

SECURITIES AND EXCHANGE COMMISSION

FORM 10QSB

Optional form for quarterly and transition reports of small business issuers under section 13 or 15(d)

Filing Date: **2001-08-03** | Period of Report: **2001-06-30**
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FILER

ZEON CORP /CO/

CIK: **796513** | IRS No.: **840827610** | State of Incorpor.: **CO** | Fiscal Year End: **1231**
Type: **10QSB** | Act: **34** | File No.: **033-06859-D** | Film No.: **1697513**
SIC: **3990** Miscellaneous manufacturing industries

Mailing Address
1500 CHERRY ST
LOUISVILLE CO 80027

Business Address
1500 CHERRY ST
LOUISVILLE CO 80027
3036669400

U.S. SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-QSB

Quarterly Report Under Section 13 or 15(d) of the Securities Exchange Act of 1934 For the quarterly period ended June 30, 2001

Commission File Number 33-6859-D

ZEON Corporation

(Exact name of registrant as specified in its charter)

Colorado

84-0827610

(State or other jurisdiction of incorporation or organization)

(I.R.S. Employer Identification Number)

1500 Cherry Street

Louisville, CO

80027

(Address of principal executive offices)

(Zip Code)

(303) 666-9400

(Registrant's telephone number including area code)

(Former name, former address and former fiscal year if changed since last reported)

Check whether the issuer (1) filed all reports required to be filed by Section 12, 13 or 15(d) of the Securities Exchange Act of 1934 during the past 12 months (or for such 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

Number of shares of Common Stock Outstanding at June 30, 2001

Common Stock, No Par Value

344,363

(Class)

(Number of Shares)

Transitional Small Business Disclosure Format (check one):

Yes No

ZEON Corporation

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Part I - Financial Information

Item 1. Financial Statements

ZEON Corporation
BALANCE SHEETS
(UNAUDITED)

| | June 30, 2001 ----- | Dec. 31, 2000 ----- |
|--|------------------------|------------------------|
| CURRENT ASSETS | | |
| Cash | \$ 226,008 | \$ 134,478 |
| Trade Receivables, Net of Allowance for Doubtful Accounts | 936,315 | 717,161 |
| Inventories | 578,823 | 1,022,963 |
| Prepaid Inventory | -0- | 106,648 |
| Prepaid Expenses and Other | 116,207 ----- | 147,373 ----- |
| TOTAL CURRENT ASSETS | 1,857,353 | 2,128,623 |

| | | |
|---|--------------|--------------|
| Property and Equipment (net of accumulated depreciation and amortization) | 153,088 | 149,257 |
| Other | 37,256 | 26,649 |
| | ----- | ----- |
| TOTAL NON-CURRENT ASSETS | 190,344 | 175,906 |
| | | |
| TOTAL ASSETS | \$ 2,047,697 | \$ 2,304,529 |
| ----- | ----- | ----- |

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ZEON Corporation
BALANCE SHEETS (Continued)
(UNAUDITED)

| | June 30, 2001 | Dec. 31, 2000 |
|--|---------------|---------------|
| | ----- | ----- |
| CURRENT LIABILITIES | | |
| Accounts Payable | \$ 279,813 | \$ 648,181 |
| Accrued Expenses | 322,993 | 188,514 |
| Customer Deposits | 39,497 | 15,450 |
| Line of Credit | 147,845 | 344,211 |
| Current Portion of Long-Term Debt | 20,967 | 20,967 |
| | ----- | ----- |
| TOTAL CURRENT LIABILITIES | 811,115 | 1,217,323 |
| | | |
| Long-Term Debt (net of current portion) | 53,911 | 64,406 |
| | ----- | ----- |
| TOTAL LIABILITIES | 865,026 | 1,281,729 |
| | ----- | ----- |
| Shareholders Equity: | | |
| Common stock, no par, \$.10 stated value; authorized 100,000,000; issued 344,363 and 344,523 | | |
| June 30, 2001 and December 31, 2000 | 34,433 | 34,452 |
| | | |
| Capital in Excess of Stated Value | 925,287 | 925,747 |
| Retained Earnings | 222,951 | 62,601 |
| | ----- | ----- |

TOTAL SHAREHOLDERS EQUITY

1,182,671

1,022,800

TOTAL LIABILITIES AND
SHAREHOLDERS EQUITY

\$ 2,047,697

\$ 2,304,529

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ZEON Corporation
STATEMENT OF OPERATIONS
(UNAUDITED)

| | Three Months Ended June 30, 2001 ----- | Three Months Ended June 30, 2000 ----- |
|---|--|--|
| Net Sales | \$ 2,158,352 | \$ 1,468,174 |
| Cost of Sales | 1,529,114 ----- | 1,137,126 ----- |
| Gross Profit | 629,238 | 331,048 |
| Operating Expenses: | | |
| Selling | 38,543 | 145,856 |
| General | 324,826 | 169,088 |
| Research & Development | 48,791 ----- | 57,755 ----- |
| | 512,160 ----- | 372,699 ----- |
| Income (Loss) From Operations | 117,078 | (41,651) |
| Other Income (Expenses): | | |
| Interest Expense | (15,885) | (10,541) |
| Interest Income | 794 | 905 |
| Other Income (Expenses) | -0- ----- | 10,081 ----- |
| | (15,091) | 445 |
| Income Taxes | 40,678 ----- | -0- ----- |
| Net Income (Loss) | \$ 61,309 ----- | \$ (41,206) ----- |
| Basic and Diluted Earning per share: | | |
| Net Income (Loss) | \$.18 | \$ (.12) |

Weighted Average Common
Shares Outstanding

344,520

346,000

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ZEON Corporation
STATEMENT OF OPERATIONS
(UNAUDITED)

| | Six Months Ended June 30, 2001 | Six Months Ended June 30, 2000 |
|---|-----------------------------------|-----------------------------------|
| Net Sales | \$ 4,310,387 | \$ 2,524,238 |
| Cost of Sales | 3,137,966 | 1,847,873 |
| | ----- | ----- |
| Gross Profit | 1,172,421 | 676,365 |
| Operating Expenses: | | |
| Selling | 329,986 | 238,612 |
| General | 460,390 | 295,327 |
| Research & Development | 101,732 | 106,185 |
| | ----- | ----- |
| | 892,108 | 640,124 |
| | ----- | ----- |
| Income From Operations | 280,313 | 36,241 |
| Other Income (Expenses): | | |
| Interest Expense | (32,676) | (15,805) |
| Interest Income | 1,297 | 943 |
| Other Income (Expenses) | -0- | 20,281 |
| | ----- | ----- |
| | (31,379) | 5,419 |
| Income Taxes | 88,584 | -0- |
| | ----- | ----- |
| Net Income | \$ 160,350 | \$ 41,660 |
| | ----- | ----- |
| Basic and Diluted Earning per share: | | |
| Net Income | \$.47 | \$.12 |
| | ----- | ----- |
| Weighted Average Common Shares Outstanding | 344,520 | 346,000 |

ZEON Corporation
STATEMENTS OF CASH FLOWS
(UNAUDITED)

<TABLE>
<CAPTION>

| | Six Months Ended June 30, 2001 ----- | Six Months Ended June 30, 2000 ----- |
|---|--|--|
| Cash Flows From Operating Activities: | | |
| <S> | <C> | <C> |
| Net Income | \$ 160,350 | \$ 41,660 |
| Adjustments to Reconcile Net Income to Net Cash Provided By (Used In) Operating Activities: | | |
| Depreciation & Amortization | 23,108 | 12,630 |
| Provisions for Losses on Accounts Receivable | 9,000 | 6,500 |
| Change in Operating Assets & Liabilities: | | |
| Decrease (Increase) in Accts Receivable (228,154) | (395,629) | |
| Decrease (Increase) in Inventory | 444,140 | (363,167) |
| Decrease (Increase) in Prepaid Assets | 137,814 | 101,849 |
| Increase (Decrease) in Accts Payable | (368,368) | (44,100) |
| Increase (Decrease) in Customer Deposits 24,047 | 525,075 | |
| Increase (Decrease) in Accrued Expenses 134,479 | (45,455) | |
| | ----- | ----- |
| TOTAL ADJUSTMENTS: | 176,066 | (202,297) |
| Net Cash Provided By (Used In) Operating Activities: | 336,416 | (160,637) |
| Cash Flows From Investing Activities: | | |
| Purchase of Capital Assets | (37,545) | (36,418) |
| | ----- | ----- |
| Net Cash Provided by (Used In) Investing Activities: | (37,545) | (36,418) |
| Cash Flows From Financing Activities: | | |
| Purchase of Common Stock | (480) | (402) |
| Proceeds from Equipment Loan | -0- | 76,790 |
| Loan Payments | (10,495) | (6,286) |
| Proceeds from Line of Credit | 1,708,167 | 1,202,039 |
| Line of Credit Payments | (1,904,533) | (603,886) |
| | ----- | ----- |
| Net Cash Provided By (Used In) Financing Activities: | (207,341) | 668,255 |
| Net Increase (Decrease) In Cash: | 91,530 | 471,200 |
| Cash At Beginning of Period: | 134,478 | 145,521 |

</TABLE>

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ZEON Corporation
NOTES TO FINANCIAL STATEMENTS

1. Summary of significant accounting policies:

The financial statements included herein are presented in accordance with the requirements of Form 10-QSB and consequently do not include all of the disclosures normally made in the registrant's annual Form 10-KSB filing. These financial statements should be read in conjunction with the financial statements and notes thereto included in ZEON Corporation's Annual Report and Form 10-KSB filed on March 26, 2001 for the fiscal year 2000.

In the opinion of management, the unaudited financial statements reflect all adjustments of a normal recurring nature necessary to present a fair statement of the results of operations for the respective interim periods. The year-end balance sheet data was derived from audited financial statements, but does not include all disclosures required by generally accepted accounting principles.

2. Inventories:

Inventories consist of the following:

| | June 30, 2001 | December 31, 2000 |
|-----------------|------------------|----------------------|
| | ----- | ----- |
| Finished Goods | \$ 462,514 | \$ 855,879 |
| Work-in-process | 14,246 | 13,007 |
| Raw Materials | 102,063 | 154,077 |
| | ----- | ----- |
| | \$ 578,823 | \$ 1,022,963 |
| | ----- | ----- |

3. Notes payable and long-term debt:

The Company has a line-of-credit/letter-of-credit commitments from its bank for borrowings of up to \$2,000,000, with interest on any borrowing at 1% above the bank's reference rate to be paid monthly. The loan commitments, if exercised, are collateralized by trade receivables, inventories, property and equipment and intangibles. Under the terms of the agreement, the Company is subject to certain restrictions, which include, among other things, restrictions on borrowings and dividend payments. At June 30, 2001 and December 31, 2000, \$147,845 and \$344,211 were outstanding under the line of credit agreements, respectively.

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ZEON Corporation
NOTES TO FINANCIAL STATEMENTS

A Company vehicle was purchased and financed with a \$36,000 loan. Terms of the debt are five years and an 8 1/4% interest rate.

Newly acquired equipment was financed in March 2000 with a \$76,790 loan. Terms of the debt are five years and an interest rate at the bank's reference rate plus 1%.

4. Commitments and related party transactions:

The Company leases its primary manufacturing and office facilities from an entity in which the Company's president is a 50% partner. The lease requires monthly payments of approximately \$17,520 and expires February 2010 with an option for one five-year renewal period. The Company is responsible for maintenance and operating costs.

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Item 2.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF
FINANCIAL CONDITION AND RESULTS OF OPERATIONS:

Factors That May Affect Operating Results

The statements contained in this Form 10-QSB that are not purely historical are forward looking statements within the meaning of federal securities laws, including statements regarding the Company's expectations, hopes, intentions or strategies regarding the future. All forward looking statements included in this document are based on information available to the Company on the date hereof, and the Company assumes no obligation to update any such forward looking statements. It is important to note that the Company's actual results could differ materially from those in such forward-looking statements.

Financial Condition:

The liquidity of ZEON Corporation remains adequate, with a current ratio of 2.3 to 1 as of June 30, 2001, and 1.8 to 1 as of December 31, 2000. With a sales increase of 71% over last year's first six months, trade receivables have increased by \$228,154. During the first half of 2001, the Company borrowed \$1,708,167 and repaid \$1,904,533 from its line of credit (LOC). The LOC is used primarily for funding payments to the Company's oversea suppliers who are instrumental in supplying for the additional business. The net reduction in LOC came from funds from operations, including the collection of receivables and concurrent inventory reduction (Inventory was reduced by \$444,140 or 43% since year-end in a planned effort to improve inventory management and turns.) Capital expenditures of \$37,545 were incurred to enhance the Company website and production tooling. Liquidity from on-going operations and the Company's line of credit is considered adequate to meet the Company's immediate cash requirements.

Results of Operations:

| | THREE MONTHS ENDED JUNE 30, | |
|----------------|-----------------------------|--------------|
| | 2001 | 2000 |
| | ----- | ----- |
| Sales: | \$ 2,158,352 | \$ 1,468,174 |
| Income (Loss): | 61,309 | (41,206) |

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MANAGEMENT'S DISCUSSION AND ANALYSIS OF
FINANCIAL CONDITION AND RESULTS OF OPERATIONS:

With the sales increase of 47% over 2000's second quarter and higher margins on certain of the increased sales, gross profit percentage increased 6.7 points to 29.2%. The 2001 second quarter additional sales primarily from beverage business and resulting higher margin more than offset the additional building costs. (The Company expanded into additional facilities in early second quarter of 2000 to accommodate the additional sales volume.) Operating expenses increased by \$139,500 over last year's second quarter.

Selling Expense decreased from \$145,900 to \$138,500 from 2000's second quarter to 2001's second quarter. The primary contributors to this decrease were reduced customer service costs (43%) and less commissions (57%) on the additional business.

Current second quarter General and Administrative Expenses increased \$156,000 over the same period last year. Salary changes and incentive accruals (\$183,000) were partially offset by a reduction in consulting expense (\$27,000). In 2000, consulting was incurred to address special information and coordination requirements of the additional beverage business segment.

Research and Development Expense declined from \$57,800 last year's second quarter to \$48,800 for second quarter 2001. Lower prototype costs and the absence of (2000) hiring costs of graphic designer accounted for the decrease.

Results of operations for the Six months ending June 30, 2001 and 2000

| | SIX MONTHS ENDED JUNE 30, | |
|---------|---------------------------|-------------|
| | 2001 | 2000 |
| | ----- | ----- |
| Sales: | \$4,310,387 | \$2,524,238 |
| Income: | 160,350 | 41,660 |

Sales for 2001 first half rose 71% from 2000's first half. Gross profit increased slightly to 27.2% for 2001 first half. With slightly higher margins for the additional volume, the fixed costs related to expanded facilities were more than offset.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF
FINANCIAL CONDITION AND RESULTS OF OPERATIONS:

Selling expenses increased by 38% percent over first half 2000. The \$91,400 increase resulted from commissions on additional beverage business and convention related costs.

General and Administrative expenses increased \$165,000 over same period last year. The 2001 additional expenses of salary changes and incentive accruals (\$188,000) were partially offset by the absence of consulting costs (\$23,000) that had been incurred in 2000.

Research and development decreased by \$4,000. Last year's hiring costs of a graphic designer were not incurred in 2001.

PART II-OTHER INFORMATION

Item 4. Submission of matters to a vote of Security-Holders

None.

Item 5. Other information

The Company will have its annual shareholders' meeting on September 7, 2001.

Item 6. Exhibits and Reports on Form 8-K

Part A. None

Part B. No reports on Form 8-K have been filed for the quarter ended June 30, 2001.

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

Date: August 14, 2001

/s/ T. Bryan Alu

T. Bryan Alu
President

/s/ R.G. Routt

R. G. Routt
Corporate Controller