

Zolon Corp
Form 10-Q
August 19, 2010

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

(Mark One)

QUARTERLY REPORT UNDER SECTION 13 OR 15(d) OF THE SECURITIES
EXCHANGE ACT OF 1934

For the quarterly period ended June 30, 2010

TRANSITION REPORT UNDER SECTION 13 OR 15(d) OF THE EXCHANGE
ACT

For the transition period from _____ to _____

Commission File Number 33-42498

ZOLON CORPORATION

(Exact name of registrant as specified in its charter)

Florida
(State or other jurisdiction of
incorporation or organization)

65-0254624
(IRS Employer
Identification No.)

2650 Biscayne Boulevard, Miami, Florida 33137
(Address of principal executive offices)

(305) 937-2000
(Registrant's telephone number, including area code)

Indicate by checkmark 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 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

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

Edgar Filing: Zolon Corp - Form 10-Q

Non-accelerated filer

(Do not check if a smaller reporting company)

Smaller reporting
company

Indicate by checkmark whether the registrant is a shell company (as defined in Rule 126.2 of the Exchange Act). Yes No

The number of shares of common stock outstanding as of August 11, 2010 was 33,150,250.

Table of Contents

TABLE OF CONTENTS

PART I. FINANCIAL INFORMATION

Item 1.	<u>Financial Statements</u>	3
	<u>Consolidated Balance Sheets</u>	3
	<u>Consolidated Statements of Operations</u>	4
	<u>Consolidated Statements of Changes in Stockholders' Equity (Deficit)</u>	5
	<u>Consolidated Statement of Cash Flows</u>	6
	<u>Notes to Consolidated Financial Statements</u>	7
Item 2.	<u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	11
Item 3.	<u>Quantitative and Qualitative Disclosures About Market Risk</u>	14
Item 4.	<u>Controls and Procedures</u>	14

Part II. OTHER INFORMATION

Item 1.	<u>Legal Proceedings</u>	15
Item 1a.	<u>Risk Factors</u>	15
Item 2.	<u>Unregistered Sales of Equity Securities and Use of Proceeds</u>	18
Item 3.	<u>Defaults Upon Senior Securities</u>	18
Item 4.	<u>Submission of Matters to a Vote of Security Holders</u>	18
Item 5.	<u>Other Information</u>	18
Item 6.	<u>Exhibits</u>	18
	<u>Signatures</u>	19

Table of Contents

PART I. FINANCIAL INFORMATION

Item 1. Financial Statements

ZOLON CORPORATION
CONSOLIDATED BALANCE SHEETS

	June 30, 2010	December 31, 2009
Assets:		
Current assets:		
Cash	\$ 128,032	\$ 1,286
Accounts receivable	5,342,668	
Other current assets	5,077	
Total current assets	5,475,777	1,286
Fixed assets:		
Furniture & fixtures, net	-	25,540
Total fixed assets	-	25,540
Other assets:		
Goodwill	3,282,675	-
Unbilled revenue	133,347	
Total other assets	3,416,022	-
Total assets	\$ 8,891,799	\$ 26,826
Liabilities and Stockholders' Equity (Deficit)		
Current liabilities:		
Accounts payable	\$ 97,466	
Accrued payroll	30,403	
Other	8,703	10,000
Current notes payable	3,217,832	22,007
Accounts receivable factoring	3,373,697	
Total current liabilities	6,728,101	32,007
Total liabilities	6,728,101	32,007
Stockholder's equity (deficit)		
Common stock	3,182,211	3,150,211
Treasury stock	200,000	200,000
Additional paid in capital	(329,793)	(2,216,793)
Accumulated deficit	(888,720)	(1,138,599)
Total stockholders' equity(deficit)	2,163,698	(5,181)
Total liabilities and stockholders' equity (deficit)	\$ 8,891,799	\$ 26,826

Table of Contents

ZOLON CORPORATION
CONSOLIDATED STATEMENTS OF OPERATIONS

	Three months ended June 30,		Six months ended June 30,	
	2010	2009	2010	2009
Revenue	\$ 4,324,814	\$ 12,475	\$ 4,336,539	\$ 111,409
Cost of revenue	3,648,096		3,648,096	58,604
Gross margin	676,718	12,475	688,443	52,805
Operating expenses				
Selling, general & administrative	199,862	40,736	218,967	53,602
			-	
Total operating expenses	199,862	40,736	218,967	53,602
Income from operations	\$ 476,856	\$ (28,261)	\$ 469,476	\$ (797)
Interest expenses	226,978			
Net income	249,878	(28,261)	469,476	(797)
Net income (loss) per common share-basic & diluted	0.0071	nil	0.0134	nil
Weighted common shares outstanding -basic and diluted	35,150,211	2,800,324,194	35,150,211	2,790,324,194

Table of Contents

ZOLON CORPORATION
CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS (DEFICIT)

	Common Stock		Additional Paid in Capital	Accumulated Deficit	Treasury Stock	Total
	Shares	Amount				
Balance at March 31, 2010	3,150,211	\$3,150,211	\$(2,216,793)	\$(1,138,599)	\$200,000	\$(5,181)
Common shares issuance pursuant to acquisitions	32,000,000	\$32,000	\$1,887,000		\$-	\$1,919,000
Net Income				\$249,879		\$249,879
Balance at June 30, 2010	35,150,211	3,182,211	(32,793)	(888,720)	200,000	2,163,698

Table of Contents

ZOLON CORPORATION
CONSOLIDATED STATEMENT OF CASH FLOWS

	For the Six Months Ended June 30,	
	2010	2009
Cash flows from operating activities:		
Net income (loss)	\$ 249,878	\$ (797)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation		\$ 2,320
(Increase) decrease in:		
Accounts receivable	\$ (5,342,668)	
Other current assets	\$ (5,077)	
Security deposit		\$ 4,420
Increase (Decrease) in:		
Accounts payable	\$ 97,466	\$ (1,715)
Accrued compensation	30,403	\$ (9,917)
Notes payable and other current liabilities	\$ 6,568,225	
Net cash (used) in operating activities	\$ 1,598,227	\$ (5,689)
Cash flows from investing activities: Change in other assets, (Goodwill)	\$ (3,416,022)	
Disposition of fixed assets, net	25,541	
Net cash provided (used) in investing activities	\$ (3,390,481)	
Cash flows from financing activities:		
Proceeds from share issuance	\$ 1,919,000	\$ 5,000
Proceeds from debt issuance	\$	
Proceeds from accounts receivable factoring	\$	
Net cash provided by financing activities	\$ 1,919,000	\$ 5,000
Net increase in cash	\$ 126,746	\$ (689)
Cash at beginning of period	\$ 1,286	\$ 3,351
Cash at end of period	\$ 128,032	\$ 2,662
Supplemental Disclosure of Cash Flow Information:		
Cash paid during the period for:		
Interest	\$ 226,978	
Income taxes		
Noncash investing and financing activities are as follows:		
Common stock issued in conjunction with acquisitions	\$ 1,919,000	

Table of Contents

ZOLON CORPORATION
 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
 (UNAUDITED)

NOTE 1 – NATURE OF ORGANIZATION

Zolon Corporation (ZLON) was incorporated by the Florida Department of State on May 9, 1990 as Sun Express Group, Inc. for the purpose of obtaining air carrier certification. The Company's Board of Directors elected in July, 1993 to suspend certification efforts, dispose of or abandon existing assets and seek settlement of existing indebtedness. In July 1994, the Company completed a sale of its assets to Conquest Sun Airlines Corp. and Air Tran, Inc. (a spin-off subsidiary of Conquest Sun Airlines Corp.) The Company remained dormant until August, 2001 when the Company became involved in the motion picture industry and changed its name to Sun Network Group, Inc. In June, 2005 current management completed a reverse acquisition with the Company, changed our business focus to emerging technologies, replaced prior management and changed the Company's name to Aventura VoIP Networks, Inc. On December 24, 2009 the Company changed its name to Zolon Corporation. In May 2010, The Company changed its primary business model as indicated in that certain Current Report under Form 8-K filed May 27, 2010.

NOTE 2 – ACQUISITIONS

On May 21, 2010, the Company entered into an agreement with StoneGate Holdings, Inc (Seller) to acquire 100% of the shares of two entities owned by the Seller. The purchase was consummated on May 28, 2010 and it was agreed that the Company would effectuate the acquisition establishing ownership and operation control of the Seller's two entities effective April 1, 2010.

The beginning balance sheets of the acquired entities at 4/1/2010 were:

VSG Acquisition Corp	
Cash	\$ 11,200
Accounts receivable	4,957,138
Other current assets	38,772
Other assets	2,614,013
Total Assets	\$7,621,123

Liabilities	
Accounts payable	\$7,043
Other current	7,350
Short term notes payable	6,106,730
Total Liabilities	\$6,121,123
Equity	1,500,000
Total Liabilities & Equity	\$7,621,123

Resource Mine Acquisition	
Cash	\$-
Accounts receivable	37,299
Other current assets	-
Other assets	718,085
Total Assets	\$755,384

Edgar Filing: Zolon Corp - Form 10-Q

Liabilities	
Accounts payable	\$88,333
Other current	-
Short term notes payable	248,051
Total Liabilities	\$336,384
Equity	419,000
Total Liabilities & Equity	\$755,384

Goodwill recorded on the company's books on April 1, 2010 was \$2,564,590 and \$718,085 for VSG Acquisition Corp and Resource Mine Acquisition, respectively.

7

Table of Contents

Management's Plans

Zolon Corporation is presently focused in the Information Technology (IT) and Software enabled service areas which it has begun to enter through a series of strategic business combinations. The Company intends to target companies in the Financial Services, Health Care and Telecom sectors to create a diversified portfolio. The Company continues to actively pursue and negotiate for business acquisitions and/or combination opportunities with several targets and intends to consummate transactions in the near future to further execute our business strategy.

The summary of business intentions set forth in the Current Report under Form 8-K filed May 27, 2010 is incorporated herein by reference and these Notes should be read in light thereof.

NOTE 3 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Interim reporting

While the information presented in the accompanying interim three months financial statements is unaudited, it includes all adjustments, which are, in the opinion of management, necessary to present fairly the financial position, results of operations and cash flows for the interim periods presented in accordance with accounting principles generally accepted in the United States of America. These interim financial statements follow the same accounting policies and methods of their application as the December 31, 2009 annual financial statements of Zolon Corporation. All adjustments are of a normal recurring nature. It is suggested that these interim financial statements be read in conjunction with the Company's December 31, 2009's annual financial statements.

Operating results for the three months ended June 30, 2010 are not necessarily indicative of the results that can be expected for the year ended December 31, 2010.

Recent Accounting Pronouncements

In April 2010, the FASB issued Accounting Standard Update No. 2010-12. "Income Taxes" (Topic 740). ASU No.2010-12 amends FASB Accounting Standard Codification subtopic 740-10 Income Taxes to include paragraph 740-10-S99-4. On March 30, 2010 The President signed the Health Care & Education Affordable Care Act reconciliation bill that amends its previous Act signed on March 23, 2010. FASB Codification topic 740, Income Taxes, requires the measurement of current and deferred tax liabilities and assets to be based on provisions of enacted tax law. The effects of future changes in tax laws are not anticipated." Therefore, the different enactment dates of the Act and reconciliation measure may affect registrants with a period-end that falls between March 23, 2010 (enactment date of the Act), and March 30, 2010 (enactment date of the reconciliation measure). However, the announcement states that the SEC would not object if such registrants were to account for the enactment of both the Act and the reconciliation measure in a period ending on or after March 23, 2010, but notes that the SEC staff "does not believe that it would be appropriate for registrants to analogize to this view in any other fact patterns." The adoption of this guidance has not had and is not expected to have a material impact on the Company's consolidated financial statements.

In April 2010, the FASB issued Accounting Standard Update No. 2010-13 "Stock Compensation" (Topic 718). ASU No.2010-13 provides amendments to Topic 718 to clarify that an employee share-based payment award with an exercise price denominated in the currency of a market in which a substantial portion of the entity's equity securities trades should not be considered to contain a condition that is not a market, performance, or service condition. Therefore, an entity would not classify such an award as a liability if it otherwise qualifies as equity. The amendments in this Update are effective for fiscal years, and interim periods within those fiscal years, beginning on or after December 15, 2010. The amendments in this Update should be applied by recording a cumulative-effect adjustment to

the opening balance of retained earnings. The cumulative-effect adjustment should be calculated for all awards outstanding as of the beginning of the fiscal year in which the amendments are initially applied, as if the amendments had been applied consistently since the inception of the award. The cumulative-effect adjustment should be presented separately. Earlier application is permitted. The adoption of this guidance has not had and is not expected to have a material impact on the Company's consolidated financial statements.

Table of Contents

In April 2010, the FASB issued Accounting Standard Update No. 2010-17. “Revenue Recognition-Milestone Method” (Topic 605) ASU No.2010-17 provides guidance on defining a milestone and determining when it may be appropriate to apply the milestone method of revenue recognition for research or development transactions. An entity often recognizes these milestone payments as revenue in their entirety upon achieving a specific result from the research or development efforts. A vendor can recognize consideration that is contingent upon achievement of a milestone in its entirety as revenue in the period in which the milestone is achieved only if the milestone meets all criteria to be considered substantive. Determining whether a milestone is substantive is a matter of judgment made at the inception of the arrangement. The ASU is effective for fiscal years and interim periods within those fiscal years beginning on or after June 15, 2010. Early application is permitted. Entities can apply this guidance prospectively to milestones achieved after adoption. However, retrospective application to all prior periods is also permitted. The adoption of this guidance has not had and is not expected to have a material impact on the Company’s consolidated financial statements.

In April 2010, the FASB issued Accounting Standard Update No. 2010-18. “Receivables” (Topic 310). ASU No.2010-18 provides guidance on accounting for acquired loans that have evidence of credit deterioration upon acquisition. Paragraph 310-30-15-6 allows acquired assets with common risk characteristics to be accounted for in the aggregated as a pool. Upon establishment of the pool, the pool becomes the unit of accounting. When loans are accounted for as a pool, the purchase discount is not allocated to individual loans; thus all of the loans in the pool accrete at a single pool rate (based on cash flow projections for the pool). Under subtopic 310-30, the impairment analysis also is performed on the pool as a whole as opposed to each individual loan. Paragraphs 310-40-15-4 through 15-12 establish the criteria for evaluating whether a loan modification should be classified as a troubled debt restructuring. Specifically paragraph 310-40-15-5 states that “a restructuring of a debt constitutes a troubled debt restructuring for purposes of this subtopic if the creditor for economic or legal reasons related to the debtor’s financial difficulties grants a concession to the debtor that it would not otherwise consider.” The ASU is effective for modification of loans accounted for within pools under subtopic 310-30 occurring in the first interim or annual period ending on or after July 15, 2010. The amendments are to be applied prospectively. Early application is permitted. The adoption of this guidance has not had and is not expected to have a material impact on the Company’s consolidated financial statements.

NOTE 4 – INVESTMENTS

Investments in securities of unaffiliated issuers represent holdings of less than 5% of the issuer’s voting common stock. Investments in and advances to affiliates are presented as (i) majority-owned, if holdings, directly or indirectly, represent over 50% of the issuer’s voting common stock, (ii) minority-owned other controlled affiliates if the holdings, directly or indirectly, represent over 25% and up to 50% of the issuer’s voting common stock and (iii) minority-owned other non-controlled affiliates if the holdings, directly or indirectly, represent 5% to 25% of the issuer’s voting common stock. Investments—other than securities represent all investments other than in securities of the issuer.

Investments in securities or other than securities of privately held entities are initially recorded at their original cost as of the date the Company obtained an enforceable right to demand the securities or other investment purchased and incurred an enforceable obligation to pay the investment price.

For financial statement purposes, investments are recorded at their fair value. Currently, readily determinable fair values do not exist for our investments and the fair value of these investments is determined in good faith by the Company’s Board of Directors who engaged independent valuation experts and ratified by the Company’s Board of Directors pursuant to a valuation policy and consistent valuation process. Due to the inherent uncertainty of these valuations, the estimates may differ significantly from the values that would have been used had a ready market for the investments existed and the differences may be material.

Realized gains (losses) from the sale of investments and unrealized gains (losses) from the valuation of investments are reflected in operations during the period incurred.

Table of Contents

NOTE 5 – EMPLOYMENT AGREEMENTS

As of June 30, 2010, the Company has approximately 125 employees, none of whom are under an employment agreement. No employee is represented by a union and the Company believes the relationship with its employees is good.

NOTE 6 – RELATED PARTY AND AFFILIATE TRANSACTIONS

The following disclosures comply with generally accepted accounting principles and the disclosure requirements under the Regulation S-X, Article 6, with regard to affiliate investments and transactions.

The Company acquired certain assets from parties who became affiliated with the Company in connection with the transactions. Given the process and timing, the transaction is considered a related-party transaction.

The Company licensed certain intellectual property to a related party in engage for past and current debt owed to that entity.

NOTE 7 – INTERNAL CONTROL

Controls and Procedures

As required by SEC rules, we have evaluated the effectiveness of the design and operation of our disclosure controls and procedures at the end of the period covered by this report. This evaluation was carried out under the supervision and with the participation of our management. Based on this evaluation, management has concluded that the design and operation of our disclosure controls and procedures are effective. There were no changes in our internal control over financial reporting or in other factors that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

Our disclosure controls and procedures are designed to ensure that information required to be disclosed by us in the reports that we file or submit under the Exchange Act is recorded, processed, summarized and reported, within the time periods specified in the SEC's rules and forms. Disclosure controls and procedures include, without limitation, controls and procedures designed to ensure that information required to be disclosed by us in the reports that we file under the Exchange Act is accumulated and communicated to our management, including our principal executive officer as appropriate, to allow timely decisions regarding required disclosure.

NOTE 8 – SALES OF STOCK

During the Second Quarter ending June 30, 2010, the Company sold and issued 32,000,000 shares to one entity for the rights to acquire certain assets which entity was an accredited investor, in a private transaction and therefore exempt from registration.

Table of Contents

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operation

The following discussion should be read in conjunction with our financial statements and notes thereto appearing elsewhere in this report.

CAUTIONARY STATEMENT REGARDING FORWARD-LOOKING INFORMATION

This Form 10-Q for the quarter ended June 30, 2010 contains forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended. Forward-looking statements may be identified by the use of forward-looking terminology, such as "may", "shall", "could", "expect", "estimate", "anticipate", "predict", "probable", "possible", "should", "continue", or similar terms those terms or the negative of those terms. The forward-looking statements specified in the following information have been compiled by our management on the basis of assumptions made by management and are considered by management to be reasonable. Our future operating results, however, are impossible to predict and no representation, guaranty, or warranty is to be inferred from those forward-looking statements.

The assumptions used for purposes of the forward-looking statements specified in the following information represent estimates of future events and are subject to uncertainty as to possible changes in economic, legislative, industry, and other circumstances. As a result, the identification and interpretation of data and other information and their use in developing and selecting assumptions from and among reasonable alternatives require the exercise of judgment. To the extent that the assumed events do not occur, the outcome may vary substantially from anticipated or projected results, and, accordingly, no opinion is expressed on the achievability of those forward-looking statements. No assurance can be given that any of the assumptions relating to the forward-looking statements specified in the following information are accurate, and we assume no obligation to update any such forward-looking statements.

RECENT DEVELOPMENTS

The Company recently completed some significant acquisitions that are reflected in the accompanying financial statements. The significance of these recent acquisitions includes certain factors which represent risks and also require accentuation and explanation. These issues are as follows:

- The financial statements being reported in this Quarterly Report are based on assets recently acquired. The Company has a limited operating history with these assets, their management and the implementation of controls. There can be no assurance that the assets will continue to perform in the manner and to the degree indicated by the financial results disclosed for the recently-ended second quarter. The risks associated with recently-acquired assets are also discussed as a risk below.
- The transaction for the exchange of stock which resulted in the acquisition of the assets was the result of negotiations with parties who had, in connection with the transaction, had recently contractual rights to obtain a controlling interest. In that respect, the transaction may be considered as a related-party-transaction or the result of negotiations which were not at arm's length. Some of the parties involved in the negotiations are also now members of management. The risks associated with related-party-transactions are also discussed as a risk below.
- The financing arrangements to acquire the assets are subordinated to the senior lender and may result in a default in favor of the seller of the assets. The result of such a default would be that a related party could become a significant creditor of the Company holding a defaulted obligation which imparts greater control as a result of the default provision under such obligations. The risks associated with the relationship of the sellers of the assets are also discussed as a risk below.

Table of Contents

OPERATIONS
CONSOLIDATED STATEMENTS OF OPERATIONS

	For the Three Months Ended June 30, 2010 (unaudited)	For the Three Months Ended June 30, 2009 (unaudited)
REVENUES:		
Sales	\$4,324,814	12,475-
Less: cost of sales	\$3,648,096	-
Gross Profit	\$676,718	-
Gross margin	\$676,718	12,475
EXPENSES:		
General and Administrative	\$199,862	40,736
Interest and financing	226,9788	
Net Income	\$249,878	(28,261)
Net Income (loss) Per Common Share - \$0.007		
Basic and Diluted	(nil)	(nil)
Weighted Common Shares Outstanding -		
Basic and Diluted	35,150,211	2,800,324

Table of Contents

REVENUES

Sales for the three months ended June 30, 2010 were \$4,324,814 compared to sales for the three months ended June 30, 2009 of \$12,475. At the beginning of the second quarter the company acquired two business entities with established customers in the Financial, Health and Telecom services industries. The revenue generated for the second quarter is consulting income from these customers. The \$12,475 of income reported in the second quarter of 2009 is fee income. There was no fee income in the second quarter of 2010 due to the change in the company's business model.

OPERATING AND OTHER EXPENSES

Cost of revenue for the three months ended June 30, 2010 were \$3,648,096 compared to cost of revenue for the three months ended June 30, 2009 of \$0. The increase in cost of revenue is due to the Company's acquisition of two business entities at the beginning of the second quarter of 2010. The cost of revenue for the second quarter 2010 consists primarily of direct labor costs of employees providing consulting services for the Company.

Selling, general & administrative expenses for the three months ended June 30, 2010 were \$199,862 compared to operating expenses for the three months ended June 30, 2009 of \$40,736. The increase in operating expenses is due to the Company's acquisition of two business entities at the beginning of the second quarter 2010. These represent the SG&A expenses of the acquired entities for the full second quarter of 2010.

Financing expenses were \$226,978 for the three months ended June 30, 2010 compared to \$0 for the three months ended June 30, 2009. The increase in financing expenses is a result of interest expense generated from an accounts receivable factoring agreement and short term debt financing.

As a result of these factors, the Company reported net income of \$49,878 or \$0.007 per share for the three months ended June 30, 2010 as compared to net income of \$40,070 or \$.nil per share for the three months ended June 30, 2009.

LIQUIDITY AND CAPITAL RESOURCES

At June 30, 2010, the Company had assets exceeding liabilities by \$2,163,698 and an accumulated deficit of \$888,720.

We have no material commitments for capital expenditures.

Net cash from operations during the three months ended June 30, 2010 was \$1,598,2273. In the comparable period of June 30, 2009, the Company had net cash used of of \$5,689.

Cash provided used in investing activities for the three months ended June 30, 2010 was \$3,390,481 and no cash was provided or used by investing activities for the three months ended June 30, 2009.

The Company relies upon outside entities to finance its operations and provide capital for lending activities. A tightening of capital markets can reduce or eliminate funding sources resulting in a decrease in our liquidity and an inability to generate revenues from new lending activities.

Table of Contents

Off Balance Sheet Arrangements

There are no off balance sheet arrangements that have or are reasonably likely to have a current or future effect on our financial condition, changes in financial condition, revenues or expenses, results of operations, liquidity, capital expenditures or capital resources that are material to investors.

RESULTS OF OPERATIONS

For a discussion of factors that could impact operating results, see the section entitled “Risk Factors” in Item 1A, which is incorporated herein by reference.

CRITICAL ACCOUNTING POLICIES

A summary of significant accounting policies is included in Note 3 to the unaudited financial statements included elsewhere in this Report. We believe that the application of these policies on a consistent basis enables us to provide useful and reliable financial information about our operating results and financial condition.

Item 3. Quantitative and Qualitative Disclosures about Market Risk

The Company does not currently engage in transactions in derivative financial instruments or derivative commodity instruments. As of June 30, 2010, the Company’s financial instruments were not exposed to significant market risk due to interest rate risk, foreign currency exchange risk, commodity price risk or other relevant market risks, such as equity price risk.

However, as discussed elsewhere in this Form 10-Q, the Company may also be subject to the following market risk:

Interest Rate Risk

Our anticipated operations are expected to be leveraged by and sensitive to interest rates. To the extent we may borrow funds to finance our operations at variable rates, we may become subject to risks arising from interest rate fluctuations. Our potential exposure to interest rate risk arises primarily from changes in prime lending rates of commercial banks, which are in turn impacted by the policies and practices of the United States Federal Reserve Board, among other things.

Item 4. Controls and Procedures

Evaluation of disclosure controls and procedures. Our management evaluated, with the participation of our Chief Executive Officer (CEO) and Chief Financial Officer (CFO), the effectiveness of the design and operation of the Company's disclosure controls and procedures (as defined in Rules 13a - 15(e) or 15d - 15(e) under the Securities Exchange Act of 1934, as amended) as of the end of the period covered by this Quarterly Report on Form 10-Q. Based on this evaluation, the Company's management, including the CEO and CFO, concluded that the Company's disclosure controls and procedures were effective as of the end of the period covered by this Quarterly Report on Form 10-Q to ensure that information we are required to disclose in reports that we file or submit under the Securities Exchange Act of 1934 is accumulated and communicated to our management, including our principal executive and principal financial officers, as appropriate to allow timely decisions regarding required disclosure and that such information is recorded, processed, summarized and reported within the time periods specified in the Securities and Exchange Commission Rules and Forms.

Changes in internal control over financial reporting. There was no change in our internal control over financial reporting that occurred during the first quarter of fiscal 2009 that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

Table of Contents

PART II. OTHER INFORMATION

Item 1. Legal Proceedings

We are not currently subject to any legal proceedings, nor, to our knowledge, is any legal proceeding threatened against us. From time to time, we may be a party to certain legal proceedings in the ordinary course of business, including proceedings relating to the enforcement of our rights under contracts. While the outcome of these legal proceedings, if any, cannot be predicted with certainty, we do not expect that these proceedings will have a material effect upon our financial condition or results of operations.

Item 1A. Risk Factors

An investment in our common stock is highly speculative, involves a high degree of risk, and should be considered only by those persons who are able to bear the economic risk of their investment for an indefinite period. In addition to other information in this Quarterly Report on Form 10-Q, you should carefully consider the risks described below before investing in our publicly-traded securities. The risks described below are not the only ones facing us. Our business is also subject to the risks that affect many other companies, such as competition, technological obsolescence, labor relations, general economic conditions and geopolitical changes. Additional risks not currently known to us or that we currently believe are immaterial also may impair our business operations and our liquidity.

This is a highly speculative investment.

Ownership of our common stock is extremely speculative and involves a high degree of economic risk, which may result in a complete loss of your investment. Only persons who have no need for liquidity and who are able to withstand a loss of all or substantially all of their investment should purchase our common stock.

You will be diluted if we issue additional common stock, options to purchase common stock and/or debt or equity securities convertible into common stock.

Future offerings of debt securities, which would be senior to our common stock upon liquidation, or equity securities, which could dilute our existing stockholders and be senior to our common stock for the purposes of distributions, may have an adverse effect on the value of our common stock.

In the future, we may attempt to increase our capital resources by making additional offerings of equity or debt securities, including medium-term notes, senior or subordinated notes and classes of preferred stock or common stock. Upon our liquidation, holders of our debt securities, if any, and shares of preferred stock, if any, and lenders with respect to other borrowings, if any, will receive a distribution of our available assets prior to the holders of our common stock. Additional equity offerings by us reduce the value of our common stock. Any preferred stock we may issue would have a preference on distributions that could limit our ability to make distributions to the holders of our common stock. Because our decision to issue securities in any future offering will depend on market conditions and other factors beyond our control, we cannot predict or estimate the amount, timing or nature of our future offerings. Thus, our stockholders bear the risk of our future offerings reducing the market price of our common stock and diluting their stock holdings in the Company.

Table of Contents

We may be subject to various industry-specific risks associated with our anticipated business operations.

Management has discretionary use of Company assets.

We continue to look for and investigate business opportunities that are consistent with our business plan, including further acquisitions. Management has broad discretion with respect to the acquisition of interests in companies that are consistent with our anticipated operations. Although management intends to apply any proceeds it may receive through the future issuance of stock or debt to acquire or operate suitable businesses, it will have broad discretion in allocating these funds. There can be no assurance that the management's use or allocation of such proceeds will allow it to achieve its business objectives.

We operate in a competitive market for acquisition and investment opportunities.

We compete for acquisitions with a large number of companies and investment funds. Many of our competitors may have greater resources than we do. Increased competition makes it more difficult for us to make acquisitions or investments at attractive prices. As a result of this competition, sometimes we may be precluded from making otherwise attractive acquisitions or investments. There can be no assurance that we will be able to identify, negotiate and consummate acquisitions of attractive companies in light of this competition.

Results may fluctuate and may not be indicative of future performance.

Our operating results may fluctuate and, therefore, you should not rely on current or historical period results to be indicative of our performance in future reporting periods. Factors that could cause operating results to fluctuate include, but are not limited to, variations in the costs of identifying, negotiating and consummating acquisitions of businesses consistent with our business plan; variations in and the timing of the recognition of net realized gains or losses and changes in unrealized appreciation or depreciation; the degree to which we encounter competition in our markets; and other general economic and operational circumstances.

Our common stock price may be volatile.

The trading price of our common stock may fluctuate substantially. The price of the common stock may be higher or lower than the price you pay for your shares, depending on many factors, some of which are beyond our control and may not be directly related to our operating performance. These factors include, but are not limited to, the following:

- price and volume fluctuations in the overall stock market from time to time;
- significant volatility in the market price and trading volume of securities of financial services companies;
- volatility resulting from trading in derivative securities related to our common stock including puts, calls, long-term equity anticipation securities ("LEAPs"), or short trading positions;
- actual or anticipated changes in our earnings or fluctuations in our operating results or changes in the expectations of securities analysts;
- general economic conditions and trends;
- loss of a major funding source; or

- departures of key personnel.

Table of Contents

OTC Bulletin Board.

Our common stock is quoted on the OTC Bulletin Board (“OTCBB”). The OTCBB is an inter-dealer, over-the-counter market that provides significantly less liquidity than the NASDAQ Stock Market or national or regional exchanges. Securities traded on the OTCBB are typically thinly traded, highly volatile, have fewer markets and are not followed by analysts. The SEC’s order handling rules, which apply to NASDAQ-listed securities, do not apply to securities quoted on the OTCBB. Quotes for stocks included on the OTCBB are not listed in newspapers. Therefore, prices for securities traded solely on the OTCBB may be difficult to obtain and holders of our common stock may be unable to sell their shares at any price.

Penny Stock Rules.

Trading in our securities will be subject to the “penny stock” rules for the foreseeable future. The SEC has adopted regulations that generally define a penny stock to be any equity security that has a market price of less than \$5.00 per share, subject to certain exceptions. These rules require that any broker-dealer who recommends our securities to persons other than prior customers and accredited investors must, prior to the sale, make a special written suitability determination for the purchaser and receive the purchaser’s written agreement to execute the transaction. Unless an exception is available, the regulations require the delivery, prior to any transaction involving a penny stock, of a disclosure schedule explaining the penny stock market and the risks associated with trading in the penny stock market. In addition, broker-dealers must disclose commissions payable to both the broker-dealer and the registered representative and current quotations for the securities they offer. The additional burdens imposed upon broker-dealers by such requirements may discourage broker-dealers from recommending transactions in our securities, which could severely limit the liquidity of our common stock and consequently adversely affect the market price of our common stock.

Changes in the law or regulations that govern us could have a material impact on us or our operations.

We are regulated by the SEC and impacted by regulations of certain state regulatory agencies and self-regulatory organizations. Any change in the law or regulations that govern our business could have a material impact on us or our operations. Laws and regulations may be changed from time to time, and the interpretations of the relevant laws and regulations also are subject to change, which may have a material effect on our operations.

No dividends.

Holders of our securities will only be entitled to dividends when, as and if declared by our Board of Directors. We do not expect to have a cash surplus available for dividends in the foreseeable future.

Recently Acquired Assets.

A significant percentage of the income of the Company is the result of performance of assets which were recently acquired in transactions discussed in this Quarterly Report. The assets consist of relationships and contracts and employment relationships and proprietary skills and procedures to perform consulting services all of which were owned and managed and exploited by others prior to acquisition by the Company. While the management and exploitation of similar assets are skills with which members of management have experience, the members of management have not had experience in the management and exploitation of these assets nor have the members of management operated as a team in the current Company setting. As a result, there can be no assurance that management will be successful exploiting and managing the assets that were recently acquired. Additionally, because the assets were recently acquired, the process of acquiring such assets, reformulating and incorporating such assets into the current environment of the Company. The assets depend on management, sales and efforts that members of

management believe they can provide but there is can be no assurance that management will be successful in providing such management and sales expertise as promote the continued success of the assets. Assets such as those acquired may be rendered less valuable or less productive as a result of changes in economic conditions, market conditions, client needs, technology paradigms on which consulting services are based all of which suggest that assets which performed at one level in a previous period may not continue to perform at the same level. The lack of a legacy of history of success is a risk that the assets will not perform in the future as they did in the previous quarter.

Table of Contents

Related Party Transactions

Sellers of assets acquired in the recent transactions discussed in this Quarterly Report are related parties as discussed elsewhere in this Quarterly Report. As a result, the related parties entered into negotiations that cannot be considered “arms-length” and therefore cannot be considered as indicative of fair market value. Fair market value is generally defined as what a willing buyer is willing to pay a willing seller in a transaction negotiated at arm’s length, both parties being fully informed of the relevant factors. Therefore, the price paid may not be assumed to be the fair market value for the assets and may not be assumed to correspond with the value for financing or resale if these become necessary in the future.

Subordinated Debt

The sellers of assets acquired in the recent transactions discussed in this Quarterly Report are related parties as discussed elsewhere in this Quarterly Report. The arrangement to acquire the assets included subordinated debt. This debt is typically offered at a higher rate commensurate with the return which may include a premium being paid to the related parties above what other lenders might have charged if alternative financing had been available. Additionally, the related parties, who hold special rights and access as a result of those relationships, are also creditors and hold the rights of creditors generally but, as a result of the fact that the debt is of a higher-risk, higher-return nature, the likelihood of default may be considered greater. Defaults of debt generally give creditors additional rights of enforcement. These enhanced rights will inure to the benefit of the sellers, now related parties to the Company. The result of such a default would be that a related party could become a significant creditor of the Company holding a defaulted obligation which imparts greater control as a result of the default provision under such obligations. The enhanced position of control would be to the detriment of the rights of other shareholders. The relationship of the creditors should be considered in light of the rights associated with the debt and defaults and considered a risk.

We cannot assure that we will generate sufficient cash flow from operations or obtain additional financing to meet our future obligations. The financial statements do not include any adjustments to reflect the possible effects on recoverability and classification of assets or the amounts and classification of liabilities, which may result from the inability of the Company to continue as a going concern.

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds

During the Second Quarter ending June 30, 2010, the Company sold and issued 32,000,000 shares to one entity for the rights to acquire certain agreed-upon assets to be valued at \$8,376,507 by the parties, which entity was an accredited investor, in a private transaction and therefore exempt from registration.

Item 3. Defaults Upon Senior Securities

None.

Item 4. Submission of Matters to a Vote of Security Holders

None.

Item 5. Other Information

None.

Item 6. Exhibits

Item 601 of Regulation S-K

Exhibit No.:	Exhibit
31.1	<u>Rule 13a-14(a)/15d-14(a) Certification of Chief Executive Officer of the Company</u>
31.2	<u>Rule 13a-14(a)/15d-14(a) Certification of Chief Financial Officer of the Company</u>
32.1	<u>Section 1350 Certification by Chief Executive Officer and Chief Financial Officer</u>

18

Table of Contents

SIGNATURES

In accordance with the requirements of the Exchange Act, the registrant caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

ZOLON CORPORATION

August 18, 2010

By:

/s/ Dhru Desai
Dhru Desai
Chief Financial Officer, President, and
Director

Table of Contents