

CORDIA CORP  
Form 10QSB  
November 12, 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 September 30, 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**

**Identification No.)** (State or Other Jurisdiction of **(I.R.S. Employer**  
**Incorporation or Organization)**

**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 November 2, 2004, there were 4,470,710 shares of the issuer's common stock outstanding.

Transitional Small Business Disclosure Format (check one):

Yes [ ] No [X]

**CORDIA CORPORATION**

**FORM 10-QSB**

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**Item 1. Financial Statements.**

**CORDIA CORPORATION AND SUBSIDIARIES**  
**CONDENSED CONSOLIDATED BALANCE SHEETS**

	September 30, 2004	December 31, 2003	
	-----	-----	
	(unaudited)		
<b>ASSETS</b>			
Current Assets			
Cash	\$ 258,352	\$ 111,288	
Accounts receivable, less allowance for doubtful accounts of \$262,439 (2004) and \$111,167 (2003)		2,033,659	600,840
Prepaid expenses and other current assets		390,756	193,157
Loans receivable from affiliates		-	30,000
	-----	-----	
<b>TOTAL CURRENT ASSETS</b>		<b>2,682,767</b>	<b>935,285</b>
	-----	-----	
Property and equipment, at cost			
Office equipment	161,129	39,759	
Less: Accumulated depreciation		41,360	10,241
	-----	-----	
<b>NET PROPERTY AND EQUIPMENT</b>		<b>119,769</b>	<b>29,518</b>
	-----	-----	
Other Assets			
Note receivable	-	595,000	
Security deposits	59,064	77,414	
	-----	-----	
<b>TOTAL OTHER ASSETS</b>		<b>59,064</b>	<b>672,414</b>
	-----	-----	
<b>TOTAL ASSETS</b>	<b>\$ 2,861,600</b>	<b>\$ 1,637,217</b>	
	=====	=====	

LIABILITIES AND STOCKHOLDERS' EQUITY (DEFICIT)

Current Liabilities

Accounts payable and accrued expenses		\$ 3,172,573	\$ 1,427,576
Unearned income	422,533	181,763	
Loans payable to affiliates	28,074	8,074	
Loans payable-other	57,000	57,000	
	-----	-----	
TOTAL CURRENT LIABILITIES		3,680,180	1,674,413
	-----	-----	

Commitments and Contingencies

Stockholders' Equity (Deficit)

Preferred stock, \$.001 par value; 5,000,000 shares authorized, no shares issued and outstanding		-	-
Common stock, \$.001 par value; 20,000,000 shares authorized 4,541,210 (2004) and 6,156,211 (2003) shares issued		4,541	6,156
Additional paid-in capital	3,660,087	4,271,622	
Accumulated deficit	(4,439,014)	(4,289,974)	
	-----	-----	
	(774,386)	(12,196)	
Less Treasury stock, 63,000 (2004) and 10,000 (2003) common shares at cost		(44,194)	(25,000)
	-----	-----	
TOTAL STOCKHOLDERS' EQUITY (DEFICIT)		(818,580)	(37,196)
	-----	-----	
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY		\$ 2,861,600	\$ 1,637,217
	=====	=====	

See notes to condensed consolidated financial statements.

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

For the Nine Months Ended		For the Three Months Ended	
September 30,		September 30,	
2004	2003	2004	2003
-----	-----	-----	-----

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Revenues:

Telecommunications Revenue	\$ 6,674,533	\$ 2,457,475	\$ 3,276,862	\$ 1,076,658
Other	450,661	142,055	134,945	83,462
	-----	-----	-----	-----
	7,125,194	2,599,530	3,411,807	1,160,120
	-----	-----	-----	-----

Operating Expenses:

Resale and wholesale line charges	3,217,955	1,134,614	1,619,574	470,473
Payroll and payroll taxes	1,478,592	648,553	532,325	302,044
Advertising and promotion	1,333,616	554,498	685,285	243,991
Professional and consulting fees	114,202	196,541	32,850	13,480
Depreciation	31,119	5,267	13,087	2,488
Insurance	131,907	58,429	51,776	24,099
Office expense	79,392	30,742	39,485	10,314
Telephone	86,234	46,292	42,638	16,458
Rent and building maintenance	116,573	38,877	37,858	10,995
Other selling, general and administrative	658,993	360,643	336,600	147,438
	-----	-----	-----	-----
	7,248,583	3,074,456	3,391,478	1,241,780
	-----	-----	-----	-----
Operating (Loss) Income	(123,389)	(474,926)	20,329	(81,660)
	-----	-----	-----	-----

Other Income (Expenses):

Impairment loss on note receivable	-	(165,000)	-	(165,000)
Gain on investments	-	3,750	-	-
Interest income (expense)	(7,843)	5,762	(2,096)	(1,005)
Other Expenses	(17,808)	-	(16,554)	-
	-----	-----	-----	-----
	(25,651)	(155,488)	(18,650)	(166,005)
	-----	-----	-----	-----



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Net (Loss)Income	(149,040)	(630,414)	1,679	(247,665)
	-----	-----	-----	-----
Income (Loss) ncome from Discontinued Operations				
Gain on disposal of subsidiary	-	1,554,306	-	-
Loss from operations of discontinued segments	-	(140,726)	-	-
	-----	-----	-----	-----
	-	1,413,580	-	-
	-----	-----	-----	-----
Net (Loss) Income	\$ (149,040)	\$ 783,166	\$ 1,679	\$ (247,665)
	=====	=====	=====	=====
(Loss) Income per Share basic and diluted	\$ (0.03)	\$ 0.14	\$ 0.00	\$ (0.04)
	=====	=====	=====	=====
Weighted Average Shares Outstanding	4,806,579	5,785,600	4,504,808	5,821,211
	=====	=====	=====	=====

See notes to condensed consolidated financial statements.

**CORDIA CORPORATION AND SUBSIDIARIES**  
**CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS**

**(UNAUDITED)**

For the Nine Months Ended  
September 30,  
2004      2003  
-----      -----

Cash Flows From Operating Activities		
Net loss from continuing operations	\$ (149,040)	\$ (630,414)
Adjustments to reconcile net loss to net cash provided (used) by operations		
Gain on investments	-	(3,750)
Compensatory stock expense	45,600	116,338
Provision for accounts receivable	252,825	81,876
Depreciation expense	31,119	5,267
Impairment loss note receivable	-	165,000
(Increase) decrease in assets		
Accounts receivable	(1,685,644)	(525,445)
Other receivables	-	76,082
Prepaid expenses and other current assets	(231,349)	(102,720)
Security deposits	18,350	(43,291)
Increase (decrease) in liabilities:		
Accounts payable and accrued expenses	1,744,997	625,995
Unearned income	240,770	169,503
	-----	-----
<b>NET CASH PROVIDED (USED) BY CONTINUING OPERATIONS</b>	<b>267,628</b>	<b>(65,559)</b>
<b>NET CASH USED BY DISCONTINUED OPERATIONS</b>	<b>-</b>	<b>(79,029)</b>
	-----	-----
<b>NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES</b>	<b>267,628</b>	<b>(144,588)</b>
	-----	-----
Cash Flows From Investing Activities		
Proceeds from sale of investments	-	6,550

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Decrease in other loans receivable	-	1,750	
Purchase of property and equipment	(121,370)	(14,758)	
	-----	-----	
NET CASH (USED) BY INVESTING ACTIVITIES		(121,370)	(6,458)
	-----	-----	
Cash Flows From Financing Activities			
Net proceeds from issuance and subscription of common stock		-	38,500
Purchase of treasury stock	(19,194)	-	
Proceeds from loans payable to affiliates	20,000	80,265	
Payment of loans payable-other	-	(10,248)	
	-----	-----	
NET CASH PROVIDED BY FINANCING ACTIVITIES		806	108,517
	-----	-----	
Increase (Decrease) in Cash	147,064	(42,529)	
Cash, Beginning	111,288	70,243	
	-----	-----	
Cash, Ending	\$ 258,352	\$ 27,714	
	=====	=====	

Supplemental Disclosures of Cash Flow Information

Cash paid during the period for:

Interest	\$ 7,843	\$ 2,166
----------	----------	----------

Income Tax	17,809	-
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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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See notes to condensed consolidated financial statements.

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**CORDIA CORPORATION AND SUBSIDIARIES**  
**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**  
September 30, 2004  
(Unaudited)

**Note 1: Basis of Presentation**

Our unaudited condensed consolidated 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 principles 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 and nine month periods ended September 30, 2004 are not necessarily indicative of the results to be expected for the full year.

The consolidated financial statements include the accounts of Cordia Corporation ( Cordia ) and the accounts of our wholly owned subsidiaries Cordia Communications Corp. ( CCC ), My Tel Co, Inc ( My Tel ), and CordiaIP Corp. for the nine months and three months ended September 30, 2004. The consolidated financial statements include the accounts of Cordia and CCC for the nine and three months ended September 30, 2003 and Cordia's 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). Cordia Corporation and its subsidiaries are collectively referred to herein as the Company. All material intercompany balances and transactions

have been eliminated.

These consolidated financial statements have been prepared assuming that Cordia and its subsidiaries ( the Company ) will continue as a going concern. The Company has incurred substantial losses since its inception and also has a negative working capital and a deficiency in stockholders' equity as of September 30, 2004. These conditions raise substantial doubt about the Company's ability to continue as a going concern. As discussed in Note 3, during 2003, the Company sold its interest in ISG. As a result of this transaction, the Company's stockholders' equity increased by approximately \$1,556,000. The Company disposed of business segments that historically generated net losses and working capital deficiencies. In addition the Company's remaining business segment, CCC, was profitable in 2003 and for the three and nine months ended September 30, 2004. Accordingly, management believes that the Company will be able to generate sufficient cashflows to meet its obligations as they come due during 2004. Management of the Company also intends to seek additional sources of capital, which sources may include public or private sales of the Company's securities and additional borrowings from affiliates and non-affiliates. Given current market conditions, there is no guarantee that the Company will be able to obtain such funding when needed, or that such funding, if available, will be obtainable on acceptable terms. These financial statements do not include any adjustments that might result from the outcome of this uncertainty.

## **Note 2: Investments and Purchase of Treasury Stock**

On January 7, 2004, the Board of Directors of Cordia Corporation unanimously authorized Cordia's management to spend an aggregate of \$100,000 during 2004 to re-purchase Cordia's common stock when market conditions are favorable for that purpose. As of September 30, 2004, Cordia's management exercised the Board's authority and purchased 53,000 shares of Cordia common stock at purchase prices ranging from \$0.30 to \$0.44 per share. In addition, Cordia held common shares of eLEC Communications Corp. ( eLEC ) during fiscal year 2003 which were sold prior to December 31, 2003. All investments were 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 realized gain on investments from continuing operations during the nine-month period ended September 30, 2003 was \$3,750.

**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, whereby ISG purchased an unlimited license to SubroAGS software. Upon execution of the licensing and services agreement, ISG paid Cordia \$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:

	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 common shares of the Company at \$7.50 per share expired.

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

	Nine months ended		Three	
months ended				
	Sept. 30,	Sept. 30,		
	-----	-----		
	2004	2003	2004	2003
	-----	-----	-----	-----
Revenues:				
Subrogation Service Revenue, net	\$ -	\$ 631,361	\$ -	\$ -
Claims Administration income	-	197,667	-	-
	-----	-----	-----	-----

Total Revenues: \$ - \$ 829,028 \$ - \$ -

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 transferred all ownership interest to the technology and source code of SUBRO AGS software to West Lane. The 1,412,500 shares were cancelled upon transfer to Cordia. As a result, on that date, Cordia's outstanding shares were reduced to 4,431,210.

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**CORDIA CORPORATION AND SUBSIDIARIES  
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**

September 30, 2004

(Unaudited)

**Note 4: Stockholders' Equity**

On May 23, 2003, Cordia's shareholders voted to amend the 2001 Equity Incentive Plan (the Plan) by authorizing an additional 1,000,000 shares. The total number of shares of Cordia's common stock authorized for issuance under the Plan is 2,000,000, subject to adjustment for events such as stock dividends and stock splits.

A committee of the board of directors having full and final authority and discretion to determine when and to whom awards should be granted administers the Plan. The committee will also determine the terms, conditions and restrictions applicable to each award. Transactions under the Plan are summarized as follows:

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	Stock Options -----	Exercise Price -----
Balance, December 31, 2003	928,000	\$ .60 to 11.25
Granted with 5 year vesting	209,000	\$ .40
Exercised	-	\$
Expired	-	\$
	-----	-----
Balance, September 30, 2004	1,137,000	\$ .40 to 11.25

In electing to follow APB 25 for expense recognition purposes, the Company is obliged to provide the expanded disclosures required under FAS No. 123 for stock-based compensation granted in 1996 and thereafter. The fair value of the employee stock options granted for the nine months ended September 30, 2004 and 2003 was approximately \$490,114 and \$406,550, respectively, based on the Black-Scholes option valuation model. For purposes of pro forma disclosures, stock-based compensation is recognized over the vesting period as vesting requirements are fulfilled.

The following table compares the nine months ended September 2004 and 2003 results as reported to the results had the Company adopted the expense recognition provisions of FAS No. 123:

As reported

Pro Forma

	-----	-----
-2004		
----		
Net Loss	\$(149,040)	\$(233,634)
Loss per share	\$(0.03)	\$(0.05)

2003

	-----	-----
----		
Net Income	\$783,166	\$871,725
Income per share	\$0.14	\$0.15



The fair value of each option grant was estimated on the date of the grant using the Black-Scholes option-pricing model with the following weighted-average assumptions for 2004 and 2003 respectively, expected volatility of 300% and 155%; risk-free rate of 2.67% and 1.93%; and expected life of 4 and 2.5 years.

The effects of applying SFAS 123 in the above pro forma disclosures are not indicative of future amounts as future amounts are likely to be affected by the number of grants awarded and since additional awards are generally expected to be made at varying prices.

On June 1, 2004 we issued a total of 10,000 shares of Cordia's stock, to a current employee, when the market value was \$0.36. As a result we recognized \$3,600 as compensatory stock expense.

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**CORDIA CORPORATION AND SUBSIDIARIES**  
**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**  
September 30, 2004

(Unaudited)

**Note 5: (Loss) Income Per Common Share**

(Loss) income per common share is computed by dividing the net (loss) income by the weighted average number of common shares and common equivalent shares outstanding during each period. As promulgated in SFAS 128

Earnings Per Share (SFAS 128), SFAS 128 requires the presentation of basic and diluted earnings per share on the face of the Statement of Operations.

**Note 6: Commitments**

As of September 30, 2004, the Company 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 \$3,302 per month plus utilities on a month to month basis. We anticipate executing a lease during the fourth quarter of this fiscal year for additional space to house an inbound/outbound call center, development team, and technical support for our Voice over Internet Protocol business.

**Note 7: Subsequent Events**

Pursuant to the Board's authority, the Company purchased a total of 7,500 shares of Cordia common stock on October 5, 2004 at a purchase price of \$0.50 per share.

## **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.*

### **Critical Accounting Policies and Estimates**

The preparation of financial statements and related disclosures in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the amounts reported in the unaudited Condensed Consolidated Financial Statements and accompanying notes. Management bases its estimates on historical experience and on various other assumptions that are believed to be reasonable under the circumstances. Actual differences could differ from these estimates under different assumptions or conditions. The Company believes there have been no significant changes during the nine month period ended September 30, 2004, to the items disclosed as significant accounting policies in management's Notes to Consolidated Financial Statements in the Company's Annual Report on Form 10-KSB for the year ended December 31, 2003.

## Overview

Cordia Corporation is a business services firm which generates revenue from its telecommunications products and services offerings which include local exchange, local access domestic and international long distance telephone and a full suite of local features and calling plans with service offerings to small business and residential customers in New York, New Jersey and Pennsylvania and our products and services offered to telecommunications providers on a wholesale basis.

Our plan is to broaden the scope of our telecommunications offerings to include Voice over Internet Protocol ( VoIP ) network services. After forming a wholly owned subsidiary for this purpose, we commenced our initial deployment of VoIP services during June 2004 and anticipate an initial commercial roll out during the fourth quarter of 2004. We intend to offer our customers 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.

In addition to our suite of telecommunications service offerings, we also generate revenue from web-based service offerings, which include outsourced solutions to telecommunications service providers. 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.

We believe our operations support systems ( OSS ) are a sensible and cost effective means of running a telecommunications business because clients do not have to purchase and install software. Our philosophy is that the process should govern software development and to that end, client required modifications to OSS are made at

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the server level and instantly passed on to all of our clients users. This method allows us to 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 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, information, and commerce. The Internet has revolutionized the way organizations function and has created opportunities to perform business operations 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.

As a compliment to our telecommunications, VoIP and web-based service offerings, we intend to expand into the wireless telecommunications market. We believe that this expansion will be beneficial in light of the increased use of wireless telecommunications services and the ability of wireless consumers to change wireless service providers while maintaining their telephone number. In addition, the 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. We are currently investigating wholesale wireless options available to us and intend to begin to introduce wireless services to our customers during 2005.

## **Regulatory Issues**

### *Unbundled Network Elements ( UNE-P )*

The Telecommunications Act of 1996 (the Telecommunications Act ), opened the local exchange market to competition, and created an attractive opportunity for Competitive Local Exchange Carriers ( CLEC ). The Telecommunications Act required Incumbent Local Exchange Carriers ( ILECs ) to lease various elements of their networks, specifically that which is 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 .

During 2003, the Federal Communications Commission ( FCC ) reviewed its rules and policies pertaining to UNE-P and released its Triennial Review Order ( TRO ), which is the basis for our current pricing and unbundled network elements availability, in August 2003. On March 2, 2004, however, the District Court issued a decision that reversed, vacated and remanded the TRO. On September 13, 2004, the FCC published its interim rules, which consist of a twelve-month transition plan governing unbundled access by CLECs to the network elements of ILECs. The purpose of the FCC s plan is to avoid disruption in the telecommunications industry for an interim period of one year while the FCC develops its final rules. The interim rules require the ILEC to continue to provide unbundled access to switching, enterprise market loops and dedicated transport under the same rates, terms and conditions that applied under interconnection agreements in effect on June 15, 2004. The rates, terms and conditions shall remain in place until the earlier of the FCC s issuance of final rules or March 13, 2005, except to the extent that they have been replaced by (1) a voluntarily negotiated commercial agreement between the ILEC and CLEC; (2) and intervening commission order; or (3) a state public utility commission order that raises the rates to the CLEC to purchase network elements.

Cordia is actively negotiating with Verizon Services Corp., BellSouth Telecommunications, Inc., SBC Telecommunications, Inc. and Qwest Communications Corp (collectively the ILECs ) to reach a mutually agreeable commercial agreement as a replacement to the service offering required under the Telecommunications Act. Though we cannot guarantee our reaching satisfactory agreements with any of the aforementioned companies, Cordia anticipates reaching an agreement with one or more of the ILECs on or before the close of the first quarter of 2005. By reaching a commercial agreement Cordia will limit the uncertainty that lingers as a result of the current regulatory framework and ensure that we may continue as a telecommunications service provider. We do however anticipate a rise in our costs associated with providing services under the proposed commercial agreements but believe that we will be able to generate sufficient gross margins under the proposed agreements to generate profits from these

services. If Cordia however, fails to reach an agreement with any or all of the ILECs we would retain

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access to network elements that the FCC has not subjected to unbundling for a transition period as mandated by the FCC, but only for existing customers and at transitional rates that are modestly higher than current rates. ILECs shall be required to offer on an unbundled basis the network elements set forth in the FCC's final unbundling rules after the transition period expires.

During the period while we are negotiating commercial agreements with the ILECs and operating under the FCC interim rules, we have elected to aggressively increase our marketing efforts to grow our customer base prior to the commencement of the transition period which limits access to currently available network elements to existing customers and at transitional rates. We believe that by taking advantage of the uncertainty in the market and the relative large margins still available to us under the FCC interim rules, this interim period may be the best opportunity to increase our customer base. We believe that a larger customer base will generate greater profits and cash flow in future years, which will better position us for the coming conversion to commercial agreements and VoIP.

#### *Voice Over Internet Protocol ( VoIP )*

The FCC has initiated a proceeding to examine what its role should be in this new Internet based environment but does not currently regulate the Internet or the services provided over it and recently made the finding that an entirely Internet-based VoIP service is an unregulated information service. 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, 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.

#### *Wireless Telecommunications*

The FCC and state public utility commissions do not regulate the provision of resale wireless services. As a result, new entrants avoid the regulatory expenses involved in filing an application with the appropriate regulatory agency for authority to offer this service to customers.

## Subsidiaries

### *Cordia Communications Corp. ( CCC )*

In July 2001, we formed CCC, which currently 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. We are also licensed to provide local and long distance telecommunications services in Florida, Illinois, Massachusetts, Michigan and Ohio, however we are not actively marketing or providing our retail telecommunications services in these regions at this time. In addition, we are preparing applications for authorization to operate as a telecommunications carrier in Arizona, Colorado, Minnesota and Washington. It is our intention to continue to aggressively grow our retail customer base for the remainder of 2004 and expand our retail service offerings into new territories during the first and second quarter of 2005. It is our belief that due to the relative size of their telecommunications markets and relatively favorable wholesale terms as compared to other regions, these new regions may offer the most attractive opportunities and retail gross margins under commercial agreements currently being negotiated with the ILECs.

CCC also offers an extensive outsourced service product line, which includes wholesale telecommunications services. Customers who utilize this service have access to our 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. Our operations support systems referred to as a Telecom Account Management System or simply TAMS represent the suite of services available to telecommunications service providers that wish to outsource tasks incident to operating as a full service telecommunications carrier. Services available through TAMS include Data

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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. During 2005, we anticipate the introduction of an updated version of TAMS that will include Workspaces and software functionality designed to support VoIP and wireless services.

We believe 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. 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 a part of any new entrant's business strategy.

*CordiaIP Corp. ( CordiaIP )*

CordiaIP was formed on April 23, 2004, for the purpose of operating as a VoIP services provider. In June 2004, we commenced our initial deployment and testing of VoIP services utilizing wholesale offerings and network sharing arrangements from other VoIP-enabled carriers. Though the results of our testing are marginally acceptable to us, we believe that greater long-term shareholder value will come from the development of our own proprietary VoIP services and OSS capabilities. Since June 2004, we have been continually developing our own VoIP service platform. We have hired additional employees dedicated to the development of VoIP and anticipate a commercial release of our VoicePower VoIP service during the fourth quarter of 2004.

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. In addition, we anticipate subsequent releases of a business-grade VoIP service that will include enhanced business related features and functionality and dedicated Internet access. During September 2004, and in furtherance of our plans for a business-grade VoIP service, we entered into a nationwide agreement with Covad Communications through which we will be able to offer our customer's dedicated DSL and T-1 Internet access services.

*My Tel Co, Inc. ( My Tel )*

My Tel was formed in June 2002 and is licensed to operate as a competitive local exchange carrier in New York and Pennsylvania. My Tel however, has never operated under the authority granted to it by the State of New York or the State of Pennsylvania and has remained an inactive subsidiary, reporting no revenues of Cordia. It is our intention that My Tel operate as a reseller of wireless services and to that end we filed an application to operate as a wireless reseller with Verizon Wireless. The application is currently on hold while we attempt to negotiate for more favorable terms with Verizon Wireless and alternative wireless carriers.

*Insurance Solutions Group*

Our now terminated 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.

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After deciding to focus on our telecommunications business and telecommunications related businesses 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 represented by a two-year promissory note and secured by 700,000 shares of our stock owned by West Lane on March 3, 2003.

In two transactions occurring in December 2003 and February 2004, respectively, we agreed to accept a total of 1,725,001 shares of our Common stock from West Lane Group, Inc. and a fifteen (15) month option to purchase 100,000 additional shares of our Common Stock at \$.40 per share 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 shares were transferred to us during the first quarter of 2004 and all were thereafter retired resulting in a reduction of our outstanding shares, as of February 18, 2004 to 4,431,210 shares.



**Results of Operations:****Operating Revenues**

	For the Nine Months Ended September 30,		For the Three Months Ended September 30,	
	2004	2003	2004	2003
Revenues				
Telecommunications Revenue	\$ 6,674,533	\$ 2,457,475	\$ 3,276,862	\$ 1,076,658
Other	450,661	142,055	134,945	83,462
	7,125,194	2,599,530	3,411,807	1,160,120

Revenues for the three and nine months ended September 30, 2004, increased by approximately \$2,252,000 and \$4,526,000 respectively to approximately \$3,412,000 and \$7,125,000 respectively as compared to approximately \$1,160,000 and \$2,600,000 respectively reported during the three and nine months ended September 30, 2003.

## Change in Telecommunications Revenue

2004-2003 3mths.	\$ 2,200,000	204% increase
2004-2003 9mths.	\$ 4,217,000	172% 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 and nine months ended September 30, 2004, approximately \$3,035,000 and \$6,154,000 was generated from retail and wholesale telecommunications services respectively, and \$242,000 and \$521,000 was generated from Carrier Access Billing (CABS) services, respectively as compared to revenues from the three month and nine months ended September 30, 2003, whereby approximately \$992,000 and \$2,195,000 was generated from retail and wholesale telecommunications services respectively, and approximately \$85,000 and \$262,000 was generated from CABS services.

Wholesale telecommunications services represented less than \$10,000 or approximately 0.3% of our total telecommunications services revenue generated during the three-month period ended September 30, 2004 versus approximately \$75,000 or approximately 8% for the prior year period. This decrease is a result of focusing our resources to grow our retail customer base, which we believe will generate greater margins and profits as compared to wholesale customers. We anticipate continued growth in the retail customer base of our telecommunications operations through the end of the first quarter of 2005. Continued growth beyond the first quarter of 2005 will be dependent upon either favorable regulatory developments for UNE-P or our negotiating and executing favorable commercial agreements with one or more of the ILECs.

Change in Other Revenue

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2004-2003 3mths.	\$ 51,000	62% increase
2004-2003 9mths.	\$ 309,000	217% 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 (2003). The increase is primarily due to providing additional data and billing services to our existing outsourced customers. We expect this revenue stream to remain consistent through the remainder of 2004.

**Operating Expenses**

	For the Nine Months Ended		For the Three Months Ended	
	September 30,		September 30,	
	2004	2003	2004	2003
	-----	-----	-----	-----
Operating Expenses				
Resale and wholesale line charges	\$ 3,217,955	\$ 1,134,614	\$ 1,619,574	\$ 470,473

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Payroll and payroll taxes	1,478,592	648,553	532,325	302,044
Advertising and promotion	1,333,616	554,498	685,285	243,991
Professional and consulting fees	114,202	196,541	32,850	13,480
Depreciation	31,119	5,267	13,087	2,488
Insurance	131,907	58,429	51,776	24,099
Office expense	79,392	30,742	39,485	10,314
Telephone	86,234	46,292	42,638	16,458
Rent and building maintenance	116,573	38,877	37,858	10,995
Other selling, general and administrative	658,993	360,643	336,600	147,438
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	\$ 7,248,583	\$ 3,074,456	\$ 3,391,478	\$ 1,241,780

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Consolidated operating expenses increased by approximately \$2,150,000 and \$4,174,000 or approximately 173% and 136%, to approximately \$3,391,000 and \$7,249,000 during the three and nine months ended September 30, 2004 respectively, as compared to approximately \$1,242,000 and \$3,074,000 respectively, during the comparable period ended 2003.

Change in Resale and Wholesale Line Charges

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2004-2003 3mths. \$1,149,000                      244 % increase
2004-2003 9mths. \$2,083,000                      184 % increase
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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 for the three and nine months ended September 30, 2004 increased as compared to the comparable period in 2003 due to the increase of our customer base of approximately 228%. We expect these charges to continue to increase through 2004, as we continue to actively pursue our growth strategy. We believe that these expenses may increase as a percentage of revenues during 2005 due to the regulatory changes in the pricing and availability of UNE-P and higher wholesale prices we may incur if we begin to purchase wholesale services under negotiated agreements with one or more of the ILECs.

Change in Payroll and Payroll Taxes

2004-2003 3mths.	\$ 230,000	76% increase
2004-2003 9mths.	\$ 830,000	128% increase

This increase was directly related to the growth of our telecommunications services. We expect that our payroll costs will continue to increase, although not as significantly, over the next 3 to 6 months as we continue to expand and grow our customer base.

Change in Advertising and Promotion

2004-2003 3mths.	\$ 441,000	181% increase
2004-2003 9mths.	\$ 779,000	141% increase

Advertising and promotion costs, which consist of advertising, marketing, travel and telemarketing expenses, increased for the three and nine months ended September 30, 2004 as compared to the comparable period ended September 30, 2003, due primarily to our use of telemarketers to grow our customer base. It is expected that this trend will continue, although not as dramatically, as our telecommunications business will require the services of telemarketers to continue to grow our customer base.

Change in Professional and Consulting

2004-2003 3mths.	\$ 19,000	144% increase
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2004-2003 9mths. (\$82,000) (42%) decrease  
 =====

This nine-month decrease was principally the result of us using less, non-cash expense related options, granted to non-employees for consulting services. The three-month increase is a result of normal, course of business, tax and accounting services.

Change in Depreciation

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2004-2003 3mths.	\$ 11,000	426% increase
2004-2003 9mths.	\$ 26,000	491% increase

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

Change in Insurance

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2004-2003 3mths.	\$ 28,000	115% increase
2004-2003 9mths.	\$ 73,000	126% increase

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

Change in: Office Expense

Telephone  
 Rent and Building Maintenance

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2004-2003 3mths.	\$ 82,000	218% increase
2004-2003 9mths.	\$ 166,000	143% increase

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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 expenses associated with opening our new offices in White Plains, New York during the first quarter of 2004.

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Change in Other Selling, General and Administrative

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2004-2003 3mths.	\$ 189,000	128% increase
2004-2003 9mths.	\$ 298,000	83% increase

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Other selling, general and administrative expenses consist of expenses such as bad debt, dues and subscriptions, equipment rental, 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., the largest of these expenses being related to bad debt expenses, which correlate directly to our increase in telecommunications revenues. We expect these expenses to increase during the remainder of 2004 as we intend to expand and grow our telecommunications business.

**Liquidity and Capital Resources**

At September 30, 2004, we had cash and cash equivalents available of approximately \$258,000, an increase of approximately \$147,000 from amounts reported at December 31, 2003. At September 30, 2004, we had a working capital deficit of approximately \$997,000, which represented an increase in our working capital deficit of approximately \$258,000 from the amount reported at December 31, 2003 (approximately \$739,000). The increase in our working capital deficit is directly related to expenditures and resulting accounts payable, which were necessary to grow Cordia Communications telecommunications base.

Net cash provided by in operating activities aggregated approximately \$268,000 for the nine month period ended September 30, 2004 as compared to net cash used by operating activities of approximately \$145,000 for the nine month period ended September 30, 2003. The principal source of cash provided during the nine months ended September 30, 2004 was the increase in accounts payable of approximately \$1,745,000 which was offset against the source of cash used for the increase in accounts receivable of approximately \$1,686,000 as compared to the source of cash provided for the increase in accounts payable of approximately \$626,000 offset against the source of cash used for the increase in accounts receivable of approximately \$525,000 for the nine months ended September 30, 2003.



Net cash used in investing activities aggregated approximately \$121,000 and \$6,000 during the nine-month periods ended September 30, 2004 and 2003, respectively. Cash applied to investing activities consisted primarily of purchases of computer equipment amounting to \$121,000 and \$15,000 for the nine months ended September 30, 2004 and 2003, respectively. The September 30, 2003 investing activities were primarily offset by proceeds from the sale of investments of \$7,000.

Net cash provided by financing activities aggregated approximately \$1,000 and \$109,000 during the nine month periods ended September 30, 2004 and 2003, respectively. The principal sources of net cash provided by financing activities in the nine month periods ended September 30, 2004 and 2003 were attributed to loans payable to affiliates of \$20,000 offset against funds spent to acquire treasury stock of approximately \$19,000 for the 2004 period, and the proceeds from the issuance of common stock of approximately \$39,000, and net proceeds from loans payable of approximately \$70,000 for the 2003 period.

Though we earned a small operating profit during the quarter ended September 30, 2004, we believe our cash and cash equivalent assets at November 11, 2004 may not provide us with sufficient liquidity to grow our business and carry out many of our expansion plans. In recognition of our current working capital deficit and 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. Our inability to obtain sufficient working capital may restrict our ability to carry out our growth plans, which would limit our ability to increase our profitability, develop and deploy VoIP services and expand into new territories and would adversely affect our financial condition and results of 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 and 15d-14) 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, result 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.

**PART II**  
**OTHER INFORMATION**

**Item 6. Exhibits**

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

Exhibit No.

Description

11.1                      Computation of per share earnings (loss)

1.1

Certification of Principal Executive Officer Pursuant to 18 U.S.C. 1350

(Section 302 of the Sarbanes-Oxley Act of 2002)

1.2

Certification of Principal Financial Officer Pursuant to 18 U.S.C. 1350

(Section 302 of the Sarbanes-Oxley Act of 2002)

0.1

Certification of Cordia Corporation's Principal Executive Officer, Patrick Freeman, pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

0.2

Certification of Cordia Corporation's Principal Financial Officer, Lorie M. Guerrero, pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

**SIGNATURES**

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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: November 11, 2004

By: /s/ Patrick Freeman

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Patrick Freeman  
President and Chief Executive Officer

Date: November 11, 2004

By: /s/ Lorie M. Guerrero

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Lorie M. Guerrero  
Chief Accounting Officer