a profit of \$133,678 in the comparable quarter of the prior year. Net Income from operations before income taxes was \$67,185 during the quarter ended December 31, 2011, as compared to net income before income taxes of \$127,324 during the quarter ended December 31, 2010. We believe that the decrease in net income before income taxes in the three month period was primarily attributable to the reduction in sales effected by the prior year price increases. Operating profit decreased by \$180,692 to a \$79,488 for the six months ended December 31, 2011, as compared to a profit of \$260,180 in the comparable period of the prior year. Net Income from operations before income taxes was \$71,323 during the six months ended December 31, 2011, as compared to net income before income taxes of \$247,046 during the period ended December 31, 2010. We believe that the decrease in net income before income taxes in the six month period was primarily attributable to the reduction in sales effected by the prior year price increases.

#### **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 certain material weaknesses in our internal control over financial reporting which are 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, 2011 revealed several deficiencies that we consider to be material weaknesses: (1) inadequate segregation of duties consistent with control objectives; (2) insufficient written policies and procedures for accounting and financial reporting with respect to the requirements and application of GAAP and SEC disclosure requirements; (3) ineffective controls over period end financial disclosure and reporting processes and (4) insufficient board and audit committee composition to provide oversight of the financial statement process.

During fiscal 2012, the Company has continued to address changes needed to improve board oversight of the financial statement process and the deferred tax asset calculation. We have also instituted some changes in segregation of duties as current staffing permits. We feel we have remedied our previously reported deficiency in the calculation of the deferred tax asset such that it no longer is a material weakness. We expect to further address the continuing material weaknesses on an on-going basis.

## PART II. OTHER INFORMATION

### ITEM 5. Other information

#### (A) Submission of Matters to a Vote of Security Holders.

We held our annual meeting for fiscal 2012 on Tuesday, December 13, 2011, at 4:00 p.m. EST. The following matters were considered and approved by the shareholders:

The following seven directors were elected to hold office for one-year terms or until their successors are elected and qualified:

	Votes For	Votes Against or Withheld	Total Voted
Regina W. Anderson	4,215,030	1,698,622	5,913,652
James B. Anderson	4,215,030	1,698,622	5,913,652
Justice W. Anderson	4,215,030	1,698,622	5,913,652
Michael T. Foley	4,215,030	1,698,622	5,913,652
Jeffrey S. Slowgrove	4,215,030	1,698,622	5,913,652
Fred W. Suggs	4,215,030	1,698,622	5,913,652
Chester L. Wallack	4,215,030	1,698,622	5,913,652

B. To ratify appointment of Ferlita, Walsh & Gonzalez, P.A. as our independent certified public accountants for the 2012 fiscal year.

Votes For	6,914,375
Votes Against	5,628
Votes Abstaining	422,117
Total Voted	<u>7,342,120</u>

Subsequent to the tabulation of votes for nominees for the Board of Directors at our Annual Shareholder's Meeting on December 13, 2011, with votes in sufficient number having been voted in favor of the appointment of Jeffrey S. Slowgrove for service on the Board of Directors, Mr. Slowgrove withdrew his acceptance to serve on the Board of Directors, citing potential time restraints and obligations to his other business dealings. The Board of Directors currently consists of six directors.

## 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 December 31, 2011, 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.

February 14, 2012  
Date

PROCYON CORPORATION  
By: /s/ REGINA W. ANDERSON  
Regina W. Anderson, Chief Executive Officer

### Exhibit 31.1

### CERTIFICATION

I, Regina W. Anderson, Chief Executive Officer of Procyon Corporation, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Procyon Corporation
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report; and
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report.
4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) for the registrant issuer and have:

- (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
  - (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
- (a) all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
  - (b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: February 14, 2012

/s/ REGINA W. ANDERSON

Regina W. Anderson, Chief Executive Officer

Exhibit 31.2

CERTIFICATION

I, James B. Anderson, Chief Financial Officer of Procyon Corporation, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Procyon Corporation

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to stated material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report; and
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report.
4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) for the registrant issuer and have:
  - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
  - (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
  - (a) all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
  - (b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: February 14, 2012

/s/ JAMES B. ANDERSON

James B. Anderson, Chief Financial Officer

Exhibit 32.1

CERTIFICATION PURSUANT TO 18 U.S.C. §1350,  
AS ADOPTED PURSUANT TO SECTION 906  
OF THE SARBANES-OXLEY ACT OF 2002

*In connection with the Quarterly Report of Procyon Corporation (the "Company") on Form 10-Q for the period ended December 31, 2011, as filed with the Securities and Exchange Commission on the date hereof (the "Report"), we, the undersigned Chief Executive Officer and Chief Financial Officer of the Company, do each certify, to our knowledge, pursuant to 18 U.S.C. § 1350, as adopted pursuant to § 906 of the Sarbanes-Oxley Act of 2002, that:*

- (1) The Report fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
- (2) The information contained in the Report fairly presents, in all material respects, the financial condition and result of operations of the Company. Dated: February 14, 2012

/s/ REGINA W. ANDERSON

Regina W. Anderson Chief Executive Officer

/s/ JAMES B. ANDERSON

James B. Anderson, Chief Financial Officer