

CORDIA CORP  
Form 10-Q  
May 20, 2008

UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
WASHINGTON, DC 20549

FORM 10-Q

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

Incorporation or Organization)

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  No

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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,<br>2008<br>(unaudited) | December 31,<br>2007<br>As Restated |
|---|----------------------------------|-------------------------------------|
| <b>ASSETS</b>   |                                  |                                     |
| <b>Current Assets</b>   |                                  |                                     |
|   | \$                               |                                     |
| Cash and cash equivalents   | 434,991                          | \$ 999,039                          |
| Cash restricted   | 174,627                          | 173,848                             |
| Accounts receivable, less allowance for doubtful accounts of<br>\$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                             |
| <b>TOTAL CURRENT ASSETS</b>   | <b>4,842,948</b>                 | <b>5,093,179</b>                    |
| <b>Property and equipment, at cost</b>  |                                  |                                     |
| 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                           |
| <b>NET PROPERTY AND EQUIPMENT</b>   | <b>2,297,087</b>                 | <b>2,390,166</b>                    |
| <b>Other Assets</b>   |                                  |                                     |
| Goodwill  | 3,398,972                        | 3,398,972                           |
| Security deposits and other assets  | 1,124,150                        | 861,791                             |

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|  |               |               |
|--|---------------|---------------|
| 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 |
| <b>LIABILITIES AND STOCKHOLDERS'</b>   |               |               |
| <b>EQUITY (DEFICIT)</b>  |               |               |
| <b>Current Liabilities</b>   |               |               |
|  | \$            |               |
| 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    |
| <b>Noncurrent Liabilities</b>  |               |               |
| 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     |
| <b>COMMITMENTS AND CONTINGENCIES</b>   |               |               |
| <b>Stockholders' (Deficit)</b>   |               |               |
| 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)     |

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|   |               |               |
|---|---------------|---------------|
| TOTAL STOCKHOLDERS' (DEFICIT)                           | (4,784,160)   | (3,962,177)   |
| TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY<br>(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,                  |             |
|                                      | <u>2008</u>                | <u>2007</u> |
| 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      |



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|  |              |              |
|--|--------------|--------------|
| 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<br>March 31, |               |
|--|---|---------------|
|  | <u>2008</u>                             | <u>2007</u>   |
| <b>Cash Flows From Operating Activities</b>                            |   |               |
| 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)       |
| <b>NET CASH PROVIDED BY OPERATING ACTIVITIES</b>                       | <b>428,823</b>                          | <b>60,629</b> |
| <b>Cash Flows from Investing Activities</b>                            |   |               |
| Capitalized software costs   | (154,933)                               | (181,124)     |
| Leasehold improvements   | -                                       | (2,818)       |

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|  |                  |                  |
|--|------------------|------------------|
| Purchase of property and equipment   | (102,687)        | (63,584)         |
| Purchase of customer lists   | (224,375)        | -                |
| Increases in loans receivable  | (341,240)        | -                |
| <b>NET CASH USED BY INVESTING ACTIVITIES</b>   | <b>(823,235)</b> | <b>(247,526)</b> |
| <b>Cash Flows From Financing Activities</b>  |                  |                  |
| Purchase of treasury stock   | (19,976)         | -                |
| Principal payments on capital leases   | (3,144)          | (2,912)          |
| Payments of notes payable  | (136,156)        | -                |
| <b>NET CASH USED BY FINANCING ACTIVITIES</b>   | <b>(159,276)</b> | <b>(2,912)</b>   |
| 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          |
| <b>Supplemental Disclosures of Cash Flow Information - Cash paid during the quarter for:</b> |                  |                  |
|  | \$               | \$               |
| 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.

Canal West

On July 31, 2006, the Company acquired a 51% interest in Canal West Soluções Informática 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<br>Amount | Accumulated<br>Amortization | Net Carrying<br>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/a Canal West is the local currency, the Brazilian Real ( R\$ ), and the functional currency of Cordia Phils, Inc. is the local currency, the Filipino Peso ( P\$ ). For these foreign operations, the assets and liabilities have been translated into US dollars using period-end exchange rates in effect as of the balance sheet date and revenue and expenses have been translated using average daily exchange rates for the period. The resulting cumulative translation adjustment of approximately \$58,000 is included in comprehensive (loss) as a separate component of stockholders' equity in the consolidated balance sheet.

#### **Note 11: Employee Stock Compensation**

Stock based compensation cost is measured at grant date, based on the fair value of the award, and is recognized over the employee requisite service period. Stock based compensation of approximately \$47,000 and \$75,000 was recognized in the three months ended March 31, 2008 and 2007, respectively. This amount was included in general and administrative expense. No deferred tax benefit has been recognized for share based compensation arrangements. There were no options granted for the three month periods ended March 31, 2008 and 2007.





**CORDIA CORPORATION AND SUBSIDIARIES**

**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**

Period Ended March 31, 2008

(Unaudited)

**Note 11: Employee Stock Compensation (cont d)**

As of March 31, 2008 the total unrecognized compensation cost of \$184,000 related to non-vested awards is expected to be recognized over a weighted-average period of approximately 1.3 years.

The following table summarizes our stock option activity:

|                                     | Stock Options | Weighted-Average<br>Exercise Price |
|-------------------------------------|---------------|------------------------------------|
| Outstanding, beginning of year      | 1,795,500     | \$1.20                             |
| Exercised                           | -             |                                    |
| Cancelled/Forfeited                 | (867,000)     | \$0.71                             |
| Options outstanding, March 31, 2008 | 928,500       | \$1.66                             |

The weighted-average remaining contractual term was approximately 3.3 years for stock options outstanding as of March 31, 2008.

**Note 12: Commitments**

Network Commitments

The Company has minimum commitments with network providers through 2012. The aggregate minimum commitment is approximately \$3,000,000 in 2008 increasing to approximately \$4,000,000 in 2012.

### Tax Contingencies

The Company complies with the provisions of FASB Interpretation No. 48, *Accounting for Uncertainty in Income Taxes - An Interpretation of FASB Statement No. 109* ("FIN No. 48"). There have been no material changes in the total unrecognized tax benefits, interest or penalties attributable to uncertain tax positions during the first quarter of 2008.

### Note 13: Purchase of Treasury Stock

On May 30, 2007, the Board of Directors of Cordia unanimously authorized Cordia's management to spend an aggregate of \$500,000, until such time that the authorized amount is exhausted, to re-purchase Cordia's common and preferred stock so long as the market price did not exceed \$1 per share and when market conditions favorable for that purpose prevail.

| <u>Period</u>     | <u>Total #<br/>Shares<br/>Purchased(1)</u> | <u>Average Price<br/>Per Share (2)</u> | <u>Total # of Shares<br/>Purchased as Part<br/>of Publicly<br/>Announced<br/>Plans or Programs*</u> | <u>Approximate Dollar Value of<br/>Shares<br/>that May Yet be Purchased<br/>Under<br/>Plans or Programs(3)</u> |
|-------------------|--|--|---|--|
| 01/01/08-01/31/08 | 33,200                                     | \$0.60                                 | All   | \$265,000  |

\*All purchases were made in open-market transactions pursuant to the Board's action taken on May 30, 2007.

(1) These shares were bought in four (4) separate transactions of 15,700 shares at \$0.60 per share, 10,000 shares at \$0.55 per share, 5,000 shares at \$0.60 and 2,500 shares at \$0.60 per share for an aggregate cost of \$19,420 plus brokerage fees.

(2) Price per share includes brokerage and commission fees.

(3) The last purchase made under this plan occurred in January 2008.



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

Period Ended March 31, 2008

(Unaudited)

**Note 14: Business Segment and Geographic Information**

The Company is operating in a single business segment, in accordance with the rules of SFAS No. 131 ( Disclosure About Segments of an Enterprise and Related Information ). Although the Company's business is primarily conducted in the United States, operations are also carried out overseas through our foreign subsidiaries in the Philippines, Hong Kong and Brazil. Information about the Company's operations by geographic area is as follows:

| Three Months Ended March 31, | <u>2008</u>    | <u>2007</u>       |
|------------------------------|----------------|-------------------|
| Revenues                     |                |                   |
| United States                | \$ 11,645,000  | \$ 10,194,000     |
| Foreign                      | 371,000        | 43,000            |
|                              | \$ 12,016,000  | \$ 10,237,000     |
|                              | March 31, 2008 | December 31, 2007 |
| Long-lived assets            |                |                   |
| United States                | \$ 6,073,000   | \$ 5,999,000      |
| Foreign                      | 1,051,000      | 988,000           |
|                              | \$ 7,124,000   | \$ 6,987,000      |
| Total assets                 |                |                   |
| United States                | \$ 10,318,000  | \$ 10,559,000     |
| Foreign                      | 1,649,000      | 1,522,000         |
|                              | \$ 11,967,000  | \$ 12,081,000     |

**Note 15: Subsequent Events**

Grant of Employee Stock Options

On April 1, 2008, the Board of Directors voted unanimously to grant incentive stock options to purchase an aggregate 560,500 shares of the Company's common stock to various key employees and its directors, pursuant to the Company's Amendment to the 2001 Equity Incentive Plan. The shares were granted with an exercise price of \$0.52 per share, said exercise price being equal to 100% of the fair market value of the Common Stock on April 1, 2008. Such options shall vest and become exercisable with 50% of the shares granted vesting and exercisable upon the first anniversary of the grant date, and 25% vesting and exercisable on the second and third anniversaries of the grant date. The options shall terminate on the fifth anniversary of the grant date or immediately upon the grantee's resignation or termination from his/her service to the Company.

## ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OR PLAN OF OPERATIONS.

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," "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 interim 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 results could differ from these estimates under different assumptions or conditions. The Company believes there have been no significant changes during the three month period ended March 31, 2008, 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-K/A for the year ended December 31, 2007.

### Overview

We are a global telecommunications firm generating our revenue from the provision of telecommunications services domestically and internationally to business, residential, and wholesale customers. We provide both local and long distance services utilizing traditional wireline and VoIP technologies. Historically, our traditional bundled wireline service offerings have represented a majority of our revenue, followed by revenue derived from our VoIP service offerings and business process outsourced services. We believe that this trend will continue in 2008, as we continue our expansion domestically into new states and internationally into new markets. We believe the acquisition of a telemarketing firm and competitive local exchange carrier, along with the launch of our call center in the Philippines will encourage this trend as it resulted in an increased line count and gave us the ability to lower our customer acquisition costs.

Our traditional wireline service offerings include local exchange, local access, domestic and international long distance telephone services, and a full suite of local features and calling plans to small business and consumers in various states throughout the country, primarily in the Qwest and Verizon territories. We recently reached a commercial agreement with another non-incumbent local exchange carrier in an effort to expand our footprint, keep costs low, and reduce our reliance on the incumbent carriers.

Our VoIP service offerings include a flat rate plan starting as low as \$14.95 per month, combined with a full suite of enhanced features which make our service an attractive value proposition to existing and potential customers. Customers also have the option of choosing their desired area code with this service, being able to choose from more than forty (40) countries and cities worldwide for their telephone number regardless of their physical location making any long distance or international call local. As a complement to our mainstream VoIP service offering we also provide a fully integrated Spanish language VoIP service through our wholly owned subsidiary VOszIP, Corp. (“VOszIP”). In addition, our service portfolio includes our Magellan™ service which is supported by our internally developed VoIP network. Magellan™ customers get their own personal international telephone number or extension that is routed through our IP platform to the customers landline or mobile phone allowing customers to be reached anywhere in the world at local rates. We believe this service offering will be attractive to executives traveling abroad and ex-patriates who need to stay in touch with their colleagues, friends and family. We use this product internally to keep in touch with our offices and employees located abroad and/or on field assignment. As a

result, we are constantly testing the integrity of the service and making improvements on functionality based on our experience with the service.

We also offer an extensive outsourced service product line, which includes as its primary offering outsourced billing on a wholesale basis to telecommunications service providers. Our wholesale customers 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. The full suite of services available is described in its entirety in the Business Process Outsourcing (BPO) Service below.

### **Wireline Services**

We offer small business and residential consumers wireline service by leasing a portion of the network owned by other, larger telecommunications carriers, namely Verizon and Qwest. These leasing arrangements are controlled by multi-state, multi-year interconnection and commercial services agreements that allow us to offer telecommunications services to consumers without incurring the capital expenditures associated with building our own network. We have executed amendments to these agreements securing long-term extensions and continued access to their networks. We also recently entered into a commercial services agreement with McLeodUSA, Inc., which will allow for the expansion of our geographic footprint as well broaden our underlying service provider portfolio and diminish our reliance on larger telecommunications carriers.

We offer local exchange, local access, domestic and international long distance telephone services, and a full suite of local features and calling plans to small business and residential consumers in Colorado, Idaho, Iowa, Maryland, Massachusetts, Minnesota, Nebraska, New Jersey, New Mexico, New York, North Dakota, Oregon, Pennsylvania, Utah, Virginia, Washington, and Wisconsin through Cordia Communications Corp. ( CCC ), My Tel Co, Inc. ( MTC ), and Northstar Telecom Inc. ( NST ). We are also licensed to provide local and/or long distance telecommunications services, but are not actively marketing or providing services, in Connecticut, Florida, Georgia, Illinois, Indiana, Kentucky, Louisiana, Michigan, Missouri, North Carolina, Ohio, Oklahoma, and Texas. Applications on behalf of CCC and MTC for authorization to operate as a local and long distance telecommunications carrier are pending in the State of Arizona.

MTC distinguishes itself from CCC and NST by targeting consumers in the secondary consumer credit market. Sales associated with MTC have been positive, however due to our serving consumers who would otherwise have difficulty in obtaining telecommunications services because of their credit history our bad debt results were higher than anticipated. As a result, during the fourth quarter of 2007 we ceased marketing under this brand.



As a complement to our wireline services we anticipate entering into the prepaid calling card market recently executing a letter of intent for the acquisition of the six companies that comprise the TSI Group ( TSI ), a distributor of prepaid telecommunications services. In a related transaction, 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. While completion of the transaction is subject to satisfactory completion of due diligence, we believe we will successfully move forward with this transaction and that once completed, we will not only increase our market base but double our existing revenue stream.

### **VoIP Services**

We launched the commercial roll-out of our VoIP service offering, a voice over broadband solution enabling delivery of voice services over any broadband Internet Protocol ( IP ) connection through our wholly-owned subsidiary CordiaIP Corp. ( CordiaIP ) in January 2006. We believe VoIP is the logical extension of our traditional wireline telecommunications service offerings. To this end we have hired additional personnel and built our own proprietary VoIP network, including our own network software and operating support systems.

We offer a wide range of service plans including a flat rate plan starting as low as \$14.95 per month, combined with a full suite of enhanced features which make our service an attractive value proposition to existing and potential customers. We strive to be the world's local phone company ® and give our customers the option of choosing their desired area code, offering telephone numbers from more than forty (40) countries and hundreds of cities worldwide. This will allow consumers to make international calls at local rates, a feature not available with traditional wireline service. In addition, recognizing that a large percentage of the United States population speaks

Spanish as a primary language, we launched a fully integrated Spanish language VoIP service. This service, which is identical in quality and functionality to its English counterpart, was designed to be a purely Spanish language experience and includes all Spanish user interfaces, voice prompts, invoices, customer service and targeted country calling plans. While the target market for our VoIP service is small business and consumers, we also offer our service on both a wholesale and resale basis.

## **International Services**

We have focused on creating a niche in the international VoIP marketplace as the world's local phone company<sup>®</sup> by providing value added services worldwide and creating partnerships and/or acquiring international VoIP providers on a global scale. In 2005, we formed Cordia International Corp. (CIC) to serve as a holding and management company for our overseas assets, which include our foreign based subsidiaries and affiliates in Brazil, Hong Kong, India, and the Philippines. We have made significant investments in our international services and have not yet reached a point of profitability relative to these efforts. To date we have incurred losses in executing our plan, and these investments have detracted from the true value of our wireline business, which on a stand alone basis would report a profit that is not apparent when reporting on a consolidated basis. In spite of our current costs and losses, we believe that our international services, which had revenue growth of approximately 300% for the period ended December 31, 2007 as compared to the same period in 2006, have long term value and we will continue our efforts to develop these businesses so that they become self-sustaining.

As previously stated, we currently have operations in South America and the Asia Pacific (APAC) region. In Brazil, we are laying the foundation for the commercial launch of our VoIP product by test marketing resold VoIP services of another licensed Brazilian entity. The Agência Nacional de Telecomunicações (ANATEL) has recently completed its review of our VoIP application and has indicated that it will be issuing our Brazilian subsidiary a Serviço Comunicação Multimídia (SCM) license. We anticipate receipt of the license during the second quarter of 2008 followed by the full commercial launch of our own VoIP service.

In Hong Kong, the Office of Telecommunications Authority (OFTA), has granted us the authority to offer telecommunications services under a Public Non-Exclusive Telecommunications Services (PNETS) License and VoIP service under a separate Services-Based Operator license. We are in the process of interconnecting with incumbent carriers in Hong Kong for the roll out of our services and anticipate the commencement of services during 2008. We believe that Hong Kong serves as the gateway to Asia and represents the opportunity to serve the more than 40% of the world's internet and broadband subscribers located in that region.

In India, on February 27, 2008, our joint venture, Cordia LT Communication Private Limited launched VoIP service offerings on a nationwide basis pursuant to the license granted by the Ministry of Communications. This license also allows us to serve as an Internet Service Provider in India, although to date we are only providing VoIP to our

customers.

In the Philippines, we launched our offshore call center during 2007. The center provides the Company with various services including outbound telemarketing, customer service, welcome calls, and collections. The launch of this location has allowed us to serve our customers better at a reduced cost with increased savings.

In addition to our overseas holdings we continue to foster bilateral relationships with international VoIP carriers. We recently announced our network interconnection with Bayan Telecommunications, Inc. ( Bayan ), the second largest Philippine landline provider. This will allow unlimited calling from Cordia s international network to Bayan s wire-line and wireless customers sold by Cordia. Our goal in seeking out these global partnerships is to gain low cost access to their networks, allowing us to deliver high quality, low cost global communications services to our domestic and international customers.

To date, our VoIP network includes international Direct Inward Dial ( DID ) telephone numbers from more than forty (40) countries; network points of presence in Hong Kong, India, Brazil and the United States; and peering agreements with approximately ten (10) carriers. We believe that by blending our marketing capabilities, proprietary billing and operation support systems ( OSS ), IP communications technology and international bilateral agreements we can take advantage of the large disparity between wholesale costs in some markets and retail rates in other markets to create a competitive advantage in the international communications market. We believe that by offering a wide range of international numbers integrated with broadband, wireline, wireless and VoIP services bundled from our network and those of our peering partners we can create bundled service offerings that present an attractive value proposition to our customers.

### **Business Process Outsourcing Service ( BPO Services )**

We offer an extensive outsourced service product line, which includes as its primary offering outsourced billing on a wholesale basis to telecommunications service providers. Our wholesale customers 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. The services available to wholesalers through our Workspaces™ are the same services utilized internally for the provision of our own traditional wireline and VoIP services to our customers. As such, we are continuously updating and improving these processes to ensure optimal functionality. We believe our outsourced solutions are an attractive offering because it is not a pre-packaged all or nothing product; the wholesale 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. We believe this is achieved by offering process driven software whereby client required modifications to our systems are made at the server level and then instantly passed onto the client's end users, promoting our commitment to the continuous development and improvement of our Workspaces™. We bill these services on a predominantly per line basis and have experienced a decrease in BPO Services revenues as a result of the decreased line count experienced by our wholesale customer s operations. Accordingly, revenue derived from our BPO Services has become a less material part of our total revenue.

### **Plan of Operation**

With the extensions of our commercial wholesale agreements in place, we will continue to promote our traditional wireline services expanding into new service territories, targeting small business customers, and offering stand alone long distance services to customers in over ten (10) new territories. The stock purchase and acquisition of Midwest Marketing Group, Inc., a Nebraska based telemarketing firm with approximately 250 seats, and its wholly owned subsidiary Northstar Telecom Inc., a Nebraska based competitive local exchange carrier operating in primarily in the Qwest territory, has facilitated the promotion of our wireline offerings while keeping cost of acquisition low. This acquisition increased our subscriber base by adding approximately 18,000 lines and approximately \$10 million in revenue. In addition, the acquisition has allowed us to bring our sales and support efforts in house, at a significantly reduced cost.

Another long term means of cost reduction was the launch of our call center in Cebu, Philippines. The decision to open the call center was made after successfully transitioning a portion of our sales and marketing efforts offshore, reducing our customer acquisition costs during the latter half of 2006. We have saved approximately 50% on our costs associated with acquiring new customers and believe that having our own domestic based telemarketing firm and our own overseas call center will also contribute to the increased growth of our wireline, VoIP, and Magellan customer base. We anticipate nearly 80% of future sales will be handled between the Midwest call center and our newly established call center in Cebu, Philippines. We believe that the anticipated increase in revenue coupled with lower acquisition costs and improved operating efficiency will have a positive effect on our 2008 results of operations.

In addition to concentrating on promoting growth and revenue relative to our wireline offerings, we will continue to focus on our international VoIP initiative, which includes our recently launched Magellan service offerings. With Magellan, customers get their own personal international phone number that is routed, utilizing our IP network, to their mobile or landline phone allowing the customer to be contacted anywhere in the world at local rates. While we continue to believe in the long term value of our international services and businesses we recognize the financial strain it has placed on our wireline service offerings and its overall effect on our financial profile. We are optimistic about the growth of our VoIP and International services and believe that in time these businesses can become self-sustaining. The recent trend in our VoIP related revenues are encouraging and, we will continue to invest in our international VoIP initiatives. To this end we have launched through our joint venture in India VoIP service on a nationwide basis. This service was launched pursuant to the license granted by the Ministry of Communications, and allows the Company to serve as an Internet Service Provider as well as a VoIP service provider. To date we are only providing VoIP service however we are analyzing wireless network options including WiMAX and mobile WiMAX. In conjunction with the launch, the joint venture deployed an initial network node in New Delhi that will be integrated with Cordia's international network.

We believe our recent growth is indicative of a positive turn and that our stock price does not reflect our progress. Therefore, we have engaged the services of Source Capital Group, Inc. to offer advice with regard to strategic alternatives in effort to enhance the value of the Company and shareholder value.

## Results of Operations

The detailed results for the three month period ended March 31, 2008, as compared to the same period during 2007, follow. Any dramatic increase or decrease in percentages should not be relied upon as a forecast of future revenues and costs.

### OPERATING REVENUES

The following table compares our operating revenue for the three month periods ended March 31, 2008 and 2007:

|                   | Three Months Ended March 31, |              |
|-------------------|------------------------------|--------------|
|                   | <u>2008</u>                  | <u>2007</u>  |
|                   |                              |              |
|                   |                              |              |
|                   |                              |              |
|                   |                              |              |
| Wireline services | 11,357,000                   | \$ 9,953,000 |

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|                                      |            |              |
|--------------------------------------|------------|--------------|
| VoIP services                        | 655,000    | 167,000      |
| Business Process Outsourced Services | 4,000      | 117,000      |
|                                      | \$         |              |
|                                      | 12,016,000 | \$10,237,000 |

Total operating revenues for the three months ended March 31, 2008 increased by approximately \$1,779,000, or approximately 17.4%, to approximately \$12,016,000, as compared to approximately \$10,237,000 reported during the same period in 2007.

Our primary source of revenue is through our wireline services and is earned primarily through 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 mail and call waiting and to a lesser extent from CABS billing. For the three month period ended March 31, 2008, our wireline services revenue increased by approximately \$1,404,000 or 14.1% to approximately \$11,357,000 from approximately \$9,953,000 reported in the same period last year. This increase is attributable to a 22% increase in lines, which is primarily due to the acquisition of NST in August 2007.

For the three month period ended March 31, 2008, our VoIP services revenue increased by approximately \$488,000 to approximately \$655,000 as compared to approximately \$167,000 reported in the same period in 2007. Approximately \$328,000 of the increase in VoIP revenue was related to our international services and approximately \$160,000 was related to our domestic services. Included in the increase in international services were equipment sales of \$161,000.

Business Process Outsourced Services ( BPO Service ) revenue, which is income earned through our outsourcing of billing services, data, and website technology to wholesale telecommunications providers, decreased by approximately \$113,000 or 97% to \$4,000 for the three month period ended March 31, 2008, as compared to \$117,000 during the same period in 2007. This change occurred as a result of our wholesale customers' decreased line counts. We expect this revenue source to be insignificant over the next couple of quarters due to decreasing line counts experienced by our BPO customers.

### **COST OF REVENUES**

The following table compares our cost of revenues for the periods ended March 31, 2008 and 2007:

|                   | Three Months Ended |             |
|-------------------|--------------------|-------------|
|                   | March 31,          |             |
|                   | <u>2008</u>        | <u>2007</u> |
| Wireline Services | \$6,491,000        | \$5,349,000 |
| VoIP Services     | 557,000            | 181,000     |
|                   | \$7,048,000        | \$5,530,000 |

#### *Wireline Services*

Wireline cost of services consists of resale and wholesale line charges and represent our network access fees paid in order to provide local and long distance telephone service to our customers. These expenses vary in direct correlation to the size of our telecommunications customer base. We have experienced an increase of approximately \$1,142,000 or 21% for the three months ended March 31, 2008, as compared to the same period in 2007. The majority of this increase is due to the increase in line count.

#### *VoIP Services*

Cost of revenue increased \$376,000 or 208% of which \$241,000 was related to international operations and \$135,000 was related to domestic operations. Included in the international costs was \$119,000 related to sale of equipment.



*Gross Profit Margin*

For the three months ended March 31, 2008, our gross profit margin decreased to approximately 41% from approximately 46% reported for the same period in 2007. Gross margin for wireline services decreased to 43% from 46% due to an increase of wholesale line charges. Gross margin for VoIP services improved to 15% from (8%).

VoIP services has disproportionately higher expenses associated with its continuing roll out of VOIP. In addition, BPO revenue decreased with no reduction in direct expenses.

**OPERATING EXPENSES**

The following table compares our operating expenses for the periods ended March 31, 2008 and 2007:

|                                  | Three Months Ended<br>March 31, 2008 |                       |             |           | Three Months Ended<br>March 31, 2007 |                       |             |           |
|----------------------------------|--------------------------------------|-----------------------|-------------|-----------|--------------------------------------|-----------------------|-------------|-----------|
|                                  | Total                                | Corporate<br>Overhead | Wireline    | VoIP      | Total                                | Corporate<br>Overhead | Wireline    | VoIP      |
| Sales and Marketing              | \$1,246,000                          | \$ -                  | \$1,062,000 | \$184,000 | \$ 1,115,000                         | \$ -                  | \$1,084,000 | \$31,000  |
| Bad Debts                        | 869,000                              | -                     | 866,000     | 3,000     | 595,000                              | -                     | 565,000     | 30,000    |
| General and<br>Administrative    | 3,292,000                            | 579,000               | 2,133,000   | 580,000   | 3,130,000                            | 387,000               | 2,357,000   | 386,000   |
| Impairment of<br>Goodwill        | -                                    | -                     | -           | -         | 284,000                              | -                     | -           | 284,000   |
| Depreciation and<br>Amortization | 346,000                              | -                     | 321,000     | 25,000    | 250,000                              | -                     | 225,000     | 25,000    |
|                                  | \$5,753,000                          | \$579,000             | \$4,382,000 | \$792,000 | \$ 5,374,000                         | \$387,000             | \$4,231,000 | \$756,000 |

Consolidated operating expenses increased by approximately \$379,000 or approximately 7%, to approximately \$5,753,000 during the three month period ended March 31, 2008, as compared to approximately \$5,374,000, during the same comparable period in 2007. Approximately \$153,000 of the increase is related to wireline operations, \$35,000 is related to VoIP operations and \$191,000 is related to corporate operations.

*Sales and Marketing*

For the three months ended March 31, 2008, sales and marketing expenses increased by approximately \$131,000 to approximately \$1,246,000 as compared to approximately \$1,115,000 reported in the same period in 2007. This increase is primarily due to increases in telemarketing costs associated with obtaining customers through our in-house call centers in Nebraska and the Philippines as opposed to the prior use of third party telemarketing firms.

*Bad Debts*

For the three months ended March 31, 2008, our bad debt expense increased by approximately \$274,000 or approximately 46% to approximately \$869,000 from approximately \$595,000 reported during the same period in 2007. The increase is due to \$363,000 of expense for the NST operations offset, in part, by lower expense for CCC's and MTC's operations.

*General and Administrative*

General and administrative ( G&A ) expenses include, but are not limited to salaries, rent, office expenses, insurance, commissions, telephone, bank and credit card processing fees, license expense and registration fees. G&A expenses increased by approximately \$162,000, or 5%, for the three month period ended March 31, 2008, compared to the same period in 2007. Approximately \$193,000, of the increase is related to our VoIP and international operations. We believe that G&A expense will increase throughout 2008, as compared to 2007, due to the expansion of our international operations and the inclusion of Midwest and NST for the full year.

*Impairment of Goodwill*

At March 31, 2007, the Company evaluated the goodwill associated with the purchase of Triamis and deemed the carrying value of the goodwill to be impaired. In accordance with FASB 142 the Company wrote down the goodwill with an impairment charge of approximately \$284,000. For the period ended March 31, 2008, the Company deemed that no impairment charge was needed.

### *Depreciation and Amortization*

Depreciation and amortization expense increased approximately \$96,000 during the three month period ended March 31, 2008, compared to the same period in 2007, due to the acquisition of Midwest and NST, additions of depreciable office equipment, time associated with our rollout of VoIP, which was capitalized and depreciated in accordance with Statement of Position ( SOP ) 98-1. Depreciation and amortization associated with Midwest and NST totaled approximately \$58,000.

Depreciation on equipment and capitalized software costs are calculated using the straight line method and declining balance method over a three (3) year period. Amortization of leasehold improvements and other assets is computed using the straight-line method over the lesser of the estimated useful lives of the asset or the remaining lease term.

### Liquidity and Capital Resources

At March 31, 2008, we had cash and cash equivalents, including restricted cash, of approximately \$610,000, a decrease of approximately \$564,000 from amounts reported at December 31, 2007, and negative working capital of approximately \$10,892,000, as compared to negative working capital of approximately \$9,781,000 reported at December 31, 2007. The decrease in working capital is primarily related to the increase in accounts payable and billed taxes payable, purchase of customer lists and payment on notes payable.

Net cash provided by operating activities for the three month period ended March 31, 2008, aggregated approximately \$429,000 an increase of approximately \$368,000, from approximately \$61,000 provided during the same period during 2007. The principal source of net cash for the three month period ended March 31, 2008, was primarily the net loss from operations (net of non cash expenses of compensatory stock, bad debts and depreciation and amortization) of \$254,000 and an increase in accounts payable and taxes payable aggregating approximately \$759,000 and bad debt expense of \$869,000, offset, in part, by increases in accounts receivable, \$847,000. The principal source of cash for the three-month period ended March 31, 2007 was primarily the net loss from operations (net of non cash expenses of compensatory stock, bad debts and depreciation and amortization) of \$563,000 and an increase in accounts payable and taxes payable of \$510,00, offset, in part, by increases in accounts receivable, \$418,000, prepaid expenses and other current assets, \$195,000, accrued usage receivable, \$100,000 and an increase in accounts payable, \$272,000.

Net cash used by investing activities for the three month period ended March 31, 2008, aggregated approximately \$823,000 compared to net cash used of approximately \$248,000 during the same period in 2007. For the three months ended March 31, 2008, net cash used by investing activities consisted primarily of capitalized expenditures for internally developed software for our VoIP platform of approximately \$155,000 (\$181,000 in 2007), the purchase of a

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customer list of approximately \$224,000, loans receivable of approximately \$341,000 and purchase of property plant and equipment of \$103,000 (\$64,000 in 2007)

For the period ending March 31, 2008, net cash used by financing activities was approximately \$159,000 as compared to approximately \$3,000 for the 2007 period. Financing expenditures consisted primarily of payments of notes payable amounting to \$136,000.

We expect to continue to invest capital in our VoIP softswitch development and related equipment during 2008.

Long-term debt and operating lease obligations as of March 31, 2008, mature as follows:

| Obligations                        | Total        | Less than<br>1 year | 2-3 years   | 4-5 years  | More<br>Than<br>5 years |
|------------------------------------|--------------|---------------------|-------------|------------|-------------------------|
| Notes Payable (Excluding Interest) | \$ 1,479,000 | \$ 565,000          | \$ 914,000  | \$ -       | \$ -                    |
| Capital Lease Obligations          | 38,000       | 15,000              | 23,000      | -          | -                       |
| Rental (Office)                    | 2,252,000    | 623,000             | 1,019,000   | 610,000    | -                       |
| TOTAL OBLIGATIONS                  | \$3,769,000  | \$ 1,203,000        | \$1,956,000 | \$ 610,000 | \$ -                    |

During the three months ended March 31, 2008, we had sales and marketing expenses of approximately \$1,246,000, or approximately 10% of revenues. Starting in the second half of 2006, we transitioned a portion of our sales and marketing efforts offshore resulting in lower customer acquisition costs. In addition, we have opened our own call center in the Philippines and have acquired a 250 seat call center based in Nebraska where we expect to see significant savings in our customer acquisition costs.

At March 31, 2008, our balance sheet showed \$175,000 in restricted cash in the form of a LOC of which \$143,000 is for the benefit of Qwest, secured by funds deposited into a restricted money market account. The LOC is effective for a term of one (1) year from June 25, 2007. The LOC was due to expanding our wireline service offerings into additional states covered by our commercial services agreement with Qwest. A LOC of \$30,000 that Northstar, acquired in August of 2007, obtained for the benefit of Verizon. The remaining amount represents interest on the LOC s.

The Company has incurred losses and also has a negative working capital and a deficiency in stockholders' equity as of March 31, 2008 and December 31, 2007. These conditions raise substantial doubt about the Company's ability to continue as a going concern.

The Company recognized the need for additional working capital to strengthen its financial position, maintain growth, and continue to carry out its plans for its international expansion of VoIP and related value added services and entered into Factoring and Security Agreement ( Factoring Agreement ) with Thermo Credit, LLC ( Thermo ), a Colorado limited liability company, in September 2007.

Management believes that with the increase in sales from Northstar and the cost savings generated from our lower customer acquisition costs, the Company will generate sufficient cash flows from operations to meet its obligations as they come due during the next twelve month period. We do, however, recognize the limiting effect that our liquidity has on our growth rate and management may seek additional sources of capital in the future, including but not limited to a private placement of the Company s common stock, to neutralize this limitation in the future.

The Company recognizes the financial strain the losses of its VoIP and international initiatives have put on the rest of the business and the manner in which it detracts from the overall value of the Company. We still, however, believe that our VoIP and international initiatives have the potential for long term shareholder value as we have seen revenue growth associated with these services increase by approximately 273% this quarter as compared to the same period last year. Further, we believe that the current market price of our common stock is not an accurate reflection of its true value and that it may take a significant amount of time for these benefits to be realized. We are therefore, considering strategic alternatives to enhance shareholder value and to that end we have engaged with Source Capital Group, Inc. to review and analyze potential opportunities that may serve beneficial to the Company and its shareholders.

Off balance sheet arrangements

We have not entered into any transactions with unconsolidated entities whereby we have financial guarantees, or other contingent arrangements that exposes us to material continuing risks, contingent liabilities or any other obligations that provide financing, liquidity, market risk or credit risk support to the Company.

### ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK.

We earn a majority of our revenue in U.S. dollars where our primary operating activities are located. We also maintain offices and operate in Brazil, Hong Kong, India and the Philippines which creates an exposure to loss if any of those currencies appreciate against the dollar. We believe however, than any risk due to currency rate exchange fluctuations are immaterial as our operations overseas do not represent a majority of our business.

ITEM 4. CONTROLS AND PROCEDURES.

(a) Disclosure controls and procedures are to ensure that information required to be disclosed in our reports that we file or submit under the Exchange Act is recorded, processed, summarized, and reported within the time periods specified in the Commission's rules and forms. In addition, the evaluation is to ensure that information required to be disclosed in the reports we file or submit under the Exchange Act is accumulated and communicated to the Company's management, including the Company's principal executive and principal financial officer to allow timely decisions regarding required disclosure 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. Based on that evaluation of the Company's disclosure controls and procedures as of the end of the period covered by this report, the Company's management, including its Chief Executive Officer and Chief Financial Officer, concluded that the Company's disclosure controls and procedures were not effective as of March 31, 2008 because it has not yet been concluded that the material weaknesses in the Company's internal control over financial reporting reported as of December 31, 2007 in the Company's Form 10-K/A have been remediated.

Subsequent to December 31, 2007, the Company has implemented, or plans to implement, certain measures to remediate the identified material weaknesses and to enhance the Company's internal control over its quarterly and year-end financial reporting processes. As of the date of the filing of this Quarterly Report on Form 10-Q, the Company has implemented the following measures:

Increased the size, expertise and training of the finance and accounting staff to include adequate resources for ensuring GAAP.

Enhanced the accounting policies and procedures to provide adequate, sufficient, and useful guidance.

Increased the level of interdepartmental communication in a way that will foster information sharing between our finance staff and operational personnel.

The Company anticipates that these remediation actions represent ongoing improvement measures.

Furthermore, while the Company has taken steps to remediate the material weaknesses, these steps may not be adequate to fully remediate those weaknesses, and additional measures may be required. The effectiveness of its remediation efforts will not be known until the Company can test those controls in connection with the management tests of internal controls over financial reporting that the Company will perform as of December 31, 2008.



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

ITEM 1. LEGAL PROCEEDINGS

We are not currently a party to any legal proceedings that we believe will have a material adverse effect on our financial condition or results of operations.

ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS

We have no unregistered sales of equity securities and use of proceeds to report.

ITEM 3. DEFAULTS UPON SENIOR SECURITIES

We have no defaults upon senior securities to report.

#### ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

Our annual meeting of shareholders is scheduled for May 21, 2008 in Winter Garden, Florida. The purpose of the meeting is to elect each of the five (5) nominees to our seven (7) seat Board of Directors for a one-year term, to ratify the selection of Lazar, Levine & Felix, LLP as Independent Registered Public Accountants for fiscal year 2008, to approve director compensation, including a salary of \$12,000 per annum and up to an aggregate of \$10,000 of equity in the form of restricted stock and/or stock options, and consider and act upon such other business as may properly come before the meeting.

#### ITEM 5. OTHER INFORMATION

We have no additional information to report that would require disclosure in a report on Form 8-K during the period ended March 31, 2008 for which we did not file a Form 8-K report.

#### ITEM 6. EXHIBITS

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

- 31.1 Certification of Cordia Corporation's Principal Executive Officer, Joel Dupré,  
pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
- 31.2 Certification of Cordia Corporation's Principal Financial Officer, Gandolfo Verra,  
pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
- 32.1 Certificate of Cordia Corporation's Principal Executive Officer, Joel Dupré,  
pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

32.2 Certification of Cordia Corporation's Principal Financial Officer, Gandolfo  
Verra,  
pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

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**SIGNATURES**

In accordance Section 13 or 15(d) 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 20, 2008

By: /s/ Joel Dupré  
Joel Dupré  
Chief Executive Officer

Date: May 20, 2008

By: /s/Gandolfo Verra  
Gandolfo Verra  
Chief Financial Officer