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CYBEROPTICLABS INC  
Form 10QSB  
May 15, 2002

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

Form 10-QSB

(Mark One)

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF  
THE SECURITIES EXCHANGE ACT OF 1934 For the quarterly  
period ended March 31, 2002

TRANSITION REPORT UNDER SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE  
ACT OF 1934 For the transition period from \_\_\_\_\_ to \_\_\_\_\_.

Commission File Number 33-23473

CORDIA CORPORATION

-----  
(Name of small business issuer as specified in its charter)

Nevada

11-2917728

-----  
(State or other jurisdiction of  
incorporation or organization)

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

54 Danbury Rd. #370, Ridgefield, Connecticut 06877

-----  
(Address of principal executive offices)

203-750-1000

-----  
(Issuer's telephone number)

Check whether the issuer (1) filed all reports required to be filed by Section 13 or 15(d) of the Exchange Act during the past 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

As of May 14, 2002, there were 27,784,009 shares of the issuer's common stock outstanding.

Transitional Small Business Disclosure Format (check one); Yes  No

CORDIA CORPORATION

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FORM 10-QSB

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ITEM 1. FINANCIAL INFORMATION

CORDIA CORPORATION AND SUBSIDIARIES  
CONDENSED CONSOLIDATED BALANCE SHEETS  
(UNAUDITED)

	March 31, 2002 -----
ASSETS	(Unaudited)
Current Assets	
Cash	\$ 354,894
Accounts receivable, less allowance for doubtful accounts of \$45,000 (2002 and 2001)	322,159
Investments	48,683
Prepaid expenses and other current assets	35,155
Loans receivable from affiliates	43,904
	-----
TOTAL CURRENT ASSETS	804,795
	-----
Property and equipment, at cost	
Office equipment	255,067
Equipment - capital leases	58,567

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Vehicles	16,743
Furniture and fixtures	105,404
	-----
	435,781
Less: Accumulated depreciation	157,602
	-----
NET PROPERTY AND EQUIPMENT	278,179
	-----
Other Assets	
Contracts	15,000
Security Deposits	27,139
	-----
TOTAL OTHER ASSETS	42,139
	-----
TOTAL ASSETS	\$ 1,125,113
	=====
LIABILITIES AND STOCKHOLDERS' DEFICIT	
Current Liabilities	
Accounts payable and accrued expenses	\$ 1,414,138
Securities sold but not purchased	--
Obligation under capital lease, current portion	19,297
Current portion of long-term debt	657
Unearned income	615,327
Loans payable to affiliates	55,297
Other loans payable	252,730
	-----
TOTAL CURRENT LIABILITIES	2,357,446
	-----
Noncurrent Liabilities	
Obligation under capital lease, less current portion	23,192
	-----
TOTAL NONCURRENT LIABILITIES	23,192
	-----
Stockholders' Deficit	
Preferred stock, \$.001 par value; 5,000,000 shares authorized, no shares issued and outstanding	--
Common stock, \$.001 par value; 100,000,000 shares authorized, 27,454,009 (2002) and 27,229,009 (2001) shares issued and outstanding	27,454
Additional paid-in capital	3,115,939
Accumulated deficit	(4,323,918)
	-----
	(1,180,525)
Less: Treasury Stock, 50,000 common shares at cost	(25,000)
Less: Subscriptions receivable	(50,000)
	-----
TOTAL STOCKHOLDERS' DEFICIT	(1,255,525)
	-----

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TOTAL LIABILITIES AND STOCKHOLDERS' DEFICIT

\$ 1,125,113

=====

Note: The balance sheet at December 31, 2001 has been derived from audited financial statements at that date but does not include all the information and footnotes required by generally accepted accounting principles.

See notes to condensed consolidated financial statements.

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

	For the Three Months Ended March 31,	
	2002	2001
	-----	-----
Revenues	\$ 1,582,989	\$ 439,892
	-----	-----
Operating Expenses		
Payroll and payroll taxes	931,014	499,134
Advertising and promotion	125,734	59,453
Professional and consulting fees	203,621	117,709
Depreciation	24,941	12,520
Other selling, general and administrative	848,311	295,460
	-----	-----
	2,133,621	984,276
	-----	-----
Operating Loss	(550,632)	(544,384)
	-----	-----
Other Income (Expenses)		
Loss on investments	(52,350)	(61,860)
Other Income	549	35
Interest expense	(5,090)	(10,197)
	-----	-----
	(56,891)	(72,022)
	-----	-----
Loss Before Income Taxes	(607,523)	(616,406)
	-----	-----
Income Tax Expense (Credit)		
Current	--	(6,404)
Deferred	--	(143,155)
	-----	-----

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	--	(149,559)
	-----	-----
Net Loss	\$ (607,523)	\$ (466,847)
	=====	=====
Loss per Share	\$ (0.02)	\$ (0.02)
	=====	=====
Weighted Average Shares Outstanding	27,308,565	26,650,667
	=====	=====

See notes to condensed consolidated financial statements.

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

	For the Three Months Ended March 31,	
	2002	2001
	-----	-----
Cash Flows From Operating Activities		
Net loss	\$ (607,523)	\$ (466,847)
Adjustments to reconcile net loss to net cash used by operations		
Loss on investments	52,350	61,860
Depreciation expense	24,941	12,520
Consulting expense	136,509	--
Professional fees	11,000	--
Deferred income tax (credit)	--	(143,155)
(Increase) decrease in assets		
Accounts receivable	(110,398)	53,729
Prepaid expenses and other current assets	(21,698)	(6,817)
Contracts	(15,000)	--
Increase (decrease) in liabilities		
Accounts payable and accrued expenses	526,253	65,215
Unearned income	259,451	195,571
Other current liabilities	--	7,830
	-----	-----
NET CASH PROVIDED(USED) BY OPERATING ACTIVITIES	255,885	(220,094)
	-----	-----
Cash Flows From Investing Activities		
Increase in loans receivable from affiliates	(157,334)	(698)
Decrease in loans receivable from affiliates	128,500	--
Proceeds from sale of investments	26,546	--
Decrease in securities sold but not purchased	(66,790)	--

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Purchase of property and equipment	(66,336)	(39,933)
	-----	-----
NET CASH (USED) BY INVESTING ACTIVITIES	(135,414)	(40,631)
	-----	-----
Cash Flows From Financing Activities		
Proceeds from issuance of common stock	35,000	--
Payments of capital lease obligations	(4,531)	--
Payments of notes payable	(993)	(20,572)
Loans payable to affiliates	9,000	355,232
Decrease in other loans payable	10,599	--
	-----	-----
NET CASH PROVIDED BY FINANCING ACTIVITIES	49,075	334,660
	-----	-----
Increase in Cash	169,546	73,935
Cash, Beginning	185,348	54,635
	-----	-----
Cash, Ending	\$ 354,894	\$ 128,570
	=====	=====
Non Cash Investing and Financing Activities		
Issuance of 1,400,000 shares of common stock:		
Increase in Investments In eLEC and Skyclub	\$ --	\$ 182,365
Liabilities assumed in connection with WebQuill	--	(40,000)
Increase in common stock and additional paid-in capital and increase in prepaid expenses	--	146,650

See notes to condensed consolidated financial statements.

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### CORDIA CORPORATION AND SUBSIDIARIES NOTES TO CONDENSED FINANCIAL STATEMENTS March 31, 2002

#### Note 1: Basis of Presentation

Our unaudited condensed financial statements have been prepared in accordance with the instructions to Form 10-QSB and do not include all of the information and disclosures required by generally accepted accounting principles. Therefore, these financial statements should be read in conjunction with the financial statements and related footnotes included in our Annual Report on Form 10-KSB for the most recent year-end. These financial statements reflect all adjustments that are, in the opinion of management, necessary to fairly state the results for the interim periods reported. The results of operations for the three months ended March 31, 2002 are not necessarily indicative of the results to be expected for the full year.

The consolidated financial statements at March 31, 2002 and December 31, 2001, and for the three months ended March 31, 2002 and 2001, include the accounts of (a) ISG Group, Inc. and its subsidiaries (Universal Recoveries, Inc. and

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U.L.A.E., Inc., both wholly-owned), (b) U.S. Direct Agency, Inc. ("USD") and its affiliate, Riderpoint and subsidiary (which USD effectively controls), (c) Cordia Corporation (d) WebQuill Internet Services, LLC ("WebQuill") and (e) Cordia Communications Corp. Cordia Corporation and its subsidiaries are collectively referred to herein as the Company. All material intercompany balances and transactions have been eliminated.

### Note 2: Investments

During February 2001, we exchanged 1,400,000 shares of our common stock, issued under Section 4(2) of the Securities Act of 1933, to eLEC Communications Corp. for (a) approximately 37% of the common stock of Riderpoint not owned by USD, (b) 600,000 shares (approximately 19%) of the common stock of Skyclub Communications Holding Corp. ("Skyclub"), (c) all of the outstanding membership interests in WebQuill, and (d) 200,000 shares of common stock of eLEC Communications Corp.

The February 2001 purchase of RiderPoint's common stock has been accounted for as a recapitalization of the Company's stockholders' equity. Skyclub and WebQuill are entities under common control with us. Accordingly, these transactions have been recorded at cost.

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CORDIA CORPORATION AND SUBSIDIARIES  
NOTES TO CONDENSED FINANCIAL STATEMENTS  
March 31, 2002

### Note 3: Related Party Transactions

We periodically borrow funds from shareholders and affiliates of shareholders. The loans bear interest at the rate of 12% per annum and are payable on demand. At March 31, 2002, outstanding principle on affiliated loans was \$55,297. For the three months ended March 31, 2002 and 2001, interest expense incurred on affiliated loans was approximately \$890 and \$10,197, respectively.

### Note 4: Long-Term Debt

Long-term debt consists of the following at March 31, 2002 and December 31, 2001:

	2002	2001
	-----	-----
We financed the purchase of a vehicle with a note that bears interest at the rate of 9% per annum, final payment due in 2002	\$ 657	\$ 1,650

During 2001, we leased office equipment (\$58,567, less accumulated depreciation of \$12,364 at March 31, 2002) under a non-cancelable capital lease. The lease expires during 2004, bears interest at

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the rate of 10% per annum and provides for aggregate monthly payments of \$1,890. The lease is secured by the acquired asset

	42,489	47,021
	-----	-----
	43,146	48,671
Less: Current portion	19,954	20,473
	-----	-----
	\$23,192	\$28,198
	=====	=====

Annual payments under the capital lease obligation are due as follows:

Years ending December 31, -----	
2002 (nine months)	\$17,010
2003	22,677
2004	7,559
	-----
Total	47,246
Less: Deferred interest	4,757
	-----
	\$42,489
	=====

Note 5: Stockholders' Equity

During September 2000, we issued warrants to purchase 112,000 shares of our common stock. The warrants have an exercise price of \$2.50 per share and expire during the period from July through September 2002. No warrants were exercised during 2001 or 2002; all 112,000 warrants were outstanding at December 31, 2001 and March 31, 2002.



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## NOTES TO CONDENSED FINANCIAL STATEMENTS March 31, 2002

### NOTE 5 - STOCKHOLDERS' EQUITY (continued)

Effective January 5, 2001, we established our 2001 Equity Incentive Plan (the "Plan"). The total number of shares of our common stock issuable under the Plan is 5,000,000, subject to adjustment for events such as stock dividends and stock splits. The Plan is administered by a Committee having full and final authority and discretion to determine when and to whom awards should be granted. The Committee will also determine the terms, conditions and restrictions applicable to each award. Transactions under the Plan are summarized as follows:

	Stock Options	Exercise Price
Balance, January 1, 2002	1,895,000	\$ .50 to 3.00
Granted: With 3-year vesting	-0-	-0-
Exercised:	(220,000)	.50
	-----	
Balance, March 31, 2002	1,675,000	
	=====	

During April and May 2002, a total of 330,000 options were exercised at .50 per share.

### Note 6: Commitments

We are committed for annual rentals under noncancelable operating leases for our office space, office equipment and a vehicle that expire at various times through February 2005. Future minimum rental commitments under these leases for years subsequent to December 31, 2001 are as follows:

Year Ending December 31 -----		
2002 (9 months)	\$	163,600
2003		194,728
2004		76,412
2005		2,615
		-----
Total	\$	437,355
		=====

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

Certain statements in this Report constitute "forward-looking statements" within the meaning of the Private Securities Litigation Reform Act of 1995. Such

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forward-looking statements involve known and unknown risks, uncertainties and other factors which 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; availability of management and other key personnel; availability, terms and deployment of capital; relationships with third-party equipment suppliers; and worldwide political stability and economic growth. The words "believe", "expect", "anticipate", "intend" and "plan" and similar expressions identify forward-looking statements. Readers are cautioned not to place undue reliance on these forward-looking statements, which speak only as of the date the statement was made.

### Overview

Cordia Corporation is a business services holding company that provides Internet-enabled outsourcing solutions and services to businesses and organizations. We have historically focused substantially all of our efforts and resources on providing outsourced solutions for the insurance industry. During 2001, we began developing outsourced solutions for the telecommunications industry and expect to begin providing telecommunications services during the second quarter of 2002.

We believe the growing use by businesses and other organizations of strategic outsourcing to expert organizations and the rapid global development and acceptance of Internet-based applications and technology have created opportunities for us to address the business services needs of certain industries. Because of specialized expertise often developed by business services companies and the significant economies of scale that can be achieved by providing specialized services for a number of customers, we believe companies that provide outsourced services are often able to deliver such services at lower costs and with higher quality than their customers can produce internally. In addition, we believe the rapid growth and acceptance of the Internet as a global medium for communication, information and commerce has created a tremendous opportunity to perform business functions more efficiently and effectively through the utilization of standardized Internet technologies, databases and applications.

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

### Insurance Solutions Group

We operate our insurance services business primarily through ISG Group, Inc., our wholly-owned subsidiary that conducts business under the name Insurance Solutions Group ("ISG"). ISG provides comprehensive insurance solutions to insurance companies, state insurance departments and self-insured entities in conjunction with Universal Recoveries, Inc., a wholly-owned subsidiary of ISG doing business as Subrogation Partners ("Subrogation Partners"); U.L.A.E., Inc.,

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a wholly-owned subsidiary of ISG doing business as Claim Partners ("Claim Partners"); and US Direct Agency, Inc., doing business as Premium Partners ("Premium Partners").

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Subrogation Partners. Subrogation Partners provides subrogation services for property and casualty and healthcare insurance providers. Subrogation services include the identification, investigation and recovery of accident-related payments made by insurance providers on behalf of other insureds, but for which other persons or entities are primarily responsible. By contract and state law, insurance providers are generally entitled to certain rights with respect to paid claims that may be the primary obligation of other insurance carriers or parties. These recovery rights include the right of subrogation, which allows the insurance provider to recover accident-related claims directly from the responsible party or the responsible party's insurance carrier.

Subrogation Partners has historically derived the majority of its revenues from the property and casualty sector of the insurance industry, primarily from personal and commercial automobile insurance providers. During 2000, Subrogation Partners expanded its services into healthcare-related claims and entered into an agreement with a large health maintenance organization, or HMO, to run a pilot program to determine the economic viability of subrogating accident-related medical payments. During 2001, Subrogation Partners identified over \$1 million of potential recoveries during the pilot program. Based on those results, Subrogation Partners intends to expand its healthcare-related recoveries business during 2002. We continue to believe the long-term opportunities in healthcare-related claims is at least as great as the opportunities in serving the property and casualty sector. Subrogation Partners actively serves over thirty insurance carriers.

Claim Partners. Claim Partners is a claims administrator that provides claim management solutions to insurance companies. ISG launched Claim Partners business during 2001 believing that the claims handling expertise developed by Subrogation Partners personnel can be utilized in the development of a suite of outsourced claims administration services. Claims Partners intends to build upon the systems, expertise and industry reputation of Subrogation Partners to build its business.

Premium Partners. Premium Partners has been focusing primarily on the development of proprietary technological systems, solutions and processes to provide outsourced premium generation and administration services through the integration of call center services, hosted applications and Internet-based solutions. To date, Premium Partners has focused primarily on the development of front-end insurance industry applications, such as comparative rating, online policy application, underwriting and issuance systems. Premium Partners also is developing outsourced services to assist insurance carriers in the management of both their agent and direct distribution channels utilizing proprietary hosted applications that take advantage of universal client technology. Universal client technology allows ubiquitous access to applications with the use of industry-standard Internet browsers.

RiderPoint, Inc., a subsidiary in which we own an approximately 80% interest, has been the primary operating entity of our Premium Partners division. Operating through its wholly owned insurance agency, RP Insurance Agency, Inc., RiderPoint marketed insurance products through its Riderpoint.com web site. Cordia has yet to realize material revenues from RiderPoint and decided to cease operations of RP Insurance Agency during 2001. We expect to dedicate minimal

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resources for future development of our Premium Partners business until management identifies a tangible opportunity for significant revenues and profits.

Cordia Communications Corp.

During 2001, we began to focus some of our resources on the development of telecommunications services. In July 2001, we formed Cordia Communications Corp. to develop integrated systems designed to support providers of telecommunications services and to utilize these systems to provide outsourced services to telecommunications providers. In addition, Cordia Communication Corp. has begun the process of becoming a licensed provider of local and long distance services in multiple states. As of May 15, 2002 Cordia Communications Corp. has received approvals to provide local and long distance telecommunications services in Florida, New York and Pennsylvania. We believe recent wholesale price reductions, particularly in New York, have created significant opportunities to quickly develop a profitable Competitive Local Exchange Carrier (CLEC) business utilizing a network platform commonly referred to as unbundled network elements - platform, or UNE-P. We intend to profit from these developments by providing consulting and outsourced technical services to CLECs wishing to utilize UNE-P and by developing our own CLEC business in geographic areas with the potential for high margins.

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Three Months Ended March 31, 2002 vs. Three Months Ended March 31, 2001

Our net revenues for the three-month period ended March 31, 2002 increased by approximately \$1,143,000 to approximately \$1,583,000 as compared to approximately \$440,000 reported for the three-month period ended March 31, 2001.

The increase was primarily attributable to increased net revenues reported by our ISG subsidiary of approximately \$1,148,000, or approximately 272%, to approximately \$1,569,800 for the three-month period ended March 31, 2002 as compared to the three-month period ended March 31, 2001 of approximately \$422,000. An additional increase in revenue of approximately \$14,000 was attributable to our outsourcing IT services during the three months ended March 31, 2002. We reported no revenues for the three months ended March 31, 2001. These increases were partially offset by a decrease in revenues from our Riderpoint, Inc. subsidiary of approximately \$14,000, or approximately 88%, to approximately \$1,500 for the three-month period ended March 31, 2002 as compared to approximately \$16,000 reported for the three months ended March 31, 2001. The decrease is due to our decision to cease operations of RiderPoint Inc, and it's subsidiary, RP Insurance Agency, during 2001.

Operating expenses increased by approximately \$1,149,000, or approximately 117%, to approximately \$2,134,000 for the three-month period ended March 31, 2002 from approximately \$984,000 reported for the three-month period ended March 31, 2001. This increase in expense was directly related to the growth of operations of ISG, which reported an increase in operating expenses of \$1,124,000, or 151%, to approximately \$1,869,000 for the three-month period ended March 31, 2002, as compared to \$745,000 for the three-month period ended March 31, 2001. Those increases were partially offset by a decrease in expenses related to Riderpoint and WebQuill of approximately \$154,000.

Interest expense for the three-month period ended March 31, 2002 decreased by approximately \$5,000 from the amount reported in the three-month period ended March 31, 2001, primarily due to decreased average borrowings.

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Loss on investments for the three-month period ended March 31, 2002 decreased approximately \$10,000 to (\$52,000) versus investment losses of approximately (\$62,000) for the three-month period ended March 31, 2001 primarily because we owned less eLEC Communications Corp. common shares during the later period.

### Liquidity and Capital Resources

At March 31, 2002, we had cash and cash equivalents available of approximately \$355,000, an increase of approximately \$170,000 from amounts reported at December 31, 2001 of approximately \$185,000. At March 31, 2002, we had a working capital deficit of approximately (\$1,553,000), a decrease of approximately (\$487,000) from amounts reported at December 31, 2001.

Net cash provided by operating activities aggregated approximately \$256,000 in the three-month period ended March 31, 2002 versus net cash used of approximately (\$220,000) during the three-month period ended March 31, 2001. The principal use of cash during the three-month periods ended March 31, 2002 and March 31, 2001 was approximately \$608,000 and \$467,000, respectively, relating to the losses for those periods. Unearned income of approximately \$259,451 and \$195,571 during the three-month periods ended March 31, 2002 and 2001, respectively, relating to prepaid claim administration fees, primarily by Claim Partners, partially offset the losses in the comparative periods.

Net cash used in investing activities aggregated approximately (\$135,000) and (\$41,000) in the three-month periods ended March 31, 2002 and March 31, 2001, respectively. The uses of cash in investing activities were primarily purchases of property and equipment of approximately (\$66,000) and (\$40,000) during the three-month period ended March 31, 2002 and 2001, respectively.

Net cash provided by financing activities aggregated approximately \$49,000 and \$335,000 in the three-month periods ended March 31, 2002 and March 31, 2001, respectively. The source of net cash provided by financing activities in the three-month period ended March 31, 2002 and 2001 resulted primarily from the proceeds from the issuance of common stock of \$35,000, and from borrowings from affiliates of approximately \$355,000, respectively.

We believe that the working capital and cash flow from operations of our Subrogation Partners division will be sufficient to meet the cash and capital requirements of our Subrogation Partners and Claims Partners divisions for the next 12 months. We will, however, need to expend cash and incur additional losses before we are able to grow our Cordia Communications division to a profitable level. We believe our cash and cash equivalent assets at May 15, 2002 may not provide us with sufficient liquidity to grow our business and carry out many of our expansion plans. In recognition of the potential need for additional working capital, management intends to seek additional sources of capital, which sources may include public and private sales of our securities and additional borrowings from both affiliates and non-affiliates. Our inability to obtain sufficient working capital may restrict our ability to carry out our operating plans resulting in the continuance of unprofitable operations, which would adversely affect our financial condition and results of operations.

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PART II. OTHER INFORMATION:

ITEM 6. EXHIBITS AND REPORTS ON FORM 8-K

(a) Exhibits.

None

(b) Reports on Form 8-K

None

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized, in the City of Ridgefield, Connecticut on May 15, 2002.

CORDIA CORPORATION

By: /s/ Craig C. Gironda

-----  
Craig C. Gironda  
President and Chief Executive Officer

By: /s/ Lorie M. Guerrero

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Lorie M. Guerrero  
Chief Accounting Officer