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CORDIA CORP  
Form 10QSB  
May 17, 2004

UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
WASHINGTON, DC 20549

FORM 10-QSB

(Mark One)

Quarterly report under Section 13 or 15(d) of the Securities exchange Act  
of  
1934

For the quarterly period ended March 31, 2004

Transition report under Section 13 or 15(d) of the Exchange Act

For the transition period from \_\_\_\_\_ to \_\_\_\_\_.

Commission File Number: 33-23473

CORDIA CORPORATION

-----  
(Exact Name of Small Business Issuer as Specified in Its Charter)

Nevada

11-2917728

-----  
(State or Other Jurisdiction of  
Incorporation or Organization)

-----  
(I.R.S. Employer Identification No.)

2500 Silverstar Road, Suite 500, Orlando, Florida 32804

-----  
(Address of Principal Executive Offices)

866-777-7777

-----  
(Issuer's Telephone Number, Including Area Code)

APPLICABLE ONLY TO ISSUERS INVOLVED IN BANKRUPTCY PROCEEDINGS DURING THE  
PRECEDING FIVE YEARS

Check whether the registrant filed all documents and reports required to be  
filed by Section 12, 13 or  
15(d) of the Exchange Act after the distribution of securities under a plan  
confirmed by a court.

Yes  No

APPLICABLE ONLY TO CORPORATE ISSUERS

As of May 5, 2004, there were 4,531,210 shares of the issuer's common stock  
outstanding.

Transitional Small Business Disclosure Format (check one):

Yes  No

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PART I  
FINANCIAL INFORMATION

Item 1. Financial Statements.  
CORDIA CORPORATION AND SUBSIDIARIES  
CONDENSED CONSOLIDATED BALANCE SHEETS

|   | March 31<br>2004     | December 31,<br>2003 |
|---|----------------------|----------------------|
|   | -----<br>(Unaudited) | -----                |
| ASSETS  |                      |                      |
| Current Assets  |                      |                      |
| Cash  | \$ 72,387            | \$ 111,288           |
| Accounts receivable, less allowance<br>for doubtful accounts of | \$ 123,317           | \$ 111,167           |
|   | 940,878              | 600,840              |
| Prepaid expenses and other current assets                       | 265,907              | 193,157              |
| Loans receivable from affiliates                                | -                    | 30,000               |
|   | -----                | -----                |
| TOTAL CURRENT ASSETS  | 1,279,172            | 935,285              |
|   | -----                | -----                |

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|                                 |             |              |
|---------------------------------|-------------|--------------|
| Property and equipment, at cost |             |              |
| Office equipment                | 108,616     | 39,759       |
| Less: Accumulated depreciation  | 19,261      | 10,241       |
|                                 | -----       | -----        |
| NET PROPERTY AND EQUIPMENT      | 89,355      | 29,518       |
|                                 | -----       | -----        |
| Other Assets                    |             |              |
| Notes Receivable                | -           | 595,000      |
| Security Deposits               | 49,064      | 77,414       |
|                                 | -----       | -----        |
| TOTAL OTHER ASSETS              | 49,064      | 672,414      |
|                                 | -----       | -----        |
| TOTAL ASSETS                    | \$1,417,591 | \$ 1,637,217 |
|                                 | =====       | =====        |

LIABILITIES AND STOCKHOLDERS' EQUITY (DEFICIT)

|   |             |              |
|---|-------------|--------------|
| Current Liabilities   |             |              |
| Accounts payable and accrued expenses   | \$1,992,183 | \$ 1,427,576 |
| Unearned income   | 146,406     | 181,763      |
| Loans payable to affiliates   | 13,074      | 8,074        |
| Loans payable-other   | 57,000      | 57,000       |
|   | -----       | -----        |
| TOTAL CURRENT LIABILITIES   | 2,208,663   | 1,674,413    |
|   | -----       | -----        |
| Commitments and Contingencies   |             |              |
| Stockholders' Equity (Deficit)  |             |              |
| Preferred stock, \$.001 par value;<br>5,000,000 shares authorized,<br>no shares issued and outstanding  | -           | -            |
| Common stock, \$.001 par value;<br>20,000,000 shares authorized,<br>4,531,210 (2004) and<br>6,156,211 (2003) shares<br>issued and outstanding | 4,531       | 6,156        |
|   |             |              |
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| Additional paid-in capital  | 3,656,497   | 4,271,622    |
| Accumulated deficit   | (4,427,100) | (4,289,974)  |
|   | -----       | -----        |
|   | (766,072)   | (12,196)     |
| Less Treasury stock, 10,000 common<br>shares at cost  | (25,000)    | (25,000)     |
|   | -----       | -----        |
| TOTAL STOCKHOLDERS' EQUITY (DEFICIT)  | (791,072)   | (37,196)     |
|   | -----       | -----        |
| TOTAL LIABILITIES AND STOCKHOLDERS'<br>EQUITY (DEFICIT)   | \$1,417,591 | \$1,637,217  |
|   | =====       | =====        |

Note: See notes to consolidated financial statements.

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CORDIA CORPORATION AND SUBSIDIARIES  
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS  
(UNAUDITED)

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|   | For the Three Months Ended<br>March 31, |              |
|---|---|--------------|
|   | 2004                                    | 2003         |
| Revenues                                      |   |              |
| Telecommunications revenue                    | \$1,579,429                             | \$612,592    |
| Other   | 189,003                                 | 10,000       |
|   | -----                                   | -----        |
|   | 1,768,432                               | 622,592      |
|   | -----                                   | -----        |
| Operating Expenses                            |   |              |
| Resale and wholesale line charges             | 795,770                                 | 297,191      |
| Payroll and payroll taxes                     | 472,984                                 | 161,117      |
| Advertising and promotion                     | 306,315                                 | 71,164       |
| Professional and consulting fees              | 46,496                                  | 112,762      |
| Depreciation                                  | 9,020                                   | 1,248        |
| Insurance                                     | 42,316                                  | 18,066       |
| Office expense                                | 19,770                                  | 8,578        |
| Telephone                                     | 16,417                                  | 13,769       |
| Rent and building maintenance                 | 37,145                                  | 13,771       |
| Other selling, general and administrative     | 156,130                                 | 94,603       |
|   | -----                                   | -----        |
|   | 1,902,363                               | 792,269      |
|   | -----                                   | -----        |
| Operating Loss                                | (133,931)                               | (169,677)    |
|   | -----                                   | -----        |
| Other Income (Expenses)                       |   |              |
| Gain on investments                           | -                                       | 2,800        |
| Other (expense) income                        | (154)                                   | 3,633        |
| Interest expense                              | (3,041)                                 | (337)        |
|   | -----                                   | -----        |
|   | (3,195)                                 | 6,096        |
|   | -----                                   | -----        |
| Loss From Continuing Operations               | (137,126)                               | (163,581)    |
|   | -----                                   | -----        |
| Income (Loss) from Discontinued Operations    |   |              |
| Loss from operations of discontinued segments | -                                       | (140,726)    |
| Gain on disposal                              | -                                       | 1,554,306    |
|   | -----                                   | -----        |
|   | -                                       | 1,413,580    |
|   | -----                                   | -----        |
| Net (Loss) Income                             | \$ (137,126)                            | \$ 1,249,999 |
|   | =====                                   | =====        |
| Basic and diluted (Loss) Income Per Share     | \$ (0.03)                               | \$ 0.22      |
|   | =====                                   | =====        |
| Weighted Average Shares Outstanding           | 5,402,639                               | 5,722,537    |
|   | =====                                   | =====        |

See notes to consolidated financial statements.

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|  | For the Three Months Ended |              |
|--|----------------------------|--------------|
|  | March 31,                  |              |
|  | 2004                       | 2003         |
|  | -----                      | -----        |
| Cash Flows From Operating Activities:  |                            |              |
| Net(loss) from continuing operations   | \$ (137,126)               | \$ (163,581) |
| Adjustments to reconcile net (loss) to net cash provided(used) by operations |                            |              |
| (Gain) on investments  | -                          | (2,800)      |
| Compensatory stock expense   | 42,000                     | 60,400       |
| Provision for accounts receivable  | 12,150                     | 43,974       |
| Depreciation expense   | 9,020                      | 1,248        |
| (Increase) decrease in assets:   |                            |              |
| Accounts receivable  | (352,188)                  | (217,528)    |
| Other receivables  | -                          | 76,082       |
| Prepaid expenses and other current assets                                    | (106,499)                  | 18,105       |
| Security deposits  | 28,350                     | (28,086)     |
| Increase (decrease) in liabilities:  |                            |              |
| Accounts payable   | 564,607                    | 113,770      |
| Unearned income  | (35,357)                   | 95,957       |
|  | -----                      | -----        |
| Net cash provided (used) by continuing operations                            | 24,957                     | (2,459)      |
| Net cash (used) by discontinued operations                                   | -                          | (79,029)     |
|  | -----                      | -----        |
| NET CASH PROVIDED (USED) IN OPERATING ACTIVITIES                             | 24,957                     | (81,488)     |
|  | -----                      | -----        |
| Cash Flows From Investing Activities:  |                            |              |
| Decrease (increase) in other loans receivable                                | -                          | 1,750        |
| Purchase of property and equipment   | (68,858)                   | -            |
|  | -----                      | -----        |
| NET CASH (USED) PROVIDED BY INVESTING ACTIVITIES                             | (68,858)                   | 1,750        |
|  | -----                      | -----        |
| Cash Flows From Financing Activities:  |                            |              |
| Proceeds from loans payable - other  | 5,000                      | -            |
| Payments of loans payable - other  | -                          | (10,248)     |
| Proceeds from sale of subscription stock                                     | -                          | 38,500       |
|  | -----                      | -----        |
| NET CASH PROVIDED BY FINANCING ACTIVITIES                                    | 5,000                      | 28,252       |
|  | -----                      | -----        |
| Decrease in Cash   | (38,901)                   | (51,486)     |
| Cash, Beginning  | 111,288                    | 70,243       |
|  | -----                      | -----        |
| Cash, Ending   | \$ 72,387                  | \$ 18,757    |
|  | =====                      | =====        |
| Supplemental Disclosures of Cash Flow Information                            |                            |              |
| Cash paid during the year for:   |                            |              |
| Interest   | \$ 1,632                   | \$ 337       |
|  | =====                      | =====        |
| Non Cash Items:  |                            |              |
| Stock received by Company to satisfy:  |                            |              |
| Note receivable due of \$595,000;  |                            |              |
| Accrued interest on note receivable of \$33,750;                             |                            |              |
| License fee payments due of \$30,000   | \$ 658,750                 |              |
|  | =====                      |              |

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CORDIA CORPORATION AND SUBSIDIARIES  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
March 31, 2004  
Unaudited

## Note 1: Basis of Presentation

Our unaudited condensed financial statements have been prepared in accordance with the instructions to Form 10-QSB and do not include all of the information and disclosures required by accounting principals generally accepted in the United States of America. Therefore, these financial statements should be read in conjunction with the financial statements and related footnotes included in our Annual Report on Form 10-KSB for the most recent year-end. These financial statements reflect all adjustments that are, in the opinion of management, necessary to fairly state the results for the interim periods reported. The results of operations for the three-month period ended March 31, 2004 are not necessarily indicative of the results to be expected for the full year.

The consolidated financial statements include our accounts and the accounts of Cordia Communications Corp. for the years ended December 31, 2003 and for the three months ended March 31, 2004 and 2003. The consolidated financial statements also include the accounts of its discontinued business ISG Group, Inc. ("ISG") and its subsidiaries (Universal Recoveries, Inc. and U.L.A.E., Inc., both wholly-owned) for the period January 1, 2003 through March 3, 2003 (date of disposal). All material intercompany balances and transactions have been eliminated.

## Note 2: Investments

Cordia did not have any investments to report at March 31, 2004 and December 31, 2003. Cordia did, however, hold common shares of eLEC Communications Corp. ("eLEC") during fiscal year 2003 which were sold prior to December 31, 2003. All investments are classified as trading securities and accordingly, stated at fair value, which is based on market quotes. Adjustments to fair value of the equity securities are recorded as an increase or decrease in investment income in the accompanying statement of operations.

The cost of securities sold is based on the specific identification method. The following is a reconciliation of gain on investments from continuing operations during the three-month period ended March 31, 2003.

|                                   |    |       |
|-----------------------------------|----|-------|
| Net change in unrealized (losses) | \$ | -     |
| Realized gain (losses)            |    | 2,800 |
|                                   |    | ----- |
| Total                             | \$ | 2,800 |
|                                   |    | ===== |

## NOTE 3: Sale of Business Segments

On March 3, 2003, Cordia sold its equity interests in Insurance Subrogation Group, Inc. ("ISG") to West Lane Group Inc., a company owned by the then current management of ISG for a purchase price of \$750,000. The purchase price was represented by a two-year promissory note, which bore interest at a rate of 6% per annum and was secured by 700,000 shares of Cordia's stock owned by West Lane. Cordia also entered into a licensing and services agreement with ISG whereby ISG purchased an unlimited license to SUBRO AGS software. Upon execution of the licensing and services agreement, ISG paid Cordia

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CORDIA CORPORATION AND SUBSIDIARIES  
 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
 March 31, 2004  
 Unaudited

Note 3: Sale of Business Segments (cont'd)

\$100,000 and pursuant to the terms of the agreement agreed to make monthly payments of \$6,000 (including interest) for a twenty-five (25) month period in exchange for Cordia's agreement to provide software updates and maintenance as necessary during this period.

The following is a summary of the sale transaction of ISG (unaudited):

|   |              |
|---|--------------|
| Assets sold   | \$ (872,726) |
| Liabilities sold                                    | 1,615,335    |
| Note received                                       | 750,000      |
| Write-off of inter-company receivables and payables | 61,697       |
|   | -----        |
| Gain on sale, before income taxes                   | \$1,554,306  |
|   | =====        |

As a result of the sale of ISG, employee stock options to purchase 83,000 of the Company's common shares at \$7.50 per share expired.

The following is a summary of the revenues and loss from operations of the discontinued business segments:

|                                  | Three months ended March 31, |              |
|----------------------------------|------------------------------|--------------|
|                                  | 2004                         | 2003         |
|                                  | -----                        | -----        |
| Revenues:                        |                              |              |
| Subrogation Service Revenue, net | \$ -                         | \$ 631,361   |
| Claims Administration income     | -                            | 197,667      |
| Other                            | -                            | -            |
|                                  | -----                        | -----        |
| Total Revenues:                  | \$ -                         | \$ 829,028   |
|                                  | =====                        | =====        |
| <br>                             |                              |              |
| Loss before income taxes         | \$ -                         | \$ (140,726) |
|                                  | =====                        | =====        |

On February 6, 2004, Cordia entered into a Mutual Release and Satisfaction of Promissory Note and License Agreement whereby Cordia agreed to release West Lane of its payment obligations under the promissory note and licensing agreement in exchange for the return of 1,412,500 shares of Cordia's Common Stock, a fifteen (15) month option to purchase 100,000 shares at a price of forty cents (\$0.40) per share and the release of Cordia's service obligations under the License Agreement. In addition to Cordia's release of West Lane, Cordia will transfer all ownership interest to the technology and source code of SUBRO AGS software to West Lane. The 1,412,501 shares were cancelled upon transfer to Cordia. As a result, Cordia's outstanding shares were reduced to 4,431,210.

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CORDIA CORPORATION AND SUBSIDIARIES  
 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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March 31, 2004  
Unaudited

## Note 4: Commitments

As of March 31, 2004, we leased property at the following two locations: (1) approximately 2,840 square feet of office space for our offices in White Plains, New York at a rental price of \$4,970 per month plus utilities for a term of five years, expiring December 31, 2008, with an increase in rent in years three and four and (2) approximately 4,000 square feet at our executive offices in Orlando, Florida at a rental price of \$3,301.50 per month plus utilities on a month to month basis. We believe our existing facilities are sufficient for our current operations.

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## Item 2. Management's Discussion and Analysis or Plan of Operation.

Certain statements in this Report constitute "forward-looking statements" within the meaning of the Private Securities Litigation Reform Act of 1995. Such forward-looking statements involve known and unknown risks, uncertainties and other factors that may cause our actual results, performance or achievements to be materially different from any future results, performance or achievements expressed or implied by such forward-looking statements. Factors that might cause such a difference include, among others, uncertainties relating to general economic and business conditions; industry trends; changes in demand for our products and services; uncertainties relating to customer plans and commitments and the timing of orders received from customers; announcements or changes in our pricing policies or that of our competitors; unanticipated delays in the development, market acceptance or installation of our products and services; changes in government regulations; availability of management and other key personnel; availability, terms and deployment of capital; relationships with third-party equipment suppliers; and worldwide political stability and economic growth. The words "believe", "expect", "anticipate", "intend" and "plan" and similar expressions identify forward-looking statements. Readers are cautioned not to place undue reliance on these forward-looking statements, which speak only as of the date the statement was made.

### Overview

Cordia Corporation is a business services holding company with primary operations in our wholly owned subsidiary Cordia Communications Corp. Through our subsidiary we provide local and long distance telecommunications services. We offer small businesses and residential consumers an integrated set of telecommunications products and services including local exchange, local access, domestic and international long distance telephone, and a full suite of local features and calling plans. Our telecommunications activities commenced in the second quarter of 2002 and were initially limited to service offerings in the state of New York. During 2003 we expanded our service territory to include customers in New Jersey and Pennsylvania.

Our plan is to broaden the scope of our telecommunications offerings to include Voice over Internet Protocol ("VoIP") network services. To that end, we forecast the formation of CordiaIP Corp., a wholly owned subsidiary of Cordia Corporation, in the second quarter of 2004 for this purpose. We anticipate offering a voice over broadband solution enabling delivery of voice services over any broadband IP connection including third-party DSL, cable modems, T-carrier and wireless circuits. Currently, the Federal Communications Commission ("FCC") does not regulate the Internet or the services provided over it and recently made the finding that an entirely



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Internet-based VoIP service is an unregulated information service. The FCC has however, initiated a proceeding to examine what its role should be in this environment.

We believe that the FCC's current position on regulating VoIP services will permit us to rapidly enter the market and grow our VoIP business both nationally and internationally. The ubiquitous nature of the Internet and the open standards of both Session Initiation Protocol (SIP) and Internet Protocol (IP) will allow us to deploy an efficient and economical VoIP network so we may provide retail and wholesale VoIP services to our customers. At this time, with the uncertainty as to future regulations and the direction of the FCC,

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the impact these regulations would have on our business is unknown. We would, however, anticipate any regulation to have an effect on costs associated with providing VoIP and our profit margin.

In light of the increased use of wireless telecommunications services and ability of wireless consumers to change wireless service providers while maintaining their telephone number we believe it would be advantageous to enter the wireless telecommunications market. For entrance into this burgeoning market place we will conduct wireless operations out of our wholly owned subsidiary My Tel Co, Inc ("My Tel"). My Tel has recently applied for wireless wholesale status with Verizon Wireless, Inc. We believe that bundling of wireless services with our local, long distance, data and VoIP services, will increase the profitability from our retail and wholesale customer bases, while increasing customer loyalty and reducing churn. Currently, resale wireless services are not regulated by the FCC or by the state regulatory commissions, which allows new entrants to avoid excessive regulatory expenses. By saving regulatory costs and the costs associated with building our own wireless network, we will be able to conserve capital for the purpose of increasing growth and achieving profitability.

In addition to the aforementioned suite of telecommunications services offered through our subsidiary operations we also function as a Web services provider offering outsourced solutions to telecommunications service providers. In this context, we provide secure Internet enabled software systems through user-friendly web client front-ends called Workspaces that serve as an interface for integration with our software systems. Through our Workspaces clients are able to outsource tasks incident to the provision of telecommunications services such as provisioning, order entry, repair, customer service, collections, margin integrity and even purchase local telecommunications services directly from us for resale purposes. Our operations support systems that make our Web solution service offerings possible are a sensible and cost effective means of running a telecommunications business because there is no costly software to purchase and install and any changes that the client requires are made at the server level and therefore instantly passed on to all of our clients' users. We began developing the technology for our Web services in 2001 and began providing these services in 2003. We continuously develop and improve our Workspaces focusing on the most efficient and effective underlying processes to enhance the performance of each core function of the services provided while adapting our systems to those processes. We believe that our dedication to a development strategy whereby the process itself governs software development is far more favorable than the alternative methodology, in which the limitations of software systems govern the adaptation and development of the process.

We believe the success of this aspect of our business is due to the rapid growth and acceptance of the Internet as a global medium for communication,

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information, and commerce. The Internet has revolutionized the way businesses do business and has created opportunities to perform business functions more efficiently and effectively through the utilization of standardized Internet technologies, databases and applications. Our technological advancement and specialized expertise allows us to provide outsourced solutions at lower costs and with higher quality while giving our customers the freedom and ability to focus on providing telecommunication services.

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Our strategy is to accelerate our growth and increase our profitability through the acquisition and internal development of businesses that provide either industry-specific expert services or specialized business functions and by broadening our presence in the telecommunications industry by providing local and long distance services, wireless telecommunications services and VoIP. We plan to utilize internally developed proprietary software systems that take advantage of standardized Internet technologies to enhance both the quality and efficiency of our services. We believe that properly designed and developed systems and applications can allow us to leverage the expertise of our employees and to deliver a superior service to our customers, which should give us a competitive advantage over expert organizations that seek to provide their services through traditional means.

Cordia Communications Corp.

Cordia Communications Corp. ("CCC") was formed in July 2001 and shortly thereafter we concentrated our efforts on the development of an integrated software system designed to support providers of telecommunications services. We created secure Internet enabled software systems in which user-friendly web client front-ends called Workspaces serve as an interface for integration with our software systems. We also developed an operations support systems which we refer to as a Telecom Account Management System or simply "TAMS" which represents the suite of services available to a telecommunications service provider that wishes to outsource tasks incident to operating as a full service telecommunications carrier. The services available through TAMS include Data Interconnection, Rate Plan Administration, Rating and Invoicing, and Ticketing and Transaction Posting. TAMS was developed to facilitate our Professional Outsourced Telecommunications Solutions ("POTS") service offering, which is a suite of services designed around our Workspaces and includes Billing, New Order Provisioning, Repair, Level I Customer Service, Secondary Provisioning, Collections and Regulatory services. We feel that TAMS is so reliable that we use the same operations support systems offered to our outsourced clientele to serve as the backbone for the provision of telecommunications services to our own local and long distance consumers. We believe that clients will find TAMS and POTS attractive because it is not a pre-packaged all or nothing product, the customer has the power to assess their organization and then adopt and utilize only the functions they believe will increase their own profitability. Our goal is to tailor our services to our client's needs and create a mutually beneficial and profitable relationship. To that end, we also offer emergency backup and transitional services that will allow our customers to outsource these functions during times of unplanned facilities outages, loss of key personnel or rapid growth.

As part of our outsourced services product line we also offer wholesale telecommunications services. By utilizing our suite of outsourced services to provide wholesale services, our clients are able to maximize profitability because they are in a position to provide telecommunications services with less investment and capital expenditures and with greater efficiency and expertise. Our client's ability to rely on our expertise while saving money entering the market place makes our wholesale telecommunications services an essential part of any new entrant's business strategy.

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CCC also provides local exchange, local access, domestic and international long distance telephone, and a full suite of local features and calling plans to small business and residential consumers in New Jersey, New York and Pennsylvania. In addition to the service territories in which we currently

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provide service we are authorized to provide local and long distance telecommunications services in Florida, Illinois, Michigan and Ohio, however we are not actively marketing or providing our retail telecommunications services in these regions at this time. We do however, expect to expand our retail service offerings into Illinois and Michigan during the remainder of 2004, as it is our belief that these regions offer the most attractive opportunities and anticipate obtaining significant retail gross margins in these states due to the relative size of their telecommunications markets and relatively low wholesale prices as compared to anticipated average retail revenue.

We believe that the Telecommunications Act of 1996 (the "Telecommunications Act"), which opened the local exchange market to competition, has created an attractive opportunity for Competitive Local Exchange Carriers ("CLEC"). Entry into the telecommunications industry is dependent upon the provisions of the Telecommunications Act that allow CLECs to lease various elements of the networks of incumbent local exchange carriers ("ILEC") that are necessary to provide local telephone service in a cost-effective manner. The leased element platform is referred to as unbundled network elements or "UNE-P". UNE-P has created a significant opportunity for us to develop as a profitable CLEC because we have the ability to lease all of the network elements required to provide local telecommunications services on a month-to-month basis while avoiding the large capital expenditure that would be required if we had to build an independent network and closely match our network capacity to utilization and obtain gross margins. In order to provide our telecommunications services, we have entered into interconnection agreements with facilities-based ILECs and long distance providers and we utilize our Workspaces as a middleware layer connecting our employees, agents, wholesale and retail customers to the provisioning, repair, billing and enhanced services functions of the underlying ILEC.

During 2003, the FCC has reviewed its rules and policies pertaining to UNE-P and released its Triennial Review Order ("TRO") in August 2003. While changing some of the elements that must be provided on an unbundled basis, the FCC preserved the essential tools necessary to foster voice competition in the local market and therefore we consider the TRO to be a victory for CLECs. On March 2, 2004, however, the District Court issued a decision striking down some of the rules compelling ILECs to share their facilities. In response to the District Court decision the FCC urged telecommunications carriers to engage in a period of good faith negotiations to arrive at commercially acceptable arrangements for the availability of UNE-P. To provide additional time for these negotiations, the FCC indicated its intent to petition the District Court for a forty-five (45) day extension of the stay of the March 2, 2004 decision and to request the Solicitor General to seek a comparable extension of the deadline for filing a petition for certiorari. Cordia has indicated to the FCC that it will participate in good faith negotiations and support a stay of the District Court's decision.

In light of the circumstances, we believe that the Supreme Court will grant certiorari and overturn the District Court's decision on review and issue a decision in support of competition as it did in May 2002. At this time, with the uncertainty as to the Supreme Court's decision to grant certiorari and issue a decision supporting competition in the telecommunications industry, the

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effect on our business is unknown, however we would anticipate an adverse effect on costs associated with providing telecommunications services and our profits. While we are optimistic that the Supreme Court will intercede and

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render a decision in favor of competition, we recognize the possibility that a less favorable decision may be rendered. Under these circumstances, we are hopeful that we can negotiate in good faith with ILECS to reach a practical and equitable agreement concerning the use of UNE-P.

My Tel Co, Inc.

During the third quarter of 2003, we decided to expand our presence in the telecommunications industry by entering the wireless telecommunications market. To that end, we filed a wireless wholesale application on behalf of our wholly owned subsidiary My Tel Co, Inc. ("My Tel") with Verizon Wireless, Inc. My Tel was formed in June 2002 and in August 2002 My Tel was granted a Certificate of Public Convenience and Necessity ("CPCN") by the New York Public Service Commission to operate as a competitive local exchange carrier. My Tel has never operated under the authority granted to it by the State of New York and has remained an inactive subsidiary, reporting no revenues, of Cordia. During 2003, our efforts consisted of preparing My Tel to become an operating subsidiary providing wireless resale services in the upcoming year. We anticipate operating as a wireless reseller in the latter half of 2004.

Insurance Solutions Group

Our now defunct insurance services business was operated primarily through ISG Group, Inc., formerly our wholly owned subsidiary, that conducted business under the name Insurance Solutions Group ("ISG"). ISG provided comprehensive insurance solutions to insurance companies, state insurance departments and self-insured entities in conjunction with Universal Recoveries, Inc., a wholly-owned subsidiary of ISG doing business as Subrogation Partners ("Subrogation Partners"); U.L.A.E., Inc., a wholly-owned subsidiary of ISG doing business as Claim Partners ("Claim Partners"); and US Direct Agency, Inc.

After deciding to focus on our telecommunications business and telecommunications related businesses we undertook an evaluation of the relative potential opportunities of our communications and insurance businesses during the first quarter of 2003. As part of this evaluation, we took into consideration the limited capital resources available to our company and despite its rapid growth over the last two years the continued losses of ISG, as well as ISG's negative equity and working capital position. As a result of this evaluation, we determined that it was in the best interest of our shareholders to exit the operating portions of our insurance-related subsidiaries and to reduce the significant infrastructure and operating costs associated with those businesses. On March 3, 2003, we sold our equity interests in ISG to West Lane Group, Inc., a company owned by the then current management of ISG for a purchase price of \$750,000. The \$750,000 was represented by a two-year promissory note bearing interest at a rate of 6% per annum and secured by 700,000 shares of our stock owned by West Lane. We also entered into a licensing and services agreement with ISG whereby ISG purchased an unlimited license to SUBRO AGS software. Under the terms of the agreement, ISG paid us \$100,000 upon execution of the agreement and agreed to pay \$6,000 per month (including interest) for a period of twenty-five (25) months. As a result of the sale of its equity interest in ISG, employee stock options to purchase 83,000 shares of common stock at an exercise price of \$7.50 per share expired.

During the third quarter of 2003, we re-evaluated the collectibility of the principal and interest related to the note and recorded a reserve in the amount of \$165,000. The reserve was based on the financial situations of the debtor as well as the current marketability of the collateral involved. On December 10, 2003, we agreed to accept a total of 312,500 shares of our Common stock at \$0.30 per share from West Lane Group, Inc. on behalf of itself, affiliates and subsidiaries to satisfy \$30,000 in principal and \$33,750 in interest on the promissory note and \$30,000 in payment in arrears on the licensing agreement. At December 31, 2003, we reduced the initial promissory note reserve of \$165,000 to zero and reduced the promissory note balance to its net realizable value of \$595,000 based on the total value of the shares transferred back to us in 2004.

In February 2004, in the interest of our shareholders, we agreed to accept another 1,412,501 shares of our common stock at \$0.40 per share from West Lane Group, Inc. to satisfy the remaining principal balance of the promissory note pursuant to a Mutual Release and Satisfaction of Promissory Note and License Agreement. A total of 1,725,001 of shares were transferred to us during the first quarter of 2004 and all were thereafter retired resulting in a reduction of our outstanding shares to 4,431,210.

Results of Operations

Three Months Ended March 31, 2004 vs. March 31, 2003

Operating Revenues

|                            | Three Months Ended March 31, |           |
|----------------------------|------------------------------|-----------|
|                            | 2004                         | 2003      |
| Telecommunications Revenue | \$1,579,400                  | \$612,600 |
| Other                      | \$ 189,000                   | \$ 10,000 |
|                            | -----                        | -----     |
|                            | \$1,768,400                  | \$622,600 |

Revenues for the three months ended March 31, 2004 increased by approximately \$1,145,800 to approximately \$1,768,400 as compared to approximately \$622,600 reported during the three months ended March 31, 2003.

Telecommunications Revenue

|           |            |               |
|-----------|------------|---------------|
| =====     |            |               |
| 2004-2003 | \$ 966,800 | 158% increase |
| =====     |            |               |

Telecommunications revenue is earned from the provisioning of services to business, residential and wholesale customers for basic telephone service, including local and long distance service, as well as ancillary services, such as voice messaging and call waiting. Of the revenues reported for the three months ended March 31, 2004, approximately \$1,452,900 was generated from retail and wholesale telecommunications services, and approximately \$126,500 was generated from Carrier Access Billing (CABS) services. Of the revenues reported for the three months ended March 31, 2003, approximately \$502,000 was generated from retail or wholesale telecommunications services, and approximately \$111,000 was generated from Carrier Access Billing (CABS) services or other outsourcing services. We anticipate a steady and continued growth rate in the customer base of our telecommunications operations.

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Other Revenue

|           |           |               |
|-----------|-----------|---------------|
| =====     |           |               |
| 2004-2003 | \$179,000 | N/A% increase |
| =====     |           |               |

Other revenue consists primarily of revenue earned through our outsourcing services of data and website technology and our revenue earned as a result of our licensing agreement. The increase is primarily due to additional services we have been providing for our outsourcing customers. We intend, to continue to expand our technology outsourcing services to our current and potential customers.

Operating Expenses

|   | Three months Ended March 31, |            |
|---|------------------------------|------------|
|   | 2004                         | 2003       |
|   | ----                         | ----       |
| Resale and Wholesale Line Charges         | \$ 795,800                   | \$ 297,200 |
| Payroll and Payroll Taxes                 | 473,000                      | 161,100    |
| Advertising and Promotion                 | 306,300                      | 71,200     |
| Professional and Consulting Fees          | 46,500                       | 112,800    |
| Depreciation                              | 9,000                        | 1,200      |
| Insurance                                 | 42,300                       | 18,000     |
| Office Expense                            | 19,800                       | 8,600      |
| Telephone                                 | 16,400                       | 13,800     |
| Rent and Building Maintenance             | 37,100                       | 13,800     |
| Other Selling, General and Administrative | 156,100                      | 94,600     |
|   | -----                        | -----      |
|   | \$1,902,300                  | \$ 792,300 |
|   | =====                        | =====      |

Consolidated operating expenses increased by approximately \$1,110,000 or approximately 140%, to approximately \$1,902,300 during the three months ended March 31, 2004, as compared to approximately \$792,300 during the comparable period ended 2003.

Resale and Wholesale Line Charges

|           |           |             |
|-----------|-----------|-------------|
| =====     |           |             |
| 2004-2003 | \$498,600 | 167% change |
| =====     |           |             |

Resale and wholesale line charges are direct costs associated with our telecommunications subsidiary, Cordia Communications Corp., and represent our network access fees paid in order to provide local and long distance telephone service to our customers. These expenses will rise or fall in direct correlation to the size of our telecommunications customer base. Resale and Wholesale Line Charges increased by approximately \$498,600, or approximately 167%, to approximately \$795,800 during the three months ended March 31, 2004, as compared to approximately \$297,200 during the comparable period ended 2003. We do expect these expenses to continue to rise as we increase our base of customers.

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Payroll and Payroll Taxes

|           |           |               |
|-----------|-----------|---------------|
| =====     |           |               |
| 2004-2003 | \$311,900 | 194% increase |

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=====  
This increase was directly related to the growth of our telecommunications services. We expect that our payroll costs will continue to increase over the next nine months as we continue to expand and grow our customer base.

### Advertising and Promotion

=====  
2004-2003           \$235,100           330% increase  
=====

Advertising and promotion costs, which consist of advertising, marketing, travel and telemarketing expenses, increased considerably to approximately \$306,300 for the three months ended March 31, 2004 as compared to \$71,200 for the comparable period ended March 31, 2003. This increase is due primarily to our use of telemarketers to grow our customer base. It is expected that this trend will continue, although not as dramatically, over the remainder of the year, as our telecommunications business will require the services of telemarketers to continue to grow our customer base.

### Professional and Consulting

=====  
2004-2003           (\$66,300)           59% decrease  
=====

This decrease was principally the result of less non-cash expenses related to options granted to non-employees for consulting services.

### Depreciation

=====  
2004-2003           \$7,800           650% increase  
=====

The increase was primarily due to additions of depreciable office equipment, which were necessary to facilitate the growth of Cordia Communications Corp.

### Insurance

=====  
2004-2003           \$24,300           135% increase  
=====

This increase was primarily due to our increased staff, equipment and office space for Cordia Communications Corp., as well as the impact of industry-wide increases in insurance costs.

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### Office Expense

Telephone

Rent and Building Maintenance

=====  
2004-2003           \$37,100           102% increase  
=====

The consolidated increases of office expense, telephone expenses and rent and building maintenance were due primarily to our efforts to grow our telecommunications business, as well as the added expense of operating a new facility in White Plains, New York.

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### Other Selling, General and Administrative

|           |          |              |
|-----------|----------|--------------|
| 2004-2003 | \$61,500 | 65% increase |
|-----------|----------|--------------|

Other selling, general and administrative expenses consist of expenses such as bad debts, dues and subscriptions, bank and credit card processing fees, license expense and registration fees, among others. The increase in these expenses was directly related to the growth and operations of Cordia Communications Corp. We expect these expenses to increase slightly during the remainder of 2004 as we intend to expand and grow our telecommunications business.

### Liquidity and Capital Resources

At March 31, 2004, we had cash and cash equivalents available of approximately \$72,400, a decrease of approximately \$39,000 from amounts reported at December 31, 2003. At March 31, 2004, we had a working capital deficit of approximately \$929,500, which represented an increase in our working capital deficit of approximately \$190,400 from the amount reported at December 31, 2003. The decrease in cash and increase in our working capital deficit is related to expenditures which were necessary to grow our Cordia Communications telecommunications base.

Net cash provided in operating activities aggregated approximately \$25,000 for the three-month period ended March 31, 2004 as compared to net cash used of approximately \$81,500 in the three month period ended March 31, 2003. The principal use of cash reported for the three month period ended March 31, 2004 was the net loss for the period of approximately \$137,100 and the increase in accounts receivable of approximately \$352,200, these amounts were offset against the increase in accounts payable of approximately \$564,600. The principal use of cash during the three month period ended March 31, 2003 was the net loss reported of approximately \$163,600 and the increase in accounts receivable of approximately \$217,500 which was offset primarily by the increase in accounts payable of approximately \$113,800.

Net cash used by investing activities during the 2004 period aggregated approximately \$68,900 for the purchase of office equipment as compared to net cash provided during the 2003 period of approximately \$1,800.

Net cash provided by financing activities aggregated approximately \$5000 and \$28,200 during the three-month periods ended March 31, 2004 and 2003, respectively. The source of cash during the 2004 period was the proceeds from affiliated loans. Net cash provided by financing activities in the three-month period ended March 31, 2003 was primarily from the proceeds from

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the issuance of common stock of approximately \$38,500, offset against payments of loans payable of approximately \$10,200.

We believe that as our revenues grow our corporate staffing, system development and sales and marketing expenses as a percent of total revenues will continue to decrease. With our current level of expenditures and our current gross margins, we expect to reach a break-even level on an operating basis when revenues exceed approximately \$8,000,000. We believe that so long as there is not a material change in retail or wholesale pricing or in the regulatory status of UNE-P, we will reach breakeven on an operating basis when our retail customers exceed approximately 15,000 UNE-P lines. Management expects to reach 15,000 retail UNE-P lines by the end of the third fiscal quarter of 2004.



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In addition to our plans to aggressively grow our telecommunications and outsourced service businesses, we also expect to increase our expenditures on our planned rollout of VoIP and wireless services. We believe our cash and cash equivalent assets at March 31, 2004 may not provide us with sufficient liquidity to do so, although management believes it will be able to generate sufficient cash flows to meet its obligations as they become due during 2004. In recognition of the potential need for additional working capital, management intends to seek additional sources of capital, which sources may include public and private sales of our securities and additional borrowings from both affiliates and non-affiliates. Given current market conditions, there can be no assurance that we will be able to obtain such funding when needed, or that such funding, if available, will be obtainable on acceptable terms. Our inability to obtain sufficient working capital may restrict our ability to carry out our operating plans, which would result in the continuance of unprofitable operations.

### Item 3. Controls and Procedures.

- (a) Based upon an evaluation performed within 90 days of this Report, our Chief Executive Officer ("CEO") and Chief Accounting Officer ("CAO") have each concluded that our disclosure controls and procedures (as defined in Exchange Act Rules 13a-14(c) and 15d-14(c)) are effective to ensure that material information relating to our company is made known to management, including the CEO and CAO, particularly during the period when our periodic reports are being prepared, and that our internal controls are effective to provide reasonable assurances that our financial condition, results of operations and cash flows are fairly presented in all material respects.
- (b) The CEO and CAO each note that, since the date of his/her evaluation until the date of this Report, there have been no significant changes in internal controls or in other factors that could significantly affect internal controls, including any corrective actions with regard to significant deficiencies and material weaknesses.

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## PART II OTHER INFORMATION

### Item 6. Exhibits and Reports on Form 8-K

- (a) Exhibits. The following exhibits are filed herewith.

| Exhibit No.            | Description  |
|------------------------|--|
| 31.1<br>18 U.S.C. 1350 | Certification of Principal Executive Officer Pursuant to<br>(Section 302 of the Sarbanes-Oxley Act of 2002)                                      |
| 31.2<br>18 U.S.C. 1350 | Certification of Principal Financial Officer Pursuant to<br>(Section 302 of the Sarbanes-Oxley Act of 2002)                                      |
| 32.1                   | Certification of Cordia Corporation's Principal Executive Officer, Patrick Freeman, pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.   |
| 32.2                   | Certification of Cordia Corporation's Principal Financial Officer, Lorie M. Guerrero, pursuant to Section 906 of the Sarbanes-Oxley Act of 2002. |

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(b) Reports on Form 8-K.

We filed a Current Report on Form 8-K, dated January 7, 2004, furnishing under Items 4 and 7 correspondence from Cipolla Sziklay, LLC indicating agreement with the statements relating to Cipolla Szicklay's resignation from its position as independent auditor.

We filed a Current Report on Form 8-K, dated January 7, 2004, under Item 5 regarding the Board of Directors' decision to authorize the management of Cordia to spend an aggregate of \$100,000 during 2004 to re-purchase the Company's Common Stock when market conditions are favorable for that purpose.

We filed a Current Report on Form 8-K, dated January 19, 2004, under Item 4 regarding the engagement of Lazar, Levine & Felix, LLP as our new principal independent accountants for our upcoming audit for the year ended December 2003.

We filed a Current Report on form 8-K, dated February 6, 2004, furnishing under Items 5 and 7 the Mutual Release and Satisfaction of Promissory Note and License Agreement, dated February 6, 2004, by and between our company and West Lane Group, Inc., the Stock Option Agreement dated February 6, 2004, by and between our company and West Lane Group, Inc. and our Press Release announcing the reduction of shares outstanding that resulted from the Mutual Release and Satisfaction of Promissory Note and License Agreement.

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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.

CORDIA CORPORATION

Date: May 15, 2004

By: Patrick Freeman /s/

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Patrick Freeman  
President and Chief Executive  
Officer

Date: May 15, 2004

By: Lorie M. Guerrero /s/

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Lorie M. Guerrero  
Chief Accounting Officer