CORDIA CORP
Form 10-Q
May 20, 2008

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, DC 20549

FORM 10-Q

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

For the quarterly period ended March 31, 2008

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

For the transition period from ___________ to ___________.

Commission File Number: 0-51202

CORDIA CORPORATION

(Exact Name of Registrant as Specified in Its Charter)

Nevada	11-2917728
(State or Other Jurisdiction of Incorporation or Organization)	(I.R.S. Employer Identification No.)

13275 W. Colonial Drive, Winter Garden, Florida 34787

(Address of Principal Executive Offices)

866-777-7777

(Registrant's Telephone Number, Including Area Code)

Check whether the registrant (1) filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes [X] No [ ]

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. . See the definitions of large accelerated filer, accelerated filer, and smaller reporting company in Rule 12b-2 of the Exchange Act.

Large Accelerated Filer [ ] Accelerated Filer [ ] Smaller Reporting Company [X] Non-Accelerated Filer [ ]

Check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Yes [ ] No [X]

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 Securities Exchange Act of 1934 subsequent to the distribution of securities under a plan confirmed by a court.

Yes [ ] No [ ]

APPLICABLE ONLY TO CORPORATE ISSUERS

As of May 15, 2008, there were 6,294,188 shares of the issuer's common stock outstanding.

CORDIA CORPORATION

FORM 10-Q

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PART I
FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS.

CORDIA CORPORATION AND SUBSIDIARIES
CONDENSED CONSOLIDATED BALANCE SHEETS

	March 31, 2008 (unaudited)	December 31, 2007 As Restated
ASSETS		
Current Assets		
Cash and cash equivalents	$ 434,991	$ 999,039
Cash restricted	174,627	173,848
Accounts receivable, less allowance for doubtful accounts of $1,481,205 (2008) and $2,002,823 (2007)	2,156,097	2,178,984
Prepaid expenses	1,400,644	1,427,093
Loans receivable	341,240	-
Accrued usage receivable	335,349	314,215
TOTAL CURRENT ASSETS	4,842,948	5,093,179
Property and equipment, at cost		
Office and computer equipment	2,041,857	2,006,879
Computer software	2,230,757	2,059,386
Leasehold improvements	579,331	561,505
	4,851,945	4,627,770
Less: Accumulated depreciation and amortization	2,554,858	2,237,604
NET PROPERTY AND EQUIPMENT	2,297,087	2,390,166
Other Assets		
Goodwill	3,398,972	3,398,972
Security deposits and other assets	1,124,150	861,791

Investment in unconsolidated affiliates	304,085	336,541
TOTAL OTHER ASSETS	4,827,207	4,597,304
TOTAL ASSETS	$ 11,967,242	$ 12,080,649
LIABILITIES AND STOCKHOLDERS' EQUITY (DEFICIT)		
Current Liabilities		
Capital lease obligations, current portion	$ 13,206	$ 12,953
Notes payable, current portion	565,460	557,062
Accounts payable	4,411,757	4,018,814
Accrued expenses	954,174	939,769
Billed taxes payable	8,395,766	8,029,921
Deferred revenue	1,394,395	1,315,900
TOTAL CURRENT LIABILITIES	15,734,758	14,874,419
Noncurrent Liabilities		
Deferred rent	78,603	82,378
Deferred income tax liability	1,967	2,004
Notes payable, net of current portion	914,250	1,058,804
Capital lease obligation, net of current portion	21,824	25,221
TOTAL NONCURRENT LIABILITIES	1,016,644	1,168,407
COMMITMENTS AND CONTINGENCIES		
Stockholders' (Deficit)		
Preferred stock, $.001 par value; 5,000,000 shares authorized, none issued	-	-
Common stock, $.001 par value; 100,000,000 shares authorized, 6,916,574 shares issued	6,917	6,917
Additional paid-in capital	6,754,207	6,707,581
Comprehensive (loss)	(58,481)	(48,121)
Accumulated deficit	(11,146,034)	(10,307,761)
	(4,443,391)	(3,641,384)
Less: Treasury stock, at cost, 622,386 (2008) and 589,186 (2007)	(340,769)	(320,793)

TOTAL STOCKHOLDERS' (DEFICIT)	(4,784,160)	(3,962,177)
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY (DEFICIT)	$ 11,967,242	$ 12,080,649

Note: See notes to condensed consolidated financial statements.

CORDIA CORPORATION AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

(UNAUDITED)

	For the Three Months Ended March 31,	
	2008	2007
Revenues		
Wireline services	$ 11,356,943	$ 9,952,700
VoIP services	654,998	166,994
Business process outsourced services	4,500	117,041
	12,016,441	10,236,735
Cost of Revenues		
Wireline services	6,490,701	5,349,175
VoIP Services	557,400	180,503
	7,048,101	5,529,678
Gross Profit	4,968,340	4,707,057
Operating Expenses		
Sales and marketing	1,246,289	1,114,941
Bad debts	869,404	595,123
General and administrative	3,291,560	3,130,216
Impairment of goodwill	-	284,117
Depreciation and amortization	346,351	250,098
	5,753,604	5,374,495
Operating Loss	(785,264)	(667,438)
Other Income (Expenses)		
Other income (expense)	(27,065)	-
Interest income	1,537	24,742

Interest expense	(24,279)	(953)
	(49,807)	23,789
Loss Before Income Taxes and Minority Interest	(835,071)	(643,649)
Income tax provision	3,202	-
Loss Before Minority Interest	(838,273)	(643,649)
Minority Interest in Loss of Subsidiary	-	2,745
Net Loss	$ (838,273)	$ (640,904)
Basic (Loss) per share	$ (0.13)	$ (0.11)
Weighted Average Common Shares Outstanding	6,296,611	5,620,924
Diluted (Loss) per share	$ (0.13)	$ (0.11)
Weighted Average Common and Common Equivalent Shares Outstanding	6,296,611	5,620,924

Note: See notes to condensed consolidated financial statements.

CORDIA CORPORATION AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(UNAUDITED)

	For the Three Months Ended March 31, 2008	2007
Cash Flows From Operating Activities		
Net (Loss) from operations	$ (838,273)	$ (640,904)
Adjustments to reconcile net (loss) to net cash provided by operations		
Compensatory stock expense	46,626	74,838
Bad debt expense	869,404	595,123
Depreciation and amortization expense	449,858	250,098
Impairment of goodwill	-	284,117
Minority Interest	-	(2,745)
Deferred taxes	(37)	-
(Increase) decrease in assets:		
Restricted cash	(779)	52,800
Accounts receivable	(846,517)	(417,643)
Prepaid expenses and other current assets	(11,522)	(194,790)
Accrued usage receivable	(21,134)	(100,414)
Security deposits and other assets	(66,716)	(83,926)
Increase (decrease) in liabilities:		
Accounts payable	392,943	(271,853)
Accrued expenses	14,405	(678,558)
Billed taxes payable	365,845	1,188,305
Deferred revenue	78,495	7,622
Deferred rent	(3,775)	(1,441)
NET CASH PROVIDED BY OPERATING ACTIVITIES	428,823	60,629
Cash Flows from Investing Activities		
Capitalized software costs	(154,933)	(181,124)
Leasehold improvements	-	(2,818)

Purchase of property and equipment	(102,687)	(63,584)
Purchase of customer lists	(224,375)	-
Increases in loans receivable	(341,240)	-
NET CASH USED BY INVESTING ACTIVITIES	(823,235)	(247,526)
Cash Flows From Financing Activities		
Purchase of treasury stock	(19,976)	-
Principal payments on capital leases	(3,144)	(2,912)
Payments of notes payable	(136,156)	-
NET CASH USED BY FINANCING ACTIVITIES	(159,276)	(2,912)
Effect of exchange rate changes on cash	(10,360)	4,649
Decrease in Cash	(564,048)	(185,160)
Cash and cash equivalents, beginning	999,039	370,832
Cash and cash equivalents, ending	$ 434,991	$ 185,672
Supplemental Disclosures of Cash Flow Information - Cash paid during the quarter for:		
Interest	$ 24,279	$ 953
Income tax	$ -	$ 880

Note: See notes to condensed consolidated financial statements.

CORDIA CORPORATION AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

Period Ended March 31, 2008

(Unaudited)

Note 1: Basis of Presentation/Going Concern

The accompanying consolidated financial statements of the Company have been prepared in accordance with accounting principles generally accepted in the United States (US GAAP) for interim financial information and the instructions to Form 10-Q. Accordingly, they do not include all of the information and footnotes required by US GAAP for complete financial statements. In the opinion of the Company s management, all adjustments (consisting only of normal recurring accruals) considered necessary for a fair presentation have been included. Operating results for the three-month period ended March 31, 2008 are not necessarily indicative of the results that may be expected for the full fiscal year ending December 31, 2008. The accompanying financial statements should be read in conjunction with the audited financial statements of the Company for the fiscal year ended December 31, 2007.

The interim condensed 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), Cordia International Corp. (CIC), and its subsidiaries, CordiaIP Corp. (CordiaIP), and Midwest Marketing Group, Inc. (Midwest), and its subsidiary, as of March 31, 2008 and December 31, 2007, and for the three months ended March 31, 2008 and March 31, 2007. Cordia and its subsidiaries are collectively referred to herein as the Company. All material intercompany balances and transactions have been eliminated.

Going Concern

These consolidated financial statements have been prepared assuming that the Company will continue as a going concern. The Company has incurred a net loss of approximately $(838,000) for the three months ended March 31, 2008, and also has a negative working capital of approximately $10,892,000 and a deficiency in stockholders' equity of approximately $4,784,000 as of March 31, 2008. These conditions raise substantial doubt about the Company's ability to continue as a going concern. Management believes that the Company will be able to generate sufficient cash flows from operations to meet its obligations as they come due during the remainder of 2008. In its efforts to strengthen its financial position the Company may also have to raise cash from additional sources such as short term funding, to cover short-term cash deficiencies that may arise.

Note 2: Restatement of Financial Statements

In preparing the Form 10-Q, for the quarter ended March 31, 2008, we determined that there were errors in the prior year s financial statements. There was an overstatement of revenues and related accounts receivable and an understatement of our cost of revenues and related accounts payable for the prior period, requiring the restatement of our financial statements for the fiscal year ended December 31, 2007. In addition, included in the preliminary estimated fair values of assets acquired and liabilities assumed at the date of acquisition of Midwest Marketing Group, Inc., was an overstatement of accounts receivable due to an inclusion of an intercompany account of $105,000 in the balance. This overstated accounts receivable and understated goodwill by $105,000.

As a result of the adjustments described above, our management concluded, and informed the Audit Committee of the Company's Board of Directors and in a current report on Form 8-K filed on May 15, 2008, that (1) our previously issued financial statements and any related report of our independent registered public accounting firm for the fiscal years ended December 31, 2007 should no longer be relied upon because of the aforementioned errors in those financial statements, (2) our earnings and press releases and similar communications should no longer be relied upon to the extent that they relate to these financial statements, and (3) our financial statements and Original Form 10-K for the fiscal year ended December 31, 2007 should be restated to reflect the correct accounting for the items discussed above.

CORDIA CORPORATION AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

Period Ended March 31, 2008

(Unaudited)

Note 3: (Loss) Per Share

(Loss) per common share are calculated under the provisions of SFAS No. 128, Earnings per Share. SFAS No. 128 requires the Company to report both basic earnings per share, which is based on the weighted-average number of common share outstanding, and diluted earnings per share, which is based on the weighted-average number of common shares outstanding plus all potential dilutive common shares outstanding. Diluted (loss) per share for 2008, and 2007, is the same as basic earnings per share as the effect of the common stock purchase options and warrants outstanding, on such calculation, would have been anti-dilutive.

Weighted average number of shares outstanding was 6,296,611, and 5,620,924 for three months ended March 31, 2008, and 2007, respectively. Potentially dilutive weighted-average shares that were excluded in the calculation of diluted earnings per share, as their impact would be anti-dilutive, aggregated 1,077,833 and 1,107,625, vested stock options, for the three month periods ended March 31, 2008 and 2007, respectively.

Note 4: Recent Accounting Pronouncements Affecting the Company

Statement of Financial Accounting Standard No. 161, Disclosures About Derivative Instruments and Hedging Activities (SFAS No. 161)

In March 2008, the Financial Accounting Standards Board (FASB) issued FASB Statement No. 161, *Disclosures About Derivative Instruments and Hedging Activities*. The new standard is intended to improve financial reporting about derivative instruments and hedging activities by requiring enhanced disclosures to enable investors to better understand their effects on an entity s financial position, financial performance, and cash flows. It is effective for financial statements issued for fiscal years and interim periods beginning after November 15, 2008, with early application encouraged. The Company is currently evaluating the impact of adopting SFAS. No. 161 on its financial statements.

Statement of Financial Accounting Standard 141 Revised (SFAS No. 141(R)): Business Combinations

In December 2007, the Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standards (SFAS) No. 141 (revised 2007), Business Combinations, which replaces SFAS No 141. The statement retains the purchase method of accounting for acquisitions, but requires a number of changes, including changes in the way assets and liabilities are recognized in the purchase accounting. It also changes the recognition of assets acquired and liabilities assumed arising from contingencies, requires the capitalization of in-process research and development at fair value, and requires the expensing of acquisition-related costs as incurred. SFAS No. 141R is effective for business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after December 15, 2008.

Statement of Financial Standard No. 160 (SFAS No. 160) Noncontrolling interest in Consolidated Financial Statements an amendment of ARB 51

In December 2007, the FASB issued SFAS No. 160 Noncontrolling Interests in Consolidated Financial Statements an Amendment of ARB No. 51. SFAS 160 establishes accounting and reporting standards pertaining to ownership interests in subsidiaries held by parties other than the parent, the amount of net income attributable to the parent and to the noncontrolling interest, changes in a parent s ownership interest, and the valuation of any retained noncontrolling equity investment when a subsidiary is deconsolidated. This statement also establishes disclosure requirements that clearly identify and distinguish between the interests of the parent and the interests of the noncontrolling owners. SFAS 160 is effective for fiscal years beginning on or after December 15, 2008. The adoption of SFAS 160 is not currently expected to have a material effect on the Company s consolidated financial position, results of operations, or cash flows.

CORDIA CORPORATION AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

Period Ended March 31, 2008

(Unaudited)

Note 4: Recent Accounting Pronouncements Affecting the Company

Statement of Financial Accounting Standard 159 (SFAS 159): The Fair Value Option for Financial Assets and Financial Liabilities

In February 2007, the FASB issued SFAS No. 159, "The Fair Value Option for Financial Assets and Financial Liabilities" (SFAS No. 159). SFAS No. 159 permits entities to choose to measure, on an item-by-item basis, specified financial instruments and certain other items at fair value. Unrealized gains and losses on items for which the fair value option has been elected are required to be reported in earnings at each reporting date. SFAS No. 159 is effective for fiscal years beginning after November 15, 2007, the provisions of which are required to be applied prospectively. The Company adopted this Statement as of January 1, 2008 and has elected not to apply the fair value option to any of its financial instruments.

Statement of Financial Accounting Standard No. 157, Fair Value Measurements (SFAS No. 157)

In September 2006, the FASB issued SFAS No. 157, Fair Value Measurements, which defines fair value, establishes a framework for measuring fair value in generally accepted accounting principles, and expands disclosures about fair value measurements. This statement does not require any new fair value measurements, but provides guidance on how to measure fair value by providing a fair value hierarchy used to classify the source of the information. SFAS No. 157 is effective for fiscal years beginning after November 15, 2007, and all interim periods within those fiscal years. In February 2008, the FASB released FASB Staff Position (FSP FAS 157-2 Effective Date of FASB Statement No. 157) which delays the effective date of SFAS No. 157 for all nonfinancial assets and nonfinancial liabilities, except those that are recognized or disclosed at fair value in the financial statements on a recurring basis (at least annually), to fiscal years beginning after November 15, 2008 and interim periods within those fiscal years. The implementation of SFAS No. 157 for financial assets and liabilities, effective January 1, 2008, did not have an impact on the Company s financial position and results of operations. The Company is currently evaluating the impact of adoption of this statement on its non-financial assets and liabilities in the first quarter of fiscal 2009.

Note 5: Restricted Cash

As a result of expanding our wireline service offerings into additional states covered by our commercial services agreement with Qwest Communications International, Inc. (Qwest) we obtained a Letter of Credit (LOC) for the benefit of Qwest in the amount of $143,000. The LOC is secured by funds which we deposited into a restricted money market account. The LOC is effective for a term of one (1) year from June 25, 2007. In addition, our newly acquired entity Northstar Telecom, Inc. (NST), has a $30,000 LOC with Verizon, raising our amount of restricted cash at March 31, 2008 and December 31, 2007 to approximately $175,000 and $174,000, respectively, which includes accrued interest of approximately $2,000 and $1,000.

Note 6: Acquisitions

Midwest Marketing Group, Inc.

On August 15, 2007, the Company completed the purchase of Midwest Marketing Group, Inc. (Midwest), a Nebraska corporation. MyTel purchased all of the outstanding common stock of Midwest resulting in the acquisition of both Midwest and its wholly-owned subsidiary Northstar Telecom, Inc., a Nebraska corporation that operates as a competitive local exchange carrier primarily in the Qwest territory.

CORDIA CORPORATION AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

Period Ended March 31, 2008

(Unaudited)

Note 6: Acquisitions (cont d)

The following unaudited pro forma information of the Company for the three months ended March 31, 2007 is provided to give effect to the Midwest acquisitions assuming it occurred as of January 1, 2007.

Net sales	$ 12,548,000
Net loss	(1,213,000)
Net loss per share:	
Basic	(0.20)
Diluted	(0.20)

The pro forma information presented above is for illustrative purposes only and is not indicative of results that may have been achieved if the acquisition had occurred as of the beginning of the Company s 2007 fiscal year or of future operating performance.

<u>Canal West</u>

On July 31, 2006, the Company acquired a 51% interest in Canal West Soluções Informàtica Ltda, a Brazilian corporation originally formed as a limited liability partnership for a cash price of $45,000. On February 1, 2007, the Company increased its interest in Canal West from 51% to 77.75%. In return for the issuance of an additional 149,137 shares of Canal West, the Company invested an additional $50,000 as working capital. On April 2, 2007, the minority shareholders of Canal West sold their 22.25% interest to the Company.

Loans Receivable

In March 2008 the Company signed a letter of intent to acquire the six companies comprising the TSI Group (TSI), a distributor of prepaid telecommunications services. In addition, Cordia will enter into an investment agreement to acquire a minority interest in Wholetel, Inc., a startup company affiliated with TSI that operates a turnkey products and services delivery system for retailers and consumers. The transaction is subject to satisfactory completion of due diligence. During the three months ended March 31, 2008 the Company loaned approximately $340,000 to TSI, subject to personally guaranteed secured promissory notes. The loans do not bear interest for 120 days, after which the interest rate is 18% on the unpaid balances.

Note 7: Impairment of Goodwill

The Company accounts for its goodwill in accordance with Statements of Financial Accounting Standards (SFAS) No. 142 Goodwill and Other Intangible Assets, which requires the Company to test goodwill for impairment annually or whenever events or changes in circumstances indicate that the carrying value of an asset may not be recoverable. Goodwill acquired in the purchase of Midwest will be reviewed for possible impairment at least annually. During the quarter ended March 31, 2007, the Company determined that the carrying amount of the goodwill associated with the purchase of Triamis Group Limited (Triamis) exceeded its fair value, which was estimated based on the present value of expected future cash inflows. Accordingly, a goodwill impairment loss of $284,117 was recognized. Management does not believe that there is any impairment at March 31, 2008.

CORDIA CORPORATION AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

Period Ended March 31, 2008

(Unaudited)

Note 8: Intangible Assets

Intangible assets, which were comprised of customer lists, are included in security deposits and other assets on our balance sheet At March 31, 2008 and December 31, 2007, our intangible assets are as follows:

	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount
March 31, 2008	$ 832,000	$ 112,000	$ 720,000
December 31, 2007	$ 713,000	$ 156,000	$ 557,000

The intangible assets increased $224,000 during the first quarter of 2008, due to acquired customer lists. The aggregate intangible amortization expense was $61,000 and $9,000 for the three months ended March 31, 2008 and 2007, respectively. In addition, in the first quarter, the Company retired $105,000 of fully amortized intangible assets, impacting both the gross carrying amount and accumulated amortization by this amount.

Note 9: Receivable Financing

The Company sells its trade accounts receivable on a pre-approved, non-recourse basis. The accounts are sold at the invoice amount subject to a factor commission of 1.25% and other miscellaneous fees. Trade accounts receivable not sold remain in the Company's custody and control and the Company maintains all credit risk on those accounts.

As of March 31, 2008, approximately $1,642,000 of the Company s trade accounts receivable were non-recourse receivables due from the factor. Summarized below are the components of the Company s trade accounts receivable:

Trade accounts receivable	$ 1,995,000
Less: allowance for bad debts	(1,481,000)
	514,000
Due from factor	1,642,000
Net accounts receivable	$ 2,156,000

During the first quarter of 2008, the Company received $8,782,000 under this agreement.

Note 10: Foreign Currency Transactions

The functional currency of Triamis and Cordia HK Limited (Cordia HK) is the local currency, the Hong Kong dollar (HK$), the functional currency of CC Brazil f/k