

DEER VALLEY CORP
Form 10-K
March 28, 2011
Table of Contents

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D. C. 20549

FORM 10-K

(Mark One)

ANNUAL REPORT UNDER SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the fiscal year ended December 31, 2010

TRANSITION REPORT UNDER SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from _____ to _____

Commission file number: 000-05388

DEER VALLEY CORPORATION

(Exact name of Registrant as specified in its charter)

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Florida
(State of Incorporation)

20-5256635
(I.R.S. employer identification no.)

3111 W. Dr. MLK Blvd., Ste 100, Tampa, FL
(Address of principal executive offices)

33607
(Zip code)

Registrant's telephone number, including area code: (813) 418-5250

Securities registered under 12(b) of the Exchange Act: None

Securities registered under 12 (g) of the Exchange Act: Common Stock, par value \$0.001

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes No

Check whether the issuer is not required to file reports pursuant to Section 13 or Section 15(d) of the Exchange Act. Yes No

Check whether the issuer (1) filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 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

Check if there is no disclosure of delinquent filers in response to Item 405 of Regulation S-B and no disclosure will be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

Indicate by check mark whether the registrant is a large accelerated filer, a non-accelerated filer or a smaller reporting company.

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Large accelerated filer

Non-accelerated filer

Accelerated Filer

Smaller reporting company

Indicate by check mark whether the Registrant is a shell company. Yes No

The issuer's revenues for its most recent fiscal year were \$29,127,893. The aggregate market value of the voting and non-voting common equity held by non-affiliates as of March 15, 2011 was \$1,299,744.80¹. As of March 15, 2011, the number of shares outstanding of the Registrant's common stock (excluding 246,625 shares of treasury common stock) was 17,252,892, of which 14,003,530 shares of common stock was held by affiliates.

¹ Market value based upon sale price of \$.40 occurring on June 30, 2010. Calculation does not account for common shares issuable upon conversion of convertible preferred stock or exercise of common stock purchase warrants.

Table of Contents

DEER VALLEY CORPORATION

2010 FORM 10-K

TABLE OF CONTENTS

ITEM		PAGE
ITEM 1.	<u>DESCRIPTION OF BUSINESS</u>	3
ITEM 2.	<u>DESCRIPTION OF PROPERTY</u>	9
ITEM 3.	<u>LEGAL PROCEEDINGS</u>	10
ITEM 4.	<u>SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS</u>	10
ITEM 5.	<u>MARKET FOR COMMON EQUITY AND RELATED STOCKHOLDER MATTERS</u>	10
ITEM 6.	<u>SELECTED FINANCIAL DATA</u>	12
ITEM 7.	<u>MANAGEMENT'S DISCUSSION AND ANALYSIS OR PLAN OF OPERATION</u>	12
ITEM 8.	<u>FINANCIAL STATEMENTS</u>	22
ITEM 9.	<u>CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE</u>	52
ITEM 9A.	<u>CONTROLS AND PROCEDURES</u>	52
ITEM 9B.	<u>OTHER INFORMATION</u>	53
ITEM 10.	<u>DIRECTORS AND EXECUTIVE OFFICERS OF THE REGISTRANT</u>	53
ITEM 11.	<u>EXECUTIVE COMPENSATION</u>	57
ITEM 12.	<u>SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED STOCKHOLDER MATTERS</u>	60
ITEM 13.	<u>CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS</u>	63
ITEM 14.	<u>PRINCIPAL ACCOUNTANT FEES AND SERVICES</u>	64
ITEM 15.	<u>EXHIBITS</u>	65

Table of Contents

PART I

Special Note Regarding Forward-Looking Statements

Information included or incorporated by reference in this Annual Report on Form 10-K may contain forward-looking statements. This information may involve known and unknown risks, uncertainties, and other factors which may cause our actual results, performance, or achievements to be materially different from the future results, performance, or achievements expressed or implied by any forward-looking statements. Forward-looking statements, which involve assumptions and describe our future plans, strategies, and expectations, are generally identifiable by use of the words *may*, *should*, *expect*, *anticipate*, *estimate*, *believe*, *intend*, or *project* or the negative of these words or variations on these words or comparable terminology.

ITEM 1. DESCRIPTION OF BUSINESS

Unless otherwise indicated or the context otherwise requires, all references below in this filing to *we*, *us*, *the Company*, and *Deer Valley* are to Deer Valley Corporation, a Florida corporation, together with its wholly-owned subsidiaries, Deer Valley Homebuilders, Inc. (*DVH*), an Alabama corporation formed in January 2004 and Deer Valley Financial Corp (*DVFC*), a Florida corporation formed in September 2009.

General

The Company, under the name Cytation Corporation, was incorporated under the laws of Delaware on November 1, 1999. In the first quarter of 2005, the Company discontinued all prior business operations except finding an appropriate private entity with which it could acquire or merge.

During the first quarter of 2006, the Company entered into the Securities Purchase and Share Exchange Agreement, which, among other matters, resulted in the Company raising in excess of \$7,400,000 in exchange for the issuance of its Series A Convertible Preferred Stock, Series A Common Stock Purchase Warrants, and Series B Common Stock Purchase Warrants (*Series A Preferred Offering*). Contemporaneous with the completion of the Series A Preferred Offering, Deer Valley Acquisition Corp (*DVA*), a wholly owned subsidiary of the Company, acquired 100% of the issued and outstanding capital stock of DVH. On July 24, 2006 the Company held a Special Meeting of Stockholders not in lieu of an annual meeting at which time it obtained the approval of an amendment to the Company's Certificate of Incorporation to change the name of the Company from Cytation Corporation to Deer Valley Corporation.

Business of the Issuer

Overview

The Company, through its wholly owned subsidiaries Deer Valley Homebuilders, Inc. (*DVH*) and Deer Valley Financial Corp (*DVFC*), designs and manufactures factory built homes and provides dealer inventory-secured financing for our factory built homes. The Company's manufacturing plant located in Guin, Alabama, produces homes which are marketed in 14 states through a network of independent dealers, builders, developers and government agencies located primarily in the southeastern and south central regions of the United States. Short-term inventory-secured loan financing is offered to qualified retail dealers and developers, through DVFC, a wholly owned subsidiary created in the fourth quarter 2009.

The Company's executives are continuing to focus on matters relating to challenges faced by our industry and the general economy.

(i) Management has been addressing the well-publicized slowdown in the housing industry by adjusting capacity with market demand. The Company will continue to monitor demand and may take additional steps to adjust capacity based on our views of and direction of the industry.

(ii) In recognition of an important trend in the housing market toward modular homes and the recurring need for emergency housing as part of the Company's strategic plan, management will continue to increase the Company's involvement in the modular segment of the factory-built housing industry. The Company believes that establishing alternative distribution channels will add stability and position the company for growth when market conditions improve. The Company

Table of Contents

has targeted the production of smaller units (less than 3,000 square feet) that are readily producible, in a cost efficient manner, using the Company's existing manufacturing capabilities. The Company sells these models to large tract developers, government agencies and individuals through independent dealers. (iii) Management has addressed the reduced availability of dealer inventory financing with its wholly owned subsidiary, Deer Valley Finance Corp (DVFC). The subsidiary was created to provide short-term inventory-secured loans to qualified retail dealers and developers. (iv) The Company continues to focus on operating activities to improve manufacturing efficiencies, reduce overall costs and increase gross margins.

Our business segments consist of factory-built housing and financial services. Our financial services business commenced during the fourth quarter of 2009 to provide qualified independent retail dealers and developers inventory-secured financing for homes the Company produces. Otherwise, the Company does not maintain separate operating segments for regions and does not separately report financial information by geographic sales area because they are similar products using similar production techniques and sold to the same class of customer. See Note 18 Segment Information of the notes to Consolidated Financial Statements for information on our net sales, income (loss) from operations, and identifiable assets by segment for the periods ended December 31, 2010 and 2009.

Manufacturing Operations

We produce all of our factory built homes at our plant in Guin, Alabama, which normally function on a single shift, five-day work week. The Company's average production rate was approximately 16 floors produced per week, during the fourth quarter of 2010 and approximately 21 floors produced per week for the fiscal year 2010. As of December 31, 2010, our backlog of orders stood at 8 days.

Our plant in Guin, Alabama operated at a capacity of 45% and 63% during the quarter ended December 31, 2010 and the fiscal year ended December 31, 2010, respectively. We have one idle plant located in Sulligent, Alabama.

The Company manufactures homes that are designed as primary residences ready for immediate occupancy. The homes, most of which are customized at the company's factory to the home buyers specifications, are constructed with many of the same components and building materials used in site-built homes. The Company has concentrated on the medium to higher priced segments of the manufactured housing market.

While our HUD Code and modular homes are constructed with many of the same components and building materials used in site-built homes, we utilize a cost-efficient assembly line manufacturing process which enables us to produce a quality home at a significantly lower cost per square foot than a traditional, site-built home. Lower cost are achieved through bulk quantity purchase of building materials, production workforce is trained and managed more efficiently and effectively than the system of contract labor typical in the construction industry and the indoor building process allows work crews to avoid delays caused by outside factors, such as inclement weather, vandalism and theft, that are common at traditional home sites.

The principal raw materials used in the production of HUD Code and modular homes include wood, wood products, panels, steel, sheetrock, vinyl siding, gypsum wallboard, fiberglass insulation, carpet, appliances, electrical items, windows, roofing materials, electrical supplies, roof trusses, and plumbing fixtures. We believe that the raw materials used in the production of our factory-built homes are readily available from a wide variety of suppliers and that the loss of any single supplier would not have a material adverse effect on our business.

Because the cost of transporting a factory-built home is significant, substantially all of our homes are sold to dealers within a 500 mile radius of our manufacturing facility. DVH arranges, at dealers' expense, for the transportation of finished homes to dealer locations using independent trucking companies. Customary sales terms are cash-on-delivery or guaranteed payment from a inventory-secured financing source. Dealers or other independent installers are responsible for placing the home on site and connecting utilities.

Backlog of Orders and Sales Policies

Substantially all production of our factory-built homes is initiated against specific orders. As of December 31, 2010, our total backlog of orders stood at \$1,050,000, compared to \$1,250,000 at December 31, 2009. Dealer

Table of Contents

orders are subject to cancellation prior to commencement of production, and we do not consider our backlog to be firm orders. Because we operate in an industry where order lead times are extremely short, we do not view backlog at any point in time to be indicative of the level of our future revenues.

Sales of our HUD Code homes are made to dealers either through inventory-secured financing arrangements with a financial institution, DVFC or on a cash basis. When a home is purchased, we receive payment either directly from the dealer or from a financial institution which has agreed to finance dealer purchases of our manufactured homes. As is customary in our industry, many financial institutions that finance dealer purchases require that we execute a repurchase agreement which provides that, in the event a dealer defaults on its repayment of the financing arrangement, we agree to repurchase the manufactured home from the financing institution, in accordance with a declining repurchase price schedule that is mutually agreed upon. Because we do not build significant inventories of either finished goods or raw materials and because we initiate production against a specific product order, we do not have significant inventories or a backlog of product orders.

Products

We currently manufacture and sell both single-section and multi-section models, with the substantial majority of our products being multi-section HUD Code homes. Ninety-eight percent of the HUD Code homes we produced in 2010 consisted of multi-section units. We offer over 35 different floor plans, ranging in size from approximately 840 to 3,030 square feet. We are constantly introducing new designs, features and accessories to appeal to changing trends and consumer feedback. Many of our homes are customized to homebuyers' specifications and have features associated with site-built homes, such as central heating and air conditioning, name-brand appliances, carpeting, cabinets, walk-in closets, wall coverings, porches, 1/2 inch drywall, thermally sealed double-paned low-e windows, enhanced insulation, oak cabinets, and six inch exterior wall construction standards. We believe that our willingness to offer heavy built construction standards and customize floor plans and design features to match homebuyers' preferences is a principal factor which differentiates us from our competitors.

Green construction processes and environmentally-friendly building materials are part of our home building process. We offer only energy efficient, heavy built homes that exceed industry standards for construction thresholds. Managing material selections, air quality issues and recycling strategies during the manufacturing process are all part of our effective green building strategy.

Each HUD Code home typically includes three to five bedrooms, a great room which functions as a living room, family room, and dining room, a kitchen, and two or three bathrooms and features central air conditioning and heating, a water heater, a dishwasher, a refrigerator, a microwave, a cook top/range, and an oven. We offer a wide range of colors, moldings, and finishes and provide optional features including fireplaces, wood floors, and modern kitchen counter-tops. We continue to modify and improve the design of our HUD Code homes in consultation with our sales representatives and independent dealer network. We also utilize computer-aided and other design methods in an effort to continuously improve the design of our HUD Code homes and to permit our customers to customize their purchases.

The Company continues to expand its product offerings in its modular home line. The homes are currently offered in eight states: Alabama, Arkansas, Kentucky, Louisiana, Mississippi, Missouri, Tennessee and West Virginia. These modular homes include front load porch designs to accommodate the narrow lot lines typical in coastal areas. Our modular homes are constructed to withstand a 110 mile per hour wind load. In addition, we offer an optional 140 mile per hour wind load feature on our modular homes. The Company is seeking to expand into other states with new designs to fulfill the demand among builders and developers for factory-built structures. Typical features in our modular homes include heavy built construction very similar to Deer Valley Homebuilders, Inc.'s other offerings. The Company will perform customization in this line of modular homes, as each builder has different needs.

Our modular homes must be constructed in accordance with the local building codes in effect at the point of delivery. These codes vary from state to state and also within states. We build our modular homes to the standards of the International Residential Code (IRC). The IRC has been adopted wholesale by several states and by selected localities in many others.

Table of Contents

Due to the nature of our business, we do not have a significant formal research and development program and we do not allocate significant funds for research and development activities.

Deer Valley is focused on designing affordable factory-built homes with features and construction standards comparable to site-built homes. In addition to offering the consumer options specified in the preceding paragraph, Deer Valley generally offers extensive customization of floor plan designs and exterior elevations to meet specific customer preferences. The following table sets forth certain sales information for 2010 and 2009:

Shipments	2010 Floors	2010 Units	2009 Floors	2009 Units
HUD-Code	850	426	712	364
Modular	91	46	182	82
Total	941	472	894	446

Independent Dealer Network, Sales and Marketing

As of the date of this filing, we had approximately 70 participating independent dealers marketing our factory-built homes at around 80 locations. Our independent dealers are not required to exclusively sell our homes and will typically choose to offer the products of other manufacturers in addition to ours. We do not have written exclusive agreements with our independent dealers and do not have any control over the operations of, or financial interest in, any of our independent dealers. In 2010, our largest dealer location accounted for approximately 9% of our sales.

We believe that our independent dealer network enables us to avoid the substantial investment in management, capital, and overhead associated with company-owned sales centers. Although we do not rely upon exclusive dealer arrangements, we typically rely upon a single dealer within a given geographical market to distribute our products. We believe our strategy of selling our homes through independent dealers helps to ensure that our homes are competitive with those of other companies in terms of quality, consumer acceptability, product design, and price.

During the fiscal year ended December 31, 2010, we estimate that the percentage of our revenues by region was as follows:

Regions	Primary States	Percentage of Revenue by Region
East South Central	Alabama, Kentucky, Mississippi, Tennessee	39%
West South Central	Arkansas, Louisiana, Oklahoma, Texas	38%
South Atlantic	Florida, Georgia, West Virginia	10%
North Central	Kansas, Illinois, Missouri	13%

Our sales staff maintains and monitors our relationships with each independent retailer in an effort to maintain excellent relationships with our network of independent dealers. Approximately 77% of our sales were to dealers operating in the East South Central and West South Central regions.

Sales information provided above is merely a geographic indicator to the reader of where the Company's products are sold by region. The Company does not maintain separate operating segments and does not separately report financial information, by geographic sales area or otherwise, for separate operating segments.

Continuing Operations

Factory-Built Homes Industry Trends

Table of Contents

Due to the difficult financing environment for chattel financing of HUD Code homes nationwide, the industry has been trending toward more conventional mortgage financing for land and homes. Chattel financing is personal property financing secured only by the home and not by the underlying land on which the home is sited. In contrast, land and home financing is real property financing secured by the home and by the underlying land on which the home is placed.

The well-publicized slowdown in the housing industry has yet to stabilize and HUD Code homes are not immune from this trend. Excess site-built home inventory has had an adverse impact on the contingency contract process, wherein potential homebuyers must sell their existing site-built home in order to facilitate the purchase of a new manufactured home. In addition, many on-site home builders with high inventory levels are offering sizeable incentives to homebuyers, creating added competition for the factory-built housing industry. Also, competition from sales of repossessed site-built homes has negatively impacted retail sales of new manufactured homes.

Due to the difficult economic, financing and credit conditions the manufactured housing industry and the Company continue to operate at low production and shipment levels. Until there is an infusion of new and competitive finance resources into the manufactured housing market any meaningful expansion in the industry will be delayed.

Warranties, Quality Control, and Service

We endeavor to adhere to strict quality standards and continuously refine our production procedures. In addition, in accordance with the construction codes promulgated by HUD, an independent HUD-approved, third-party inspector inspects each HUD Code home for compliance during construction at our manufacturing facilities.

We provide initial home buyers with a one-year limited warranty against manufacturing defects in the home's construction. In addition, direct warranties are often provided by the manufacturers of components and appliances.

We have experienced quality assurance personnel at our manufacturing facility who provide on-site service to dealers and home buyers. We continuously work to enhance our quality assurance systems, placing high emphasis on improving the value and appeal of our homes and reducing consumer warranty claims.

Independent Dealer Financing

The majority of our independent dealers finance their purchases through inventory-secured financing arrangements under which a financial institution provides the dealer with a loan for the purchase price of the home and maintains a security interest in the home as collateral. The nation-wide credit crisis has resulted in a precipitous reduction in the availability of inventory financing for retail outlets in the factory built housing industry. In late 2008, the Company received advisories from national financial service companies which provide "inventory-secured financing" for the majority of the Company's independent retail dealers of HUD-Code homes. Because of the worldwide volatility and disruption in the capital markets, these traditional lenders have terminated, reduced or modified their retail dealer financing programs in an effort to reduce their asset based portfolios. This reduced availability of wholesale financing has resulted in reduced sales to independent dealers and residential developers.

Management has addressed the reduced availability of dealer inventory financing by the creation of Deer Valley Finance Corp. (DVFC), a wholly owned subsidiary. The subsidiary was created to provide short-term inventory-secured loans to qualified retail dealers and developers. Through the establishment of the new financial subsidiary, Deer Valley has moved to counter the credit squeeze that many of the Company's existing dealers are experiencing. The existence of DVFC also positions the Company to potentially gain "shelf space" at additional independent dealer sales centers in regions where the Company is not currently represented. The Company will fund the new financial subsidiary through the reallocation of existing cash reserves in combination with funds available from an enhanced commercial bank credit facility with Fifth Third Bank. Administrative services for DVFC's new inventory-secured loan program are provided by Triad Financial Services, Inc. ("Triad") of Jacksonville, Florida.

Table of Contents

In connection with a inventory-secured financing arrangement, the financial institution that provides the independent dealer financing customarily requires DVH to enter into a separate repurchase agreement with the financial institution, under which DVH is obligated, upon default by the independent dealer, to repurchase the home at the original invoice price less the cost of all damaged/missing items, plus certain administrative and shipping expenses. The repurchase agreement relates to homes located on an authorized dealer's lot and in new, sellable condition. As a result, the potential repurchase liability may be offset by the value of the repurchased house. The risk of loss which we face under these repurchase agreements is also lessened by additional factors listed under Item 7 of this filing, at Reserve for Repurchase Commitments.

As of December 31, 2010, DVH's contingent repurchase liability under inventory-secured financing arrangements through independent dealers was approximately \$3,650,000. While homes repurchased by DVH under inventory-secured financing arrangements are usually sold to other dealers, no assurance can be given that DVH will be able to sell to other dealers homes which it may be obligated to repurchase in the future or that DVH will not suffer more losses with respect to, and as a consequence of, those arrangements than we have accrued in our financial statements.

Competition

The factory-built housing industry is highly competitive at both the manufacturing and retail levels, with competition based upon numerous factors, including total price to the dealer, customization to homeowners' preferences, product features, quality, warranty repair service, and the terms of dealer and retail customer financing. We have many competitors, ranging from very large, experienced, and well-financed companies to small, specialized manufacturers. Numerous companies produce HUD Code homes and modular homes in the southeastern and south central United States, many of which are in direct competition with us. In addition, certain of our competitors provide retail customers with financing from captive finance subsidiaries.

HUD Code and modular homes also compete with other forms of housing, including site-built and prefabricated homes. Historically, HUD Code housing has had a price advantage over these other forms of housing. That advantage has deteriorated, however, as the credit market in the HUD Code housing industry has, at both the retail and wholesale levels, continued to tighten, while interest rates for site-built houses in recent years have been at historic lows, thus increasing the competitive pressures on HUD Code housing.

The capital requirements for entry as a producer in the factory-built housing industry are relatively small in comparison to potential revenue. However, we believe that entry into the industry may be more difficult due to the repurchase requirements imposed by the inventory-secured financing obtained by dealers. In addition, we believe that the qualifications for obtaining inventory financing, which are based upon the financial strength of the manufacturer and each of its dealers, have recently become more difficult to meet due to the departure of financial institutions from the market and efforts of our competitors to add dealers to their sales network.

We believe that our willingness to customize floor plans and design features to match customer preferences, offer inventory-secured financing to qualified dealers and developers, offer factory-provided trim-out and installation services, and provide efficient customer service differentiate us from most of our competitors in the factory-built housing industry. By focusing our manufacturing efforts exclusively on HUD Code homes and modular homes on a cost-effective basis and by relying upon our strong network of regional independent dealers within our geographical market, we have been able to minimize our administrative and marketing expenses while providing our customers with a competitively priced product that maximizes value for the purchase price paid for the home. In addition, we maintain close relationships with each of our independent dealers and carefully monitor our service responsibilities to the customers who purchase a factory-built home from us.

We compete with other manufacturers, some of which maintain their own wholesale (dealer) and retail (consumer) financing subsidiaries. Companies with greater access to inventory-secured financing and retail financing could have a significant market advantage.

Regulation

Table of Contents

Deer Valley's factory-built homes are subject to a number of federal, state and local laws. Construction of HUD Code homes is governed by the National Manufactured Housing Construction and Safety Standards Act of 1974 (1974 Act). In 1976, HUD issued regulations under the 1974 Act establishing comprehensive national construction standards. The HUD regulations cover all aspects of HUD Code home construction, including structural integrity, fire safety, wind loads, thermal protection, plumbing, and electrical work. Such regulations preempt conflicting state and local regulations. Our manufacturing facilities and the plans and specifications of our HUD Code homes have been approved by a HUD-designated inspection agency. An independent, HUD-approved, third-party inspector checks each of our HUD Code homes for compliance during at least one phase of construction. In 1994, HUD amended construction safety standards to improve the wind force resistance of HUD Code homes sold for occupancy in coastal areas prone to hurricanes. Failure to comply with the HUD regulations could expose us to a wide variety of sanctions, including closing our manufacturing plant. We believe that our HUD Code homes meet or surpass all present HUD requirements.

HUD Code, modular, and site-built homes are all built with oriented strand board, paneling, and other products that contain formaldehyde resins. Since February 1985, HUD has regulated the allowable concentration of formaldehyde in certain products used in factory-built homes and requires manufacturers to warn purchasers concerning formaldehyde-associated risks. We currently use materials in our factory-built homes that meet HUD standards for formaldehyde emissions and that otherwise comply with HUD regulations in this regard. In addition, certain components of factory-built homes are subject to regulation by the Consumer Product Safety Commission (CPSC), which is empowered to ban the use of component materials believed to be hazardous to health and to require the manufacturer to repair defects in components of its homes. The CPSC, the Environmental Protection Agency, and other governmental agencies are evaluating the effects of formaldehyde. In February 1983, the Federal Trade Commission adopted regulations requiring disclosure of HUD Code home's insulation specifications.

Our HUD Code and modular homes are also subject to local zoning and housing regulations. Utility connections are subject to state and local regulation, which must be followed by the dealer or other person installing the home. A number of states require HUD Code and modular home producers to post bonds to ensure the satisfaction of consumer warranty claims. Several states have adopted procedures governing the installation of HUD Code and modular homes. We have complied with these requirements in Alabama, Mississippi, Louisiana, Arkansas, Georgia, Florida, Tennessee, Kentucky, Indiana, Illinois, Missouri, Oklahoma, West Virginia and Texas. Many of these states require that companies renew their compliance or notify the state after a change in ownership. We are taking the steps necessary to remain in compliance with these state laws.

There are no special or unusual environmental laws or regulations which require us to make material expenditures or which can be expected to materially impact the operation of our business.

Patents and Licenses

We do not rely upon any significant patent rights, licenses or franchises under the trademarks or patents of any other person or entity in conducting our business. While DVH utilizes the mark Deer Valley and Deer Valley Homebuilders as Company trademarks in marketing its factory-built homes, we do not own any trademarks or patents registered with the United States Patent and Trademark Office. However, we have applied for trademark protection for Deer Valley Homebuilders, Inc. with the United States Patent and Trademark Office.

Employees

As of December 31, 2010, we had 167 employees, all of whom are full-time. None of our employees are represented by a labor union and we consider our relationships with our employees to be good.

ITEM 2. DESCRIPTION OF PROPERTY

The Company's executive offices are located in leased office facilities at 3111 W. Dr. MLK Blvd., Ste 100, Tampa, FL 33607, which were formerly located at 4218 W. Linebaugh Avenue, Tampa, FL 33634. The telephone number at the Company's executive offices is (813) 885-5998. DVH's principal manufacturing plant and offices are located at 205 Carriage Street, Guin, Alabama 35563 (the Guin Property), and its telephone number is (205) 468-8400. DVH's principal manufacturing plant and company offices consist of a manufacturing plant with

Table of Contents

107,511 square feet, a frame shop with 10,800 square feet, material shed of 23,172 square feet and offices with 11,250 square feet of space. DVH owns the buildings and 25.5 acres underlying these facilities. DVH has executed a mortgage on the Guin Property in favor of a national bank. In addition, DVH owns an idled manufacturing facility with a 65,992 square foot manufacturing plant located on approximately 13 acres of land in Sulligent, Alabama (the Sulligent Property). The Sulligent Property was idled in September 2008.

We believe that the general physical condition of our manufacturing facilities and executive offices is adequate to satisfy our current production needs. Accordingly, there are no present plans to improve or develop any of the unimproved or undeveloped portions of the Guin or Sulligent Properties.

Except for ownership of the manufacturing facilities we occupy or intend to occupy, we do not invest in real estate or real estate mortgages. It is not our policy to acquire properties for capital gain or rental income. In our opinion, we have sufficient property insurance for our property.

ITEM 3. LEGAL PROCEEDINGS

Although the Company in the normal course of business is subject to claims and litigation, the Company is not a party to any material legal proceeding nor is the Company aware of any circumstance which may reasonably lead a third party to initiate legal proceeding against the Company.

As of the date of this filing, there are no material pending legal or governmental proceedings relating to our company or properties to which we are a party, and to our knowledge there are no material proceedings to which any of our directors, executive officers, or affiliates are a party adverse to us or which have a material interest adverse to us.

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

During the fourth quarter of the fiscal year which ended on December 31, 2010, no matter was submitted to a vote of security holders.

PART II

ITEM 5. MARKET FOR COMMON EQUITY, RELATED STOCKHOLDER MATTERS, AND SMALL BUSINESS ISSUER REPURCHASES OF SECURITIES

Market Information

Our common stock trades on the OTC Bulletin Board under the trading symbol DVLY. The figures set forth below reflect the quarterly high and low bid information for shares of our common stock during the last two fiscal years, as reported by the OTC Bulletin Board. These quotations reflect inter-dealer prices without retail markup, markdown, or commission, and may not represent actual transactions. Please note that the board of directors approved a two-for-one stock dividend on November 4, 2005, payable to shareholders of record as of November 14, 2005, which doubled the numbers of shares outstanding.

	High	Low
2009 Quarter Ended		
March 31, 2009	\$ 1.20	\$ 1.20
June 30, 2009	\$ 1.20	\$.35
September 30, 2009	\$ 1.00	\$.55
December 31, 2009	\$.94	\$.35
2010 Quarter Ended		
March 31, 2010	\$.50	\$.35
June 30, 2010	\$.75	\$.40

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September 30, 2010	\$.50	\$.27
December 31, 2010	\$ 1.50	\$.35

Table of Contents

RULES GOVERNING LOW-PRICE STOCKS THAT MAY AFFECT ABILITY TO RESELL SHARES. Our common stock is subject to certain rules adopted by the SEC that regulate broker-dealer practices in connection with transactions in "penny stocks". Penny stocks generally are securities with a price of less than \$ 5.00 other than securities registered on certain national exchanges or quoted on the NASDAQ system, provided that the exchange or system provides current price and volume information with respect to transaction in such securities. The additional sales practice and disclosure requirements imposed upon broker-dealers may discourage broker-dealers from effecting transactions in our shares which could limit the market liquidity of the shares and impede the sale of our shares in the secondary market.

The penny stock rules require broker-dealers, prior to a transaction in a penny stock not otherwise exempt from the rules, to make a special suitability determination for the purchaser to receive the purchaser's written consent to the transaction prior to sale, to deliver standardized risk disclosure documents prepared by the SEC that provides information about penny stocks and the nature and level of risks in the penny stock market. In addition, the penny stock regulations require the broker-dealer to deliver prior to any transaction involving the penny stock, a disclosure schedule prepared by the SEC relating to the penny stock market, unless the broker-dealer or the transaction is otherwise exempt. A broker-dealer is also required to disclose commissions payable to the broker-dealer and the registered representative and current quotations for the securities. Finally, a broker-dealer is required to send monthly statements disclosing recent price information with the respect to the penny stock held in a customer's account and information with respect to the limited market in penny stocks.

Holders Of Common Stock

On March 15, 2011, there were 314 registered holders or persons otherwise entitled to hold our common shares pursuant to a shareholders list provided by our transfer agent, Computershare Investor Services, N.A. The number of registered shareholders excludes any estimate by us of the number of beneficial owners of common shares held in street name.

Dividends

We have not declared or paid any cash dividends on our common stock since our inception, and our Board of Directors currently intends to retain all earnings for use in the business for the foreseeable future. Any future payment of dividends to holder of common stock will depend upon our results of operations, financial condition, cash requirements, and other factors deemed relevant by our Board of Directors.

Securities Authorized For Issuance Under Equity Compensation Plans**EQUITY COMPENSATION PLAN INFORMATION**

Plan Category	Number of securities to be issued upon exercise of outstanding option, warrants and rights (a)	Weighted-average exercise price of outstanding options, warrants and rights (b)	Number of securities remaining available for future issuances under equity compensation plans (excluding securities reflected in column (a)) (c)
Equity compensation plans approved by security holders			
Equity compensation plans not approved by security holders			1,800,000
Total			1,800,000

On September 7, 2007, the Company's Board of Directors ratified the Company's 2007 Long Term Incentive Plan (the "2007 Incentive Plan"). The 2007 Incentive Plan was effective as of July 1, 2007. A maximum

Table of Contents

of 1,800,000 shares of common stock has been authorized to be issued under the 2007 Incentive Plan in connection with the grant of awards, subject to adjustment for corporate transactions, including, without limitation, any stock dividend, forward stock split, reverse stock split, merger or recapitalization. Of this amount, no more than 1,000,000 shares of common stock may be issued as incentive stock options.

The Company did not issue any stock options or warrants pursuant to an equity compensation plan during 2010 or 2009.

In February 2010, the Company's Board of Directors approved the repurchase and cancellation of all of the options previously issued under the 2007 Incentive Plan. All of such options were repurchased for the nominal sum of \$700.

Recent Sales of Unregistered Securities

Except as reported in previous filings, we did not sell any securities in transactions which were not registered under the Securities Act in the fiscal year ended December 31, 2010.

ITEM 6. SELECTED FINANCIAL DATA. Not Applicable.

**ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OR PLAN OF OPERATION
Management's Discussion and Analysis of Financial Condition and Results of Operations**

Cautionary Notice Regarding Forward Looking Statements

We desire to take advantage of the "safe harbor" provisions of the Private Securities Litigation Reform Act of 1995. This filing contains a number of forward-looking statements which reflect management's current views and expectations with respect to our business, strategies, products, future results and events, and financial performance. All statements made in this filing other than statements of historical fact, including statements addressing operating performance, events, or developments which management expects or anticipates will or may occur in the future, including statements related to distributor channels, volume growth, revenues, profitability, new products, adequacy of funds from operations, statements expressing general optimism about future operating results, and non-historical information, are forward looking statements. In particular, the words believe, expect, intend, anticipate, estimate, may, variations of such words, and similar expressions identify forward-looking statements, but are not the exclusive means of identifying such statements, and their absence does not mean that the statement is not forward-looking. These forward-looking statements are subject to certain risks and uncertainties, including those discussed below. Our actual results, performance or achievements could differ materially from historical results as well as those expressed in, anticipated, or implied by these forward-looking statements. We do not undertake any obligation to revise these forward-looking statements to reflect any future events or circumstances.

Readers should not place undue reliance on these forward-looking statements, which are based on management's current expectations and projections about future events, are not guarantees of future performance, are subject to risks, uncertainties and assumptions (including those described below), and apply only as of the date of this filing. Our actual results, performance or achievements could differ materially from the results expressed in, or implied by, these forward-looking statements. Factors which could cause or contribute to such differences include, but are not limited to, the risks to be discussed in our Registration Statement on Form SB-2 filed on April 19, 2006, as subsequently amended or supplemented, and in the press releases and other communications to shareholders issued by us from time to time which attempt to advise interested parties of the risks and factors which may affect our business. We undertake no obligation to publicly update or revise any forward-looking statements, whether as a result of new information, future events, or otherwise.

Overview

Table of Contents

The Company, through its wholly owned subsidiaries Deer Valley Homebuilders, Inc. (DVH) and Deer Valley Financial Corp (DVFC), designs and manufactures factory built homes and provides dealer inventory-secured financing for our factory built homes. The Company's manufacturing plant located in Guin, Alabama, produces homes which are marketed in 14 states through a network of independent dealers, builders, developers and government agencies located primarily in the southeastern and south central regions of the United States. Short-term inventory-secured loan financing is offered to qualified retail dealers and developers, through DVFC, a wholly owned subsidiary created in the fourth quarter 2009.

The Company's executives are continuing to focus on matters relating to challenges faced by our industry and the general economy. (i) Management has been addressing the well-publicized slowdown in the housing industry by adjusting capacity with market demand. The Company will continue to monitor demand and may take additional steps to adjust capacity based on our views of and direction of the industry. (ii) In recognition of an important trend in the housing market toward modular homes and the recurring need for emergency housing as part of the Company's strategic plan, management will continue to increase the Company's involvement in the modular segment of the factory-built housing industry. The Company believes that establishing alternative distribution channels will add stability and position the company for growth when market conditions improve. The Company has targeted the production of smaller units (less than 3,000 square feet) that are readily producible, in a cost efficient manner, using the Company's existing manufacturing capabilities. The Company sells these models to large tract developers, government agencies and individuals through independent dealers. (iii) Management has addressed the reduced availability of dealer inventory financing with its wholly owned subsidiary, Deer Valley Finance Corp (DVFC). The subsidiary was created to provide short-term inventory-secured loans to qualified retail dealers and developers. (iv) The Company continues to focus on operating activities to improve manufacturing efficiencies, reduce overall costs and increase gross margins.

Our business segments consist of factory-built housing and financial services. Our financial services business commenced during the fourth quarter of 2009 to provide qualified independent retail dealers and developers inventory-secured financing for homes the Company produces. Otherwise, the Company does not maintain separate operating segments for regions and does not separately report financial information by geographic sales area because they are similar products using similar production techniques and sold to the same class of customer. See Note 18 Segment Information of the notes to Consolidated Financial Statements for information on our net sales, income (loss) from operations, and identifiable assets by segment for the periods ended December 31, 2010 and 2009.

The nation-wide credit crisis has resulted in a precipitous reduction in the availability of inventory financing for retail outlets in the factory built housing industry. In late 2008, the Company received advisories from national financial service companies which provide inventory-secured financing for the majority of the Company's independent retail dealers of HUD-Code homes. Because of the worldwide volatility and disruption in the capital markets, these traditional lenders have terminated, reduced or modified their retail dealer financing programs in an effort to reduce their asset based portfolios. This reduction in credit facilities has impaired the short-term marketing thrust and the long-term viability of many independent dealers and residential developers including some who distribute Deer Valley Homes.

Management has addressed the reduced availability of dealer inventory financing with its wholly owned subsidiary, Deer Valley Finance Corp. (DVFC). The subsidiary was created in the fourth quarter 2009 to provide short-term inventory-secured loans to qualified retail dealers and developers. Through the establishment of the financial subsidiary, Deer Valley has moved to counter the credit squeeze that many of the Company's existing dealers are experiencing. The existence of DVFC also positions the Company to potentially gain shelf space at additional independent dealer sales centers in regions where the Company is not currently represented. The Company funded the new financial subsidiary through the reallocation of existing cash reserves in combination with funds available from an enhanced commercial bank credit facility with Fifth Third Bank. Administrative services for DVFC's inventory-secured loan program are provided by Triad Financial Services, Inc. (Triad) of Jacksonville, Florida.

Table of Contents

On October 14, 2009, Deer Valley entered into Revolving Credit Loan and Security Agreement with Fifth Third Bank, which provides for a revolving line of credit in an amount not to exceed Seven Million Five Hundred Thousand Dollars (the \$7,500,000 Facility). The \$7,500,000 Facility is evidenced by a revolving credit note and secured by accounts receivable, inventory, equipment and all other tangible and intangible personal property of Deer Valley. The purpose of the \$7,500,000 Facility is to provide display model financing for dealers of the products produced by DVH. This financing will be provided through DVC's new subsidiary DVFC, and administration of individual dealer loans will initially be handled by a third party administrator. The \$7,500,000 Facility has a two year term and has a variable interest rate at 4.00% above LIBOR or 4.38% at December 31, 2010. An event of default such as non-payment of amounts when due under the loan agreement or a breach of a covenant may accelerate the maturity date of the facility, including, failure to maintain compliance with the following financial ratios: (a) a global Debt Service Coverage Ratio of not less than 1.25 to 1.00, measured on a rolling 4-quarter basis, (b) a global Debt to Tangible Net Worth Ratio of not more than 3.00 to 1.00, measured on a quarterly basis, and (c) a global, unencumbered liquidity of not less than \$2,500,000.00, measured on a quarterly basis. The Debt Service Coverage Ratio is calculated as follows: (1) (A) Consolidated Net Income of Borrower, plus (B) Interest Expense, plus (C) Depreciation & Amortization, minus (D) Distributions, minus (E) Extraordinary Income/Non-Recurring Income, divided by (2) (A) Actual Required Debt Payments including Capital Leases, but not including debt payments payable to the Bank, plus (2) Interest Expense. The Debt to Tangible Net Worth Ratio is calculated as follows: (1) (A) Total Liabilities of each Borrower, minus (B) Subordinated Debt, divided by (2) (A) Net Worth, plus (B) Subordinated Debt, plus (C) Intangibles, minus (D) Related Party Receivables. The facility provides for conditions to be met prior to each advance, including compliance with the financial ratios described above. As of December 31, 2010, the Company had an outstanding balance of \$2,400,000 under the revolving credit loan.

On October 14, 2009, Deer Valley entered into Revolving Credit Loan and Security Agreement with Fifth Third Bank, which provides for a revolving line of credit in an amount not to exceed Five Million Dollars (the \$5,000,000 Facility). The \$5,000,000 Facility is evidenced by a revolving credit note and secured by accounts receivable, inventory, equipment and all other tangible and intangible personal property of Deer Valley. The \$5,000,000 Facility is to be utilized for short term working capital financing, letters of credit and as a bridge loan on financing the sale of retail units by DVH. Said financing will be provided through DVC's new subsidiary DVFC, and administration of individual dealer loans will initially be handled by a third party administrator. The \$5,000,000 Facility has a two year term and has a variable interest rate at 2.50% above LIBOR or 2.88% at December 31, 2010. An event of default such as non-payment of amounts when due under the loan agreement or a breach of a covenant may accelerate the maturity date of the facility. The \$5,000,000 Facility requires compliance with the same financial ratios described above in connection with the \$7,500,000 Facility. The facility provides for conditions to be met prior to each advance, including the financial ratios described above. As of December 31, 2010, the Company had an outstanding balance of \$325,000 under the revolving credit loan.

As of our year ending December 31, 2010, Deer Valley was in compliance with the financial ratios described above in connection with the \$7,500,000 Facility and the \$5,000,000 Facility.

Share Repurchases, Warrant Repurchases and Accrued Earnout

The Company has taken several strategic initiatives to improve shareholder value through a series of anti-dilutive securities repurchases. The Company expects the net result of these initiatives to contribute to greater per share earnings which will inherently create greater shareholder value.

On February 26, 2010 the Company repurchased and cancelled a block of 2 million shares of the Company's common stock being held in escrow for the benefit of the former owners and current managers of the Company's primary operating subsidiary (the Escrowed Shares). Pursuant to the Earnout Agreement dated January 18, 2006, as amended (the Earnout Agreement), the Escrowed Shares were issued in December 2007 and were being held in escrow until the scheduled release date, January 18, 2011. The Board authorized the repurchase of the Escrowed Shares for \$0.35/share (an aggregate of \$700,000). The purchase price of \$700,000 is held in escrow and replaces the shares in escrow. The Company had previously guaranteed that at the time of the escrow release, the total value of the escrow account assets would be equal to or greater than \$2 million (the escrow shortfall obligation), with the escrow shortfall obligation recorded as a put liability on the Company's balance sheet. The Company has agreed to exercise its option to satisfy the escrow shortfall obligation with a cash payment of \$1,300,000, accrued earnout payable, included in the accompanying consolidated balance sheet at September 30, 2010, thus eliminating the

Table of Contents

potential for any share dilution related to the escrow value guarantee. As a result, the put liability has been transferred to additional paid in capital. Pursuant to the Second Amendment to the Earnout Agreement effective as of February 26, 2010, the escrowed funds will be released, and the escrow shortfall obligation will be paid to the beneficiaries on or about December 31, 2010 in settlement of the Company's accrued earnout liability.

Also in February 2010, the Company repurchased and canceled one entire class of options that granted the holders the right to purchase an aggregate of 700,000 common shares at strike prices evenly divided between \$1.09 and \$1.14. The entire repurchase was accomplished for the nominal sum of \$700. The repurchase and cancellation of these options, all of which were formerly held by members of the Board, was another step toward simplifying the Company's capital structure and the elimination of a potential source of future earnings dilution.

To improve shareholder value in the near term and to further reduce future earnings dilution, the Board has authorized a limited stock repurchase plan allowing for the occasional open market purchase of the Company's common shares to a maximum cumulative expenditure of \$500,000. As of December 31, 2010, there had been 227,520 shares repurchased under the stock repurchase program at a cost of \$100,024 and reflected in our stockholders equity as treasury stock.

During the fourth quarter of 2010, the Company entered into a securities purchase agreement with certain shareholders to redeem certain common stock purchase warrants exercisable for an aggregate of 17,641,522 shares of common stock. The Company paid an aggregate purchase price of \$44,802 to redeem such warrants.

Results of Operations

The following discussion of our financial condition and results of operations should be read in conjunction with our financial statements, included herewith. This discussion should not be construed to imply that the results discussed herein will necessarily continue into the future, or that any conclusion reached herein will necessarily be indicative of actual operating results in the future. Such discussion represents only the best present assessment by our management. Information for the year ended December 31, 2010 and year ended December 31, 2009 is that of the Company on a consolidated basis with DVH and DVFC.

Revenues. The Company had gross revenues of \$29,127,893 in fiscal year 2010, as compared to \$27,605,315 in fiscal year 2009. Accordingly, revenues increased \$1,522,578 or a 6% increase compared to the prior year. The increase in revenue for 2010, are in part attributable to the federal homebuyer tax credit, which favorable impacted our revenues for the second and third quarters 2010. However, the expiration of the federal homebuyer tax credit contributed to a softness of new orders, resulting in a reduced backlog of orders. Although we remain cautiously optimistic, several challenges such as persistently high unemployment levels, the expiration of the federal homebuyer's tax credit and the threat of more foreclosures continue to hinder a recovery in the housing market. If the current crisis in the national economy generally, or in the housing market specifically, continues for an extended period of time, our operating results could be significantly affected by such market forces. This ongoing crisis has materially impacted liquidity in the financial markets, reducing the availability of wholesale financing for our industry retailers and consumer financing for purchasers of a manufactured homes. The likelihood that we will be able to sustain our increased revenues or generate net income in the future must be considered in light of the difficulties facing the manufactured housing industry as a whole, the national and local economies, the credit markets and the financial services industry, the competitive environment in which we operate, and other risks and uncertainties.

Gross Profit. Gross profit was \$5,501,476 or 18.9% of total revenue for 2010, compared to \$5,244,119 or 19.0% of total revenue for 2009. Our gross profit as a percentage of revenues remained constant as our labor cost decreases and service cost increases essentially offset each other. Another factor affecting our gross profit is the decrease in our warranty reserve which decreased cost of sales by \$240,000 in 2010 and \$690,000 in 2009 and accordingly increased of our gross profit for each period. Without the effect of our warranty reserve, our gross profit percentage was 18.1% during 2010 and 16.5% during 2009. The increase in gross profit (without the effect of our warranty reserve) is attributable to the increase in revenues. The Company includes the following types of expenses in cost of sales: purchase and receiving costs, freight in, direct labor, supply costs, warehousing, direct and indirect overhead costs, inspection, transfer, actual and accrued warranty, depreciation, and amortization costs.

Table of Contents

Selling, General, and Administrative Expenses. Selling, general, and administrative expenses for the fiscal year ending December 31, 2010 were \$3,793,648, compared to \$3,898,187 for the fiscal year 2009. Selling, general and administrative cost decreased \$104,539 for the fiscal year ending December 31, 2010, in comparison to the corresponding period for 2009. As a percentage of revenues, selling, general and administrative expenses decreased to 13.0% for the fiscal year ending December 31, 2010 compared to 14.1% for the fiscal year ending December 31, 2009. The decrease of \$104,539 in our selling, general and administration expenses is due to a decrease in our selling cost of \$281,011, which was partially offset by our financial services segment increased selling, general and administration expenses by \$193,422 compared to the same corresponding period for 2009. The Company includes the following types of expenses in selling, general and administrative expense: sales salaries, sales commissions, bad debt expense, advertising, administrative overhead, administrative salaries and bonuses and legal and professional fees.

Impairment Charge. Based on a combination of factors, including the economic environment, the Company's market capitalization, and the implied valuation and discount rate assumptions in the Company's industry, the Company concluded that its goodwill was impaired. The Company recorded a non-cash impairment charge of \$2,000,000 and \$7,256,917 for the fiscal year ending December 31, 2010 and 2009, respectively. See Note 6 Goodwill of the consolidated financial statements for additional disclosure data.

Other Income (Expense). Derivative expense for the year ended December 31, 2010 was \$499,451 compared to \$381,054 for the year ended December 31, 2009. Our derivative expense represents changes in the fair value of our derivative warrants and the change in fair value of our put liability related to our earnout agreement. These derivative liabilities are sensitive to the volatility in our stock price. The current year derivative expense is due primarily to changes in our stock price which have increased over the comparable period in the prior year. Our derivative expense increased because our stock price was at a higher level and the effect of the fair value measurements increased our expense. The put liability was settled in February 2010 in conjunction with an amendment to our earnout agreement and has not any had effect on derivative income or expense since then. Another factor affecting our Other Income (Expense) is a gain on extinguishment of \$330,712 resulting from the redemption of certain Common Stock Purchase Warrants exercisable for an aggregate of 17,641,522 shares of our common stock. We paid to the sellers a total purchase price of \$44,800 to redeem such warrants with a fair value of approximately \$375,500. See Note 12 Derivative Liabilities and Note 9 Accrued Earnout Payable of the notes to Consolidated Financial Statements for additional disclosure data.

Income Tax Benefit (Expense). An income tax expense of \$243,957 was recognized for the year ended December 31, 2010, compared to an income tax benefit of \$2,272,261 for the year ended December 31, 2009. The increase in income tax expense is a result of lower goodwill impairment charge in 2010, compared to 2009. For the year ended December 31, 2010, a valuation allowance of \$402,617 was recognized to offset potential net operating loss tax benefits. See Note 13 Income Taxes of the notes to Consolidated Financial Statements for additional disclosure data.

Net Income (Loss). The net loss for 2010 was \$893,309 or .05 per diluted share, compared to net loss of \$4,092,597, or .26 per diluted share, in 2009.

Liquidity and Capital Resources

Management believes that the Company currently has sufficient cash flow from operations, available bank borrowings, cash, and cash equivalents to meet its short-term working capital requirements. The Company had \$6,895,673 in cash and cash equivalents and short-term investments as of December 31, 2010, compared to \$8,503,866 in cash and cash equivalents and short-term investments as of December 31, 2009. Should our costs and expenses prove to be greater than we currently anticipate, or should we change our current business plan in a manner which will increase or accelerate our anticipated costs or capital demand, such as through the acquisition of new products, our working capital could be depleted at an accelerated rate.

The Company's operations may require significant use of cash reserves during 2011 compared to prior years. In October 2009, the Company created DVFC, a wholly owned subsidiary. The subsidiary was created to provide short-term inventory-secured loans to qualified retail dealers and developers. Although we anticipate that

Table of Contents

our dealer finance business will be largely funded by advances under its credit facility with Fifth Third Bank, it is possible that we may continue to use our cash to fund a portion of our financing business.

We obtained the \$7,500,000 Facility and the \$5,000,000 Facility (as described above) from Fifth Third Bank to partially fund our retail dealer financing program. As of December 31, 2010, the aggregate balance on the \$7,500,000 Facility and the \$5,000,000 Facility was \$2,725,000. In addition, we have a real estate loan from Fifth Third that had a balance, as of December 31, 2010, of \$1,624,088. The \$7,500,000 Facility and the \$5,000,000 Facility are currently scheduled to expire on October 14, 2011. In addition, the term for the real estate loan is scheduled to expire on June 1, 2011. Although we anticipate extending the terms for each of the \$7,500,000 Facility, the \$5,000,000 Facility, and the real estate loan, if we are unable to do so, and we are unable to find suitable replacement financing, we would be required to use a significant portion of our cash reserves.

For the fiscal year ended December 31, 2010, our operating activities used net cash of \$2,074,765, as compared to our operating activities used net cash of \$446,636 for fiscal year ended December 31, 2009. Our significant change in cash flow is primarily attributable to an increase in our participation in inventory finance receivables as a result of the creation of DVFC to provide short-term inventory-secured loans to qualified retail dealers and developers.

For the fiscal year ended December 31, 2010, operating activities used net cash of \$2,074,765 primarily as a result of the following:

- (a) We incurred a net loss of \$893,309 that includes non cash items totaling \$2,537,044 related to our goodwill impairment charge, derivative expense, depreciation and deferred tax benefit. Without these non cash items we generated income of \$1,643,735.

Changes in our operating assets and liabilities are as follows:

- (b) a decrease in accounts receivable of \$345,646 (a source of cash), primarily a result of a reduction in homes shipped in December 2010 as compared to December 2009, which was offset by
- (c) an increase in inventory finance notes receivable of \$3,685,583 (use of cash), the increase in inventory finance notes receivable is a result of the creation of DVFC in the fourth quarter 2009 to provide short-term inventory-secured loans to qualified retail dealers and developers, and
- (d) a decrease in estimated services and warranties of \$240,000 (use of cash), we decreased our warranty provision based on management's assessment of historical experience and current trends in wholesale shipments and dealer inventories, and
- (e) a decrease in accrued repurchase commitment of \$107,700 (use of cash), the decrease in dealer incentives is a result of fewer homes contingently liable for under repurchase obligations
- (f) a decrease in accrued dealer incentive programs and other accrued expenses of \$349,365 (use of cash), the decrease in dealer incentives is a result of lower dealer inventory levels

For the fiscal year ended December 31, 2009, operating activities used net cash of \$446,636 primarily as a result of the following:

- (a) We incurred a net loss of \$4,092,597 that includes non cash items totaling \$5,521,728 related to our goodwill impairment charge, derivative expense, depreciation, and deferred tax benefit. Without these non cash items we generated income of \$1,429,131

Changes in our operating assets and liabilities are as follows:

Table of Contents

- (b) a decrease in accounts receivable of \$623,044 (a source of cash), primarily a result of a reduction in production rates in December 2009 as compared to December 2008, and
- (c) a decrease in inventories of \$701,615 (a source of cash), primarily as a result of management's decision to reduce inventory levels due to the reduction in production rates, all which were offset by
- (d) an increase in inventory finance notes receivable of \$1,017,740 (use of cash), the increase in inventory finance notes receivable is a result of the creation of DVFC in the fourth quarter 2009 to provide short-term inventory-secured loans to qualified retail dealers and developers, and
- (e) an increase in prepayments and other assets of \$450,197 (use of cash), the increase in prepayments and other assets is primarily a result of modified retail dealer financing programs with traditional lenders of inventory financing, and
- (f) a decrease in accounts payable of \$405,608 (use of cash), the decrease in accounts payable is a result of the decrease in inventories and production rates at December 2009 as compared to December 2008, and
- (g) a decrease in estimated services and warranties of \$690,000 (use of cash), we decreased our warranty provision based on management's assessment of historical experience and current trends in wholesale shipments and dealer inventories, and
- (h) a decrease in accrued dealer incentive programs and other accrued expenses of \$593,240 (use of cash), the decrease in dealer incentives is a result of lower revenues

The net cash used in investing activities for the fiscal year ended December 31, 2010 was \$814,111, which primarily reflects the net increase in available-for-sale securities. The net cash provided by investing activities for the fiscal year ended December 31, 2009 was \$2,329,632, which reflects the proceeds from the sale of equipment of \$71,032 and a net decrease in available-for-sale securities.

The net cash provided in financing activities for the fiscal year ended December 31, 2010 was \$484,838, which relates to proceeds from notes payable of \$2,725,000 used to finance our inventory finance notes receivable, which were partially offset by distributions of \$2,000,000 under provisions provided by the earnout agreement. See Note 9 Accrued earnout payable for additional disclosure date regarding earnout agreement. The net cash used in financing activities for the fiscal year ended December 31, 2009 was \$81,009, which primarily relates to the scheduled repayment of the Company's long-term debt.

DVH, during its normal course of business, is required to issue irrevocable standby letters of credit to cover obligations under its workmen compensation insurance policy in the amount of \$375,000. As of December 31, 2010, no amounts had been drawn on the above irrevocable letters of credit by the beneficiaries.

Critical Accounting Policies

Our discussion and analysis of our financial condition and results of operations are based upon our financial statements, which have been prepared in accordance with accounting principles generally accepted in the United States of America. The preparation of these consolidated financial statements requires us to make estimates and judgments which affect the reported amounts of assets, liabilities, revenues and expenses, and related disclosures of contingent assets and liabilities. For a description of those estimates, see Note 2, Summary of Significant Accounting Policies, contained in the explanatory notes to the Company's financial statements for the year ended December 31, 2010, contained in this filing. On an ongoing basis, we evaluate our estimates, including those related to reserves, deferred tax assets, valuation allowances, impairment of long-lived assets, fair value of equity instruments issued to consultants for services, and estimates of costs to complete contracts. We base our estimates on historical experience and on various other assumptions which we believe to be reasonable under the

Table of Contents

circumstances, the results of which form the basis for making judgments about the carrying value of assets and liabilities which are not readily apparent from other sources. Actual results may differ from these estimates under different assumptions or conditions. However, we believe that our estimates, including those for the above-described items, are reasonable.

Critical Accounting Estimates

Management is aware that certain changes in accounting estimates employed in generating financial statements can have the effect of making the Company look more or less profitable than it actually is. Management does not believe that either the Company or its auditors have made any such changes in accounting estimates. A summary of the most critical accounting estimates employed by the Company in generating financial statements follows below.

Warranties

We provide our retail buyers with a one-year limited warranty covering defects in material or workmanship, including plumbing and electrical systems. We record a liability for estimated future warranty costs relating to homes sold, based upon our assessment of historical experience and industry trends. In making this estimate, we evaluate historical sales amounts, warranty costs related to homes sold and timing in which any work orders are completed. The Company has accrued a warranty liability reserve of \$1,290,000 on its balance sheet as of December 31, 2010 compared with a warranty liability reserve of \$1,530,000 on its balance sheet as of December 31, 2009. Based on management's assessment of historical experience and current trends in wholesale shipments and dealer inventories we reduced our warranty provision by \$240,000 for the fiscal year ended December 31, 2010. Although we maintain reserves for such claims, there can be no assurance that warranty expense levels will remain at current levels or that the reserves that we have set aside will continue to be adequate. A large number of warranty claims which exceed our current warranty expense levels could have a material adverse affect upon our results of operations.

Volume Incentives Payable

We have relied upon volume incentive payments to our independent dealers who retail our products. These volume incentive payments are accounted for as a reduction to gross sales, and are estimated and accrued when sales of our factory-built homes are made to our independent dealers. Volume incentive reserves are recorded based upon the annualized purchases of our independent dealers who purchase a qualifying amount of home products from us. We accrue a liability to our dealers, based upon estimates derived from historical payout rates. Volume incentive costs represent a significant expense to us, and any significant changes in actual payouts could have an adverse affect on our financial performance. We had a reserve for volume incentives payable of \$266,662 as of December 31, 2010, as compared to \$320,629 as of December 31, 2009.

Reserve for Repurchase Commitments

Most of our independent dealers finance their purchases under a wholesale inventory-secured financing arrangement under which a financial institution provides the dealer with a loan for the purchase price of the home and maintains a security interest in the home as collateral. When entering into a inventory-secured arrangement, the financial institution routinely requires that we enter into a separate repurchase agreement with the lender, under which we are obligated, upon default by the independent dealer, to repurchase the factory-built home at our original invoice price less the cost of administrative and shipping expenses. Our potential loss under a repurchase obligation depends upon the estimated net resale value of the home, as compared to the repurchase price that we are obligated to pay. This amount generally declines on a predetermined schedule over a period that usually does not exceed 24 months.

The risk of loss that we face under these repurchase agreements is lessened by several factors, including the following:

- (i) the sales of our products are spread over a number of independent dealers,
- (ii) we have had only isolated instances where we have incurred a repurchase obligation,

Table of Contents

- (iii) the price we are obligated to pay under such repurchase agreements declines based upon a predetermined amount over a period which usually does not exceed 24 months, and

- (iv) we have been able to resell homes repurchased from lenders at current market prices, although there is no guarantee that we will continue to be able to do so.

The maximum amount for which the Company is contingently liable under such agreements amounted to approximately \$3,650,000 at December 31, 2010, as compared to \$8,240,000 at December 31, 2009. As of December 31, 2010 and December 31, 2009, we had reserves of \$167,300 and \$275,000, respectively, established for future repurchase commitments, based upon our prior experience and evaluation of our independent dealers' financial conditions. We have increased repurchase reserves as compared to amounts under repurchase obligation based on identified changes in dealers' financial conditions and the probability of default for the group of dealers identified at an elevated risk of default. Because Deer Valley to date has not experienced any significant losses under these agreements, management does not expect any future losses to have a material effect on our accompanying financial statements.

Impairment of Long-Lived Assets

As previously discussed, the manufactured housing industry has experienced an overall market decline. Addressing the constriction of the retail housing market, in 2008 the Company idled its Sulligent, Alabama plant and thereafter consolidated its production operations at the Company's larger plant located in Guin, Alabama. In accordance with FASB Topic ASC 420 - Exit or Disposal Cost Obligations, the Company evaluates the carrying value of long-lived assets to be held and used when events and circumstances warrant such a review. The carrying value of long-lived assets is considered impaired when the anticipated undiscounted cash flow from such assets is less than its carrying value. In that event, a loss is recognized based on the amount by which the carrying value exceeds the fair market value of the long-lived assets. Fair market value is determined primarily using the anticipated cash flows discounted at a rate commensurate with the risk involved. Losses on long-lived assets to be disposed of are determined in a similar manner, except that the fair market values are primarily based on independent appraisals and preliminary or definitive contractual arrangements less costs to dispose. Based on our estimates of the fair value of idled facility no impairment charges have been recorded.

Goodwill

Goodwill is related to the acquisition of DeerValley Acquisitions Corp. and Deer Valley Homebuilders, Inc on January 18, 2006. The Company tests goodwill for impairment at least annually, during the fourth quarter and on an interim basis if an event or circumstance indicates that it is more likely than not that an impairment loss has been incurred. Recoverability of goodwill is evaluated using a two-step process. In the first step, the fair value of our reporting unit is compared to its carrying value. If the fair value of our reporting unit exceeds the carrying value of the net assets assigned to a reporting unit, goodwill is considered not impaired and no further testing is required. If the carrying value of the net assets assigned to a reporting unit exceeds the fair value of a reporting unit, the second step of the impairment test is performed in order to determine the implied fair value of a reporting unit's goodwill. Determining the implied fair value of goodwill requires valuation of a reporting unit's tangible and intangible assets and liabilities in a manner similar to the allocation of purchase price in a business combination. If the carrying value of a reporting unit's goodwill exceeds its implied fair value, goodwill is deemed impaired and is written down to the extent of the difference. Similar to the review for impairment of other long-lived assets, the resulting fair value determination is significantly impacted by estimates of future sales for the Company's products, capital needs, economic trends and other factors. See Note 6 of Consolidated Financial Statements for further discussion regarding the Company's goodwill.

Revenue Recognition

Revenue for our products sold to independent dealers are generally recorded when all of the following conditions have been met: (i) an order for the home has been received from the dealer, (ii) an agreement with respect to payment terms has been received, and (iii) the home has been shipped and risk of loss has passed to the dealer and collectability is reasonably assured.

Recent Accounting Pronouncements

Table of Contents

Recent accounting pronouncements We have reviewed accounting pronouncements and interpretations thereof that have effectiveness dates during the periods reported and in future periods. We believe that the following impending standards may have an impact on our future filings. The applicability of any standard is subject to the formal review of our financial management and certain standards are under consideration.

In July 2010, the FASB issued Accounting Standards Update (ASU) 2010-20, *Receivables (Topic 310): Disclosures about the Credit Quality of Financing Receivables and the Allowance for Credit Losses*, which requires entities to provide new disclosures in their financial statements about their financing receivables, including credit risk exposures and the allowance for credit losses on a disaggregated basis. The ASU is effective for public entities for reporting periods ending on or after December 15, 2010 for disclosures of financing receivables as of the end of a reporting period. The disclosures related to activity that occurs during a reporting period are required to be adopted for periods beginning on or after December 15, 2010. The Company adopted the provisions of ASU 2010-20 relating to period-end disclosures as of December 31, 2010.

In June 2009, the Financial Accounting Standards Board (FASB) issued the FASB Accounting Standards Codification (Codification). The Codification is the single source for all authoritative Generally Accepted Accounting Principles (GAAP) recognized by the FASB to be applied for financial statements issued for periods ending after September 15, 2009. The Codification does not change GAAP and did not have a material impact on the Company s financial statements.

In May 2009, the FASB issued guidance under ASC 855 Subsequent Events which established general standards of accounting for and disclosure of events that occur after the balance sheet date but before financial statements are issued or are available to be issued. This guidance required the Company to disclose the date through which the Company has evaluated subsequent events and the basis for the date. The guidance was effective for interim periods which ended after June 15, 2009. See Note 1, Basis of Presentation, for disclosure of the date to which subsequent events are disclosed.

In June 2008, the FASB issued authoritative guidance as required by the Derivative and Hedging ASC Topic 815-10-15-74 in Determining Whether an Instrument (or Embedded Feature) Is Indexed to an Entity s Own Stock. The objective is to provide guidance for determining whether an equity-linked financial instrument (or embedded feature) is indexed to an entity's own stock and it applies to any freestanding financial instrument or embedded feature that has all the characteristics of a derivative, for purposes of determining whether that instrument or embedded feature qualifies for the first part of the scope exception. This Issue also applies to any freestanding financial instrument that is potentially settled in an entity's own stock, regardless of whether the instrument has all the characteristics of a derivative. We currently have warrants that embody terms and conditions that require the reset of their strike prices upon our sale of shares or equity-indexed financial instruments at amounts less than the conversion prices. These features will no longer be treated as equity once it becomes effective. Rather, such instruments will require classification as liabilities and measurement at fair value. Early adoption is precluded. This standard required the Company s warrants outstanding to be fair valued on the adoption date (January 1, 2009) and reclassified to liabilities. See Note 11 Derivative Liabilities of the consolidated financial statements for additional disclosure data.

In March 2008, the FASB issued guidance under ASC 815 Derivatives and Hedging . The guidance is intended to improve financial standards for 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. Entities are required to provide enhanced disclosures about: (a) how and why an entity uses derivative instruments; (b) how derivative instruments and related hedged items are accounted for and its related interpretations; and (c) how derivative instruments and related hedged items affect an entity s financial position, financial performance, and cash flows. It is effective for financial statements issued for fiscal years beginning after November 15, 2008, with early adoption encouraged. The Company has provided the required disclosures in the accompanying Notes to Condensed Consolidated Financial Statements. See Note 11 Derivative Liabilities of the consolidated financial statements for additional disclosure data.

Off-Balance Sheet Arrangements

None.

Table of Contents

ITEM 8. FINANCIAL STATEMENTS

Deer Valley Corporation & Subsidiaries

Consolidated Financial Statements

For the Years Ended December 31, 2010 and 2009.

Contents:

<u>Report of Independent Registered Public Accounting Firm-Meeks International, LLC</u>	23
<u>Consolidated Balance Sheet as of December 31, 2010 and 2009</u>	24
<u>Consolidated Statements of Operations for the Years Ended December 31, 2010 and 2009</u>	25
<u>Consolidated Statements of Stockholders' Equity for the Years Ended December 31, 2010 and 2009</u>	26
<u>Consolidated Statements of Cash Flows for the Years Ended December 31, 2010 and 2009</u>	29
<u>Notes to Consolidated Financial Statements</u>	30

Table of Contents

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

The Board of Directors and Stockholders

Deer Valley Corporation

Tampa, Florida

We have audited the accompanying consolidated balance sheet of Deer Valley Corporation and Subsidiaries (the Company) as of December 31, 2010 and 2009, and the related consolidated statements of operations, stockholders' equity, and cash flows for the years then ended. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. The company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. Our audits included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the company's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Deer Valley Corporation and Subsidiaries at December 31, 2010 and 2009, and the results of their operations and their cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

/s/ Meeks International, LLC

Tampa, Florida

March 25, 2011

Table of Contents**Deer Valley Corporation & Subsidiaries****Consolidated Balance Sheets**

	December 31, 2010	December 31, 2009
ASSETS		
Current Assets:		
Cash	\$ 3,727,228	\$ 6,131,266
Short-term investments	3,168,445	2,372,600
Accounts receivable	482,846	828,492
Inventory	807,730	738,294
Deferred tax asset	622,052	720,560
Inventory finance notes receivable	1,675,856	380,226
Prepaid expenses and other current assets	94,744	113,269
Total Current Assets	10,578,901	11,284,707
Fixed Assets:		
Property, plant and equipment, net	2,463,151	2,704,502
Other Assets:		
Inventory finance notes receivable net	2,912,467	637,514
Deferred tax asset	2,034,931	2,080,767
Other assets	256,410	467,265
Total Other Assets:	5,203,808	3,185,546
Total Assets	\$ 18,245,860	\$ 17,174,755
LIABILITIES AND STOCKHOLDERS EQUITY		
Current Liabilities:		
Current maturities on long term debt	\$ 1,624,088	\$ 95,336
Notes payable	2,725,000	
Accounts payable	163,578	204,835
Accrued expenses	1,290,562	1,747,627
Accrued warranties	1,290,000	1,530,000
Warrant liability	418,682	262,745
Income tax payable	131,453	46,638
Total Current Liabilities	7,643,363	3,887,181
Long Term Liabilities:		
Long-term debt, net of current maturities		1,624,088
Deferred tax liability	88,028	123,684
Put liability		1,323,844
Total Long Term Liabilities	88,028	3,071,616
Total Liabilities	7,731,391	6,958,797
Stockholders Equity:		
	214,995	252,495

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Series A Preferred stock, \$0.01 par value, 750,000 shares authorized, 21,500 and 25,250 shares issued and outstanding, respectively.		
Series C Preferred stock, \$0.01 par value, 26,750 shares authorized, 22,463 and 22,463 shares issued and outstanding, respectively.	224	224
Series E Preferred stock, \$0.01 par value, 1,000,000 authorized, 1,000,000 and 1,000,000 shares issued and outstanding, respectively.	10,000	10,000
Common stock, \$0.001 par value, 100,000,000 shares authorized, 17,499,517 and 19,449,517 shares issued and 17,271,997 and 19,449,517 outstanding, respectively.	17,501	19,451
Additional paid-in capital	35,783,780	36,452,486
Common stock payable-Earnout Agreement		(2,000,000)
Treasury Stock, at cost; 227,520 shares	(100,024)	
Accumulated deficit	(25,412,007)	(24,518,698)
Total Stockholders Equity	10,514,469	10,215,958
Total Liabilities and Stockholders Equity	\$ 18,245,860	\$ 17,174,755

See notes to consolidated financial statements

Table of Contents**Deer Valley Corporation & Subsidiaries****Consolidated Statements of Operations**

	For the years ended December 31,	
	2010	2009
REVENUE	\$ 29,127,893	\$ 27,605,315
COST OF REVENUE	23,626,417	22,361,196
GROSS PROFIT	5,501,476	5,244,119
OPERATING EXPENSES:		
Depreciation and Amortization	20,798	30,015
Selling, general and administrative	3,793,648	3,898,187
Impairment charge	2,000,000	7,256,917
TOTAL OPERATING EXPENSES	5,814,446	11,185,119
OPERATING LOSS	(312,970)	(5,941,000)
OTHER INCOME (EXPENSES)		
Derivative income (expense)	(499,451)	(381,054)
Gain on extinguishment	330,712	
Interest income	22,617	99,856
Other income		201
Interest expense	(190,260)	(142,861)
TOTAL OTHER INCOME/(EXPENSES)	(336,382)	(423,858)
LOSS BEFORE INCOME TAXES	(649,352)	(6,364,858)
INCOME TAX BENEFIT (EXPENSE)	(243,957)	2,272,261
NET LOSS	\$ (893,309)	\$ (4,092,597)
Dividends to preferred stockholders		
Net Loss Available to Common Shareholders	\$ (893,309)	\$ (4,092,597)
Net Loss Per Share (Basic)	\$ (0.05)	\$ (0.26)
Net Loss Per Share (Fully Diluted)	\$ (0.05)	\$ (0.26)
Weighted Average Common Shares Outstanding	17,626,088	15,910,663
Weighted Average Common and Common Equivalent Shares Outstanding	17,626,088	15,910,663

See notes to consolidated financial statements

Table of Contents

Deer Valley Corporation & Subsidiaries

Consolidated Statements of Stockholders' Equity

For the Years Ended December 31, 2010 and 2009

	Preferred A		Preferred C		Series E	
	Shares	Amount	Shares	Amount	Shares	Amount
Balance - December 31, 2008	548,550	\$ 5,485,495	22,463	\$ 224	1,000,000	\$ 10,000
Cumulative effect of change in accounting method						
Conversion of Series A Preferred	(523,300)	(5,233,000)				
Common Stock dividend						
Issuance of common stock dividend to Series A Preferred						
Accrued Dividends						
Net Loss						
Balance December 31, 2009	25,250	\$ 252,495	22,463	\$ 224	1,000,000	\$ 10,000
Cumulative effect of change in accounting method						
Conversion of Series A Preferred	(3,750)	(37,500)				
Common Stock purchase related to amended Earnout Agreement						
Treasury Stock purchase at cost						
Accrued Dividends						
Net Loss						
Balance December 31, 2010	21,500	\$ 214,995	22,463	\$ 224	1,000,000	\$ 10,000

See notes to consolidated financial statements

Table of Contents**Deer Valley Corporation & Subsidiaries****Consolidated Statements of Stockholders' Equity****For the Years Ended December 31, 2010 and 2009**

	Common Shares	Amount	Additional Paid in Capital	Common Stock Payable-Earnout
Balance December 31, 2008	12,472,182	\$ 12,473	\$ 37,399,377	\$ (2,000,000)
Cumulative effect of change in accounting method			(6,172,913)	
Conversion of Series A Preferred	6,977,335	6,978	5,226,022	
Common Stock dividend				
Issuance of common stock dividend to Series A Preferred				
Accrued Dividends				
Net Loss				
Balance December 31, 2009	19,449,517	\$ 19,451	\$ 36,452,486	\$ (2,000,000.00)
Cumulative effect of change in accounting method				
Conversion of Series A Preferred	50,000	50	37,450	
Common Stock purchase related to amended Earnout Agreement	(2,000,000)	(2,000)	(706,156)	2,000,000
Treasury Stock purchase at cost				
Accrued Dividends				
Net Loss				
Balance December 31, 2010	17,499,517	\$ 17,501	\$ 35,783,780	\$

See notes to consolidated financial statements

Table of Contents

Deer Valley Corporation & Subsidiaries
Consolidated Statements of Stockholders' Equity
For the Years Ended December 31, 2010 and 2009

	Treasury Shares	Amount	Accumulated Deficit	Total
Balance December 31, 2008		\$	\$(25,963,323)	\$ 14,944,246
Cumulative effect of change in accounting method			5,537,222	(635,691)
Conversion of Series A Preferred				
Common Stock dividend				
Issuance of common stock dividend to Series A Preferred				
Accrued Dividends				
Net Loss			(4,092,597)	(4,092,597)
Balance December 31, 2009		\$	\$(24,518,698)	\$ 10,215,958
Cumulative effect of change in accounting method				
Conversion of Series A Preferred				
Common Stock purchase related to amended Earnout Agreement				1,291,844
Treasury Stock purchase at cost	(227,520)	(100,024)		(100,024)
Accrued Dividends				
Net Loss			(893,309)	(893,309)
Balance December 31, 2010	(227,520)	\$(100,024)	\$(25,412,007)	\$ 10,514,469

See notes to consolidated financial statements

Table of Contents**Deer Valley Corporation & Subsidiaries****Consolidated Statements of Cash Flows**

	For the years ended December 31,	
	2010	2009
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net loss	\$ (893,309)	\$ (4,092,597)
Adjustments to reconcile net (loss) to net cash provided for/used in operating activities:		
Depreciation and amortization	259,617	275,680
Derivative income (expense)	499,451	381,054
Gain on extinguishment	(330,712)	
Goodwill impairment charge	2,000,000	7,256,917
Bad debt expense	115,000	
Changes in assets and liabilities:		
(Increase)/decrease in receivables	345,646	623,044
(Increase)/decrease in inventories	(69,436)	701,615
(Increase)/decrease in deferred tax asset	144,344	(1,803,665)
(Increase)/decrease in inventory finance receivable	(3,685,583)	(1,017,740)
(Increase)/decrease in prepayments and other	229,380	(450,197)
Increase/(decrease) in accounts payable	(41,257)	(405,608)
Increase/(decrease) in income tax payable	97,431	(43,641)
Increase/(decrease) in estimated services and warranties	(240,000)	(690,000)
Increase/(decrease) in accrued expenses	(469,681)	(593,240)
Increase/(decrease) in deferred tax liability	(35,656)	(588,258)
CASH FLOW (USED) IN OPERATING ACTIVITIES	\$ (2,074,765)	\$ (446,636)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchases of equipment	(25,155)	
Proceeds from sale of property, plant and equipment	6,889	71,032
Purchases of available-for-sale securities	(1,553,045)	(2,977,050)
Sales of available-for-sale securities	757,200	5,235,650
CASH FLOW (USED) IN/PROVIDED BY INVESTING ACTIVITIES	\$ (814,111)	\$ 2,329,632
CASH FLOWS FROM FINANCING ACTIVITIES:		
Repayment of long-term debt	(95,336)	(81,009)
Proceeds (repayment) of notes payable, net	2,725,000	
Warrant redemption	(44,802)	
Increase/(decrease) in treasury stock	(100,024)	
Payment of distributions under earnout provision	(2,000,000)	
CASH FLOW (USED) IN/PROVIDED BY FINANCING ACTIVITIES	\$ 484,838	\$ (81,009)
NET (DECREASE)/INCREASE IN CASH	\$ (2,404,038)	\$ 1,801,987
CASH, Beginning	\$ 6,131,266	\$ 4,329,279
CASH, Ending	\$ 3,727,228	\$ 6,131,266

SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION:

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Cash paid during the period for:

Interest	\$ 183,266	\$ 130,275
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Taxes	\$ 37,000	\$ 163,304
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SUPPLEMENTAL DISCLOSURE OF NON CASH INVESTING AND FINANCING ACTIVITIES:

Conversion of preferred stock for common stock-net	\$ 37,500	\$ 5,233,000
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Put liability settlement	\$ 1,291,844	\$
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Warrant liability	\$	\$ 635,691
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Common stock canceled under earnout agreement	\$ 2,000,000	\$
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See notes to consolidated financial statements

Table of Contents

Deer Valley Corporation & Subsidiaries

Notes to Consolidated Financial Statements

For the Years Ended December 31, 2010 and 2009

NOTE 1 NATURE OF OPERATIONS AND BASIS OF PRESENTATION

Nature of Operations Deer Valley Corporation (The Company), through its wholly-owned subsidiaries, Deer Valley Homebuilders, Inc. (DVH), an Alabama corporation and Deer Valley Financial Corp (DVFC) a Florida corporation designs, manufactures and provides dealer inventory-secured financing for the Company's homes. The Company manufactures its factory-built homes at its principal manufacturing plant located in Guin, Alabama and the Company owns a separate idled manufacturing plant in Sulligent, Alabama. The Company's homes are marketed in 14 states through a network of independent dealers, builders, developers and government agencies located primarily in the southeastern and south central regions of the United States. Short-term inventory-secured loan financing is offered to qualified retail dealers and developers, through DVFC, a wholly owned subsidiary created in the fourth quarter 2009. The Company relies upon a team of regional sales directors and independent dealers to market the factory-built homes in retail locations.

The Company has increased its involvement in the modular segment of the factory built housing industry. The Company has targeted the production of smaller units (less than 3,000 square feet) that are readily producible, in a cost efficient manner, using the Company's existing manufacturing capabilities. The Company sells these models primarily to independent dealers, large tract developers, and government agencies. Modular homes are typically built in a factory in sections and transported to a site to be joined together on a permanent foundation. Unlike homes constructed in accordance with the Federal Manufactured Home Construction and Safety Standards (HUD Code homes), modular homes generally do not have integrated steel frames and axles.

Basis of Presentation This summary of significant accounting policies is presented to assist in understanding the financial statements. The financial statements and notes are representations of the Company's management, which is responsible for their integrity and objectivity. These accounting policies conform to accounting principles generally accepted in the United States of America and have been consistently applied in the preparation of the financial statements.

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Reclassifications To maintain consistency and comparability, certain reclassifications have been made related to the prior year period to conform to the current period presentation. These reclassifications had no effect on previously reported income, net earnings or stockholders' equity.

Principles of Consolidation The consolidated financial statements include the accounts of the Company and its wholly owned subsidiaries. Intercompany accounts and transactions have been eliminated in consolidation.

Accounting Estimates The Company's financial statements are prepared in conformity with accounting principles generally accepted in the United States of America which require management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Fiscal Year The Company operates on a 52-53 week fiscal year end. For presentation purposes, the periods have been presented as ending on December 31.

Table of Contents

Cash Equivalents The Company considers all highly liquid investments with original maturities of three months or less to be cash equivalents.

The Company maintains its cash balances in two different financial institutions. At December 31, 2010 these balances totaled \$3,727,228. The balances are insured by the Federal Deposit Insurance Corporation up to \$250,000.

Investments Short-term investments are comprised of Variable Rate Demand Bonds (VRDB s). In accordance with FASB Topic ASC 320, *Investments-Debt and Equity Securities*, based on our ability to market and sell these instruments and our intent to not hold such instruments until maturity, we classify such variable rate demand bonds as available-for-sale, and carry them at their fair value. VRDB s are similar to short-term debt instruments because their interest rates are reset periodically. Investments in these securities can be sold for cash on the auction date. We classify VRDB s as short-term or long-term investments based on the reset dates.

During the fourth quarter of 2010, we reclassified VRDB s from cash and cash equivalents to short-term investments for all periods presented. The fair value of the securities reclassified was \$3,168,445 and \$2,372,600 at December 31, 2010 and December 31, 2009, respectively. These reclassifications had no effect on previously reported income, net earnings or stockholders' equity.

Accounts Receivable Accounts receivable represent balances due from dealers. Credit risk associated with balances due from dealers is evaluated by management relative to financial condition and past payment experience. As a result of management's reviews reserves for uncollectible amounts have been recorded in the accompanying financial statements. For the years ended December 31, 2010 and 2009, reserves for uncollectible accounts are \$15,000 and \$15,000, respectively.

Inventories Inventories are stated at the lower of cost (first-in, first-out method) or market. Work-in-process and finished goods inventories include an allocation for labor and overhead costs.

Inventory Finance Notes Receivable The Company offers inventory-secured financing for its products to qualified retail dealers and developers. Finance contracts require periodic installments of principal and interest over periods of up to 24 months. These notes are secured by the inventory collateral and other security depending on borrower circumstances. See Note 4 for further discussion regarding the Company's inventory finance notes receivable.

Property, Plant, and Equipment Property, plant and equipment is stated at cost and depreciated over the estimated useful lives of the related assets ranging from 5 to 40 years primarily using the straight-line method. Maintenance and repairs are expensed as incurred.

Category	Useful Life
Land improvements	10 years
Buildings	40 years
Machinery and equipment	5-10 years
Furniture and fixtures	5-10 years

Table of Contents

Goodwill The Company tests goodwill for impairment, at least annually, during the fourth quarter and on an interim basis if an event or circumstance indicate that it is more likely than not that an impairment loss has been incurred. Recoverability of goodwill is evaluated using a two-step process. In the first step, the fair value of our reporting unit is compared to its carrying value. If the fair value of our reporting unit exceeds the carrying value of the net assets assigned to a reporting unit, goodwill is considered not impaired and no further testing is required. If the carrying value of the net assets assigned to a reporting unit exceeds the fair value of a reporting unit, the second step of the impairment test is performed in order to determine the implied fair value of a reporting unit's goodwill. Determining the implied fair value of goodwill requires valuation of a reporting unit's tangible and intangible assets and liabilities in a manner similar to the allocation of purchase price in a business combination. If the carrying value of a reporting unit's goodwill exceeds its implied fair value, goodwill is deemed impaired and is written down to its fair value. Similar to the review for impairment of other long-lived assets, the resulting fair value determination is significantly impacted by estimates of future sales for the Company's products, capital needs, economic trends and other factors. See Note 6 for further discussion regarding the Company's goodwill.

Impairment of Long-Lived Assets Property and intangible assets are material to our financial statements. Further, these assets are subject to the potential negative effects arising from factors beyond the Company's control including changing economic conditions. The Company evaluates its tangible and definite-lived intangible assets for impairment annually during our fourth quarter or more frequently in the presence of circumstances or trends that may be indicators of impairment. The evaluation is a two step process. The first step is to compare our undiscounted cash flows, as projected over the remaining useful lives of the assets, to their respective carrying values. In the event that the carrying values are not recovered by future undiscounted cash flows, as a second step, the Company compares the carrying values to the related fair values and, if lower, record an impairment adjustment. For purposes of fair value, the Company generally uses replacement costs for tangible fixed assets and discounted cash flows, using risk-adjusted discount rates, for intangible assets. These estimates are made by competent employees, using the best available information, under the direct supervision of our management. For tangible property, plant and equipment, there have been no changes in assumptions or methodologies the year ended December 31, 2010 as compared to December 31, 2009. The Company did not have definite-lived intangible assets at December 31, 2010 and December 31, 2009.

In accordance with FASB Topic ASC 420 Exit on Disposal Cost Obligations, the Company evaluates the carrying value of long-lived assets to be held and used when events and circumstances warrant such a review. The carrying value of long-lived assets is considered impaired when the anticipated undiscounted cash flow from such assets is less than its carrying value. In that event, a loss is recognized based on the amount by which the carrying value exceeds the fair market value of the long-lived assets. Fair market value is determined primarily using the anticipated cash flows discounted at a rate commensurate with the risk involved. Losses on long-lived assets to be disposed of are determined in a similar manner, except that the fair market values are primarily based on independent appraisals and preliminary or definitive contractual arrangements less costs to dispose.

Revenue Recognition Revenue for manufactured homes sold to independent dealers generally is recorded when all of the following conditions have been met; (a) an order for the home has been received from the dealer, (b) an agreement with respect to payment terms (usually in the form of a written or verbal approval for payment has been received from the dealer's flooring institution), and (c) the home has been shipped and risk of loss has passed to the dealer and collectability is reasonably assured.

Cost of Sales The Company includes the following types of expenses in cost of sales: purchase and receiving costs, freight in, direct labor, supply costs, warehousing, direct and indirect overhead costs, inspection, transfer, actual and accrued warranty, depreciation and amortization.

Table of Contents

Selling, General and Administrative The Company includes the following types of expenses in selling, general and administrative expense: sales salaries, sales commissions, advertising, administrative overhead, administrative salaries and bonuses and legal and professional fees.

Income Taxes Income taxes are accounted for using the liability method of accounting. Under this method, deferred tax assets and liabilities are recognized for the expected future tax consequences of differences between the carrying amounts of assets and liabilities and their respective tax basis, using currently enacted tax rates. The effect on deferred assets and liabilities of a change in tax rates is recognized in income in the period when the change is enacted. Deferred tax assets are reduced by a valuation allowance when it is more likely than not that some portion or all of the deferred tax assets will not be realized.

Dealer Incentive Programs The Company provides rebates to dealers based upon a predetermined formula applied to the volume of homes sold to the dealer during the year. These rebates are recorded at the time the dealer sales are consummated and are recorded as a reduction of revenue.

Advertising Costs Advertising costs are charged to operations when incurred and are included in operating expenses. Advertising costs for the periods ending December 31, 2010 and 2009 were \$74,115 and \$49,595, respectively.

Concentration of Sales to Certain Customers During 2010, the Company did not have sales to any one customer of greater than 10% of total revenue. During 2009, the Company had sales to one customer of approximately 18%. These sales were made through the Company's network of independent distributors.

Derivative Financial Instruments Upon the adoption of FASB ASC guidance on Topic 815 Derivatives and Hedging in Determining Whether an Instrument (or Embedded Feature) Is Indexed to an Entity's Own Stock on January 1, 2009, certain of our financial instruments with down-round protection features are no longer considered indexed to our Company's stock for purposes of determining whether or not they meet the first part of the scope exception ASC 815-10-15-74. As such, these instruments no longer meet the conditions to obtain equity classification and are required to be carried as derivative liabilities, at fair value, with changes in fair value reflected in our income (loss). See Note 12 Derivative Liabilities of the consolidated financial statements for additional disclosure data.

Fair Value of Financial Instruments The carrying value of the Company's cash equivalents, accounts receivable, accounts payable and accrued expenses approximates fair value because of the short-term nature of these instruments.

Financial instruments Financial instruments consist of cash, evidence of ownership in an entity, and contracts that both (i) impose on one entity a contractual obligation to deliver cash or another financial instrument to a second entity, or to exchange other financial instruments on potentially unfavorable terms with the second entity, and (ii) conveys to that second entity a contractual right (a) to receive cash or another financial instrument from the first entity, or (b) to exchange other financial instruments on potentially favorable terms with the first entity. Accordingly, our financial instruments consist of cash and cash equivalents, accounts receivable, accounts payable, accrued liabilities and derivative financial instruments.

2007 Long Term Incentive Plan On September 7, 2007, the Company's Board of Directors ratified the Company's 2007 Long Term Incentive Plan (the 2007 Incentive Plan). The 2007 Incentive Plan was effective as of July 1, 2007. A maximum of 1,800,000 shares of common stock has been authorized to be issued under the 2007 Incentive Plan in connection with the grant of awards, subject to adjustment for corporate transactions, including, without limitation, any stock dividend, forward stock split, reverse stock split, merger or recapitalization. Of this amount, no more than 1,000,000 shares of common stock may be issued as incentive stock options.

Table of Contents

Pursuant to the 2007 Incentive Plan, each of the seven members of the Board of Directors was issued an option exercisable for 50,000 shares of the Company's common stock, at an exercise price of \$1.14. Such options were approved at a meeting of the Board of Directors in March 2007 and were effective as of July 1, 2007. In addition, under the 2007 Incentive Plan, each of the seven members of the Board of Directors was issued an option exercisable for 50,000 shares of the Company's common stock, at an exercise price of \$1.09. The Company did not issue any stock options or warrants pursuant to an equity compensation plan during 2010 or 2009.

In February 2010, the Company's Board of Directors approved the repurchase and cancellation of all of the options 700,000 share options issued to the Board of Directors. These options were repurchased for the nominal sum of \$700.

Stock Based Compensation The Company uses the guidance set forth under FASB topic ASC 718 Compensation Stock Compensation and Staff Accounting Bulletin 107 to measure its share based payments. This guidance considers the historical volatility over a period generally commensurate with the expected or contractual term of the share option.

The Company estimates the expected term and volatility of options granted based on values derived from its industry peer group. In estimating our expected volatility and term, we have applied the guidance in Question 6 of Topic D of Staff Accounting Bulletin 107 and established a peer group consisting of five companies with similar characteristics to our Company and used a blended average of historical volatilities of these peers over historical periods commensurate with the expected term of each option. As a result, the expected term was generated using the trinomial lattice model. The model uses the contractual term of ten years and then arrives at the expected term based upon the assumptions used in valuing the instrument. Our decision to use these measures was based upon the lack of availability of actively traded options in the Company's own common stock and the Company's assessment that the peer group measure of volatility is more representative of future stock price trends than the Company's historical volatility. The Company bases the risk-free interest rate for option valuation on Constant Maturity Rates provided by the U.S. Treasury with remaining terms similar to the expected term of the options. The Company does not anticipate paying any cash dividends in the foreseeable future and therefore uses an expected dividend yield of zero in the option valuation model. In addition, forfeitures of share-based awards are estimated at the time of grant and revised, if necessary, in subsequent periods if actual forfeitures differ from those estimates. As this is the Company's initial issuance and no historical data exists to estimate pre-vesting option forfeitures the Company has recorded stock-based compensation expense for the all the awards vested. The Company uses the straight-line attribution as its expensing method of the value of share-based compensation for options and awards.

The Company uses a trinomial lattice model granted to determine the fair value of stock options and employee stock purchase plan shares. The determination of the fair value of share-based payment awards on the date of grant using an option-valuation model is affected by the Company's stock price as well as assumptions regarding a number of complex variables. These variables include the Company's expected stock price volatility over the term of the awards, projected employee stock option exercise behavior, expected risk-free interest rate and expected dividends. In addition to the minimum level of assumptions, we have incorporated into our model the impact of the post vesting exit rate of 50%. No options were granted during the years ended December 31, 2010 and 2009.

The following table summarizes the activity related to all Company stock options and warrants for the year ended December 31, 2010 and 2009:

Table of Contents

	Warrants	Stock Options	Exercise Price Per Share		Weighted Average Exercise Price Per Share	
			Warrants	Options	Warrants	Options
Outstanding at December 31, 2008	22,731,704	700,000	\$ 0.75-3.00		\$ 1.64	1.12
Granted			\$		\$	\$
Exercised			\$		\$	
Cancelled or expired	(910,544)		\$ 1.50-2.25		\$	
Outstanding at December 31, 2009	21,821,160	700,000	\$ 0.75-3.00		\$ 1.64	1.12
Granted			\$		\$	\$
Exercised			\$		\$	
Cancelled or expired	(17,641,522)	(700,000)	\$.75-3.00		\$	\$ 1.12
Outstanding at December 31, 2010	4,179,638		\$ 1.50-3.00		\$ 1.74	\$
Outstanding and exercisable at December 31, 2010	4,179,638		\$ 1.50-3.00		\$ 1.74	\$

The warrants expire at various dates ranging from August 2011 through August 2013. In February 2010, the Company repurchased and cancelled all of the 700,000 share stock options.

During the fourth quarter of 2010, the Company entered into a securities purchase agreement with certain shareholders to redeem certain common stock purchase warrants exercisable for an aggregate of 17,641,522 shares of common stock. The Company paid an aggregate purchase price of \$44,802 to redeem such warrants.

The following table summarizes the common shares indexed to common stock purchase warrants as of September 30, 2010 and after the redemption of the common stock purchase warrants during the three month period ended December 31, 2010:

	Balance September 30, 2010	Redeemed December 31, 2010	Balance December 31, 2010
Class A Warrants (Class A-1 & Class A-2)	10,369,351	8,150,661	2,218,690
Class B Warrants	4,970,824	3,858,337	1,112,487
Class C Warrants	2,000,000	2,000,000	
Class D Warrants	2,000,000	2,000,000	
Class F Warrants (Class F-1 & Class F-2)	1,000,000	1,000,000	
Class BD-2 Warrants	899,162	421,683	477,479
Class BD-3 Warrants	449,581	210,841	238,740
Class BD-4 Warrants	66,121		66,121
Class BD-5 Warrants	66,121		66,121
Total number of common shares indexed to derivative instruments	21,821,160	17,641,522	4,179,638

Earning (Loss) Per Share The Company uses the guidance set forth under FASB topic ASC 260, *Earnings Per Share* for calculating the basic and diluted loss per share. Basic income/(loss) per share is computed by dividing net income/(loss) and net income/(loss) attributable to common shareholders by the weighted average number of common shares outstanding. Diluted income/(loss) per share is computed similar to basic loss per share except that the denominator is increased to include the number of additional common shares that would have been outstanding if the potential shares had been issued and if the additional shares were dilutive. Common equivalent shares are excluded from the computation of net loss per share if they would be anti-dilutive.

Table of Contents

	For the years ended December 31,	
	2010	2009
Net income/(loss) available to common shareholders	\$ (893,309)	\$ (4,092,597)
Weighted average shares outstanding:		
Basic	17,626,088	15,910,633
Diluted	17,626,088	15,910,663
Income/Loss per share:		
Basic	\$ (0.05)	\$ (0.26)
Diluted*	\$ (0.05)	\$ (0.26)

The Company's dilutive common stock equivalent shares as of December 31, 2010 and 2009 include all of the Convertible Preferred shares and any incremental shares associated with the Company's outstanding warrants and stock options.

Securities	Exercise Price	Common Stock Equivalents as of December 31,	
		2010	2009
<i>Preferred:</i>			
Series A Preferred		286,642	336,667
Series C Preferred		2,246,300	2,246,300
Series E Preferred		1,000,000	1,000,000
Total		3,532,942	3,582,967
<i>Warrants:</i>			
Class A Warrants	\$ 1.50	2,218,690	10,369,351
Class B Warrants	\$ 2.25	1,112,487	4,970,824
Class C Warrants	\$ 0.75		2,000,000
Class D Warrants	\$ 0.75		2,000,000
Class E Warrants	\$ 3.00		
Class F Warrants	\$ 2.25		1,000,000
Class BD-2 Warrants	\$ 1.50	477,479	899,162
Class BD-3 Warrants	\$ 2.25	238,740	449,581
Class BD-4 Warrants	\$ 1.50	66,121	66,121
Class BD-5 Warrants	\$ 3.00	66,121	66,121
Total		4,179,638	21,821,160
<i>Stock Options:</i>			
7/1/07 Issuance	\$ 1.14		350,000
9/7/07 Issuance	\$ 1.09		350,000
Total			700,000

Total common stock equivalents

7,712,580

26,104,127

Recent Accounting Pronouncements

Recent accounting pronouncements We have reviewed accounting pronouncements and interpretations thereof that have effectiveness dates during the periods reported and in future periods. We believe that the following impending standards may have an impact on our future filings. The applicability of any standard is subject to the formal review of our financial management and certain standards are under consideration.

Table of Contents

In July 2010, the FASB issued Accounting Standards Update (ASU) 2010-20, *Receivables (Topic 310): Disclosures about the Credit Quality of Financing Receivables and the Allowance for Credit Losses*, which requires entities to provide new disclosures in their financial statements about their financing receivables, including credit risk exposures and the allowance for credit losses on a disaggregated basis. The ASU is effective for public entities for reporting periods ending on or after December 15, 2010 for disclosures of financing receivables as of the end of a reporting period. The disclosures related to activity that occurs during a reporting period are required to be adopted for periods beginning on or after December 15, 2010. The Company adopted the provisions of ASU 2010-20 relating to period-end disclosures as of December 31, 2010.

In June 2009, the Financial Accounting Standards Board (FASB) issued the FASB Accounting Standards Codification (Codification). The Codification is the single source for all authoritative Generally Accepted Accounting Principles (GAAP) recognized by the FASB to be applied for financial statements issued for periods ending after September 15, 2009. The Codification does not change GAAP and did not have a material impact on the Company s financial statements.

In May 2009, the FASB issued guidance under ASC 855 Subsequent Events which established general standards of accounting for and disclosure of events that occur after the balance sheet date but before financial statements are issued or are available to be issued. This guidance required the Company to disclose the date through which the Company has evaluated subsequent events and the basis for the date. The guidance was effective for interim periods which ended after June 15, 2009. See Note 1, Basis of Presentation, for disclosure of the date to which subsequent events are disclosed.

In June 2008, the FASB issued authoritative guidance as required by the Derivative and Hedging ASC Topic 815-10-15-74 in Determining Whether an Instrument (or Embedded Feature) Is Indexed to an Entity s Own Stock. The objective is to provide guidance for determining whether an equity-linked financial instrument (or embedded feature) is indexed to an entity s own stock and it applies to any freestanding financial instrument or embedded feature that has all the characteristics of a derivative, for purposes of determining whether that instrument or embedded feature qualifies for the first part of the scope exception. This Issue also applies to any freestanding financial instrument that is potentially settled in an entity s own stock, regardless of whether the instrument has all the characteristics of a derivative. We currently have warrants that embody terms and conditions that require the reset of their strike prices upon our sale of shares or equity-indexed financial instruments at amounts less than the conversion prices. These features will no longer be treated as equity once it becomes effective. Rather, such instruments will require classification as liabilities and measurement at fair value. Early adoption is precluded. This standard required the Company s warrants outstanding to be fair valued on the adoption date (January 1, 2009) and reclassified to liabilities. See Note 11 Derivative Liabilities of the consolidated financial statements for additional disclosure data.

In March 2008, the FASB issued guidance under ASC 815 Derivatives and Hedging . The guidance is intended to improve financial standards for 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. Entities are required to provide enhanced disclosures about: (a) how and why an entity uses derivative instruments; (b) how derivative instruments and related hedged items are accounted for and its related interpretations; and (c) how derivative instruments and related hedged items affect an entity s financial position, financial performance, and cash flows. It is effective for financial statements issued for fiscal years beginning after November 15, 2008, with early adoption encouraged. The Company has provided the required disclosures in the accompanying Notes to Condensed Consolidated Financial Statements. See Note 11 Derivative Liabilities of the consolidated financial statements for additional disclosure data.

Table of Contents**NOTE 3. INVENTORY**

Inventory consisted of the following components:

	December 31,	
	2010	2009
Raw Materials	\$ 523,742	\$ 489,383
Work-in-Process	225,916	200,304
Finished Goods	58,072	48,607
Total Inventory	\$ 807,730	\$ 738,294

NOTE 4. INVENTORY FINANCE NOTES RECEIVABLE AND ALLOWANCE FOR LOAN LOSS

The Company offers inventory-secured financing for its products to a limited number of qualified retail dealers and developers. Finance contracts require periodic installments of principal and interest over periods of up to 24 months. These notes are secured by the inventory collateral and other security depending on borrower circumstances.

Inventory finance notes receivable, net, consists of the following:

	December 31,	
	2010	2009
Inventory finance notes receivable current	\$ 1,675,856	\$ 380,226
Inventory finance notes receivable long-term	3,027,467	637,514
Allowance for loan loss	(115,000)	
Total Inventory finance notes receivable	\$ 4,588,323	\$ 1,017,740

With respect to our inventory finance notes receivable, the risk of loss is spread over numerous borrowers. In addition to historical experience, borrower inventory levels and activity are monitored in conjunction with a third-party provider to estimate the potential for loss. We have not experienced any losses to date, however the Company anticipates it will be able to resell any repossessed homes, thereby mitigating loss experience. If a default occurs and collateral is lost, the Company is exposed to loss of the full value of the note receivable. The Company recorded an allowance for loan loss of \$115,000 and \$0 at December 31, 2010 and 2009, respectively. The following table represents changes in the estimated allowance for loan losses:

	December 31,	
	2010	2009
Balance at beginning of period	\$	\$
Provision for credit losses	115,000	
Loans charged off, net of recoveries		
Balance at end of period	\$ 115,000	\$

Table of Contents**NOTE 5 PROPERTY, PLANT, AND EQUIPMENT**

Property, Plant and Equipment consisted of the following:

Category	December 31,	
	2010	2009
Land and improvements	\$ 423,244	\$ 423,244
Buildings	1,919,554	1,919,554
Machinery and equipment	1,150,871	1,143,301
Furniture and fixtures	216,284	210,889
	3,709,953	3,696,988
Accumulated depreciation	(1,246,802)	(992,486)
Total Property, Plant, and Equipment	\$ 2,463,151	\$ 2,704,502

Depreciation expense amounted to \$259,617 and \$275,680 for the years ended December 31, 2010 and 2009, respectively.

NOTE 6 GOODWILL

The Company's goodwill is comprised of the following:

Total Goodwill as of December 31, 2008	\$ 7,256,917
Earnout for 2009	
Impairment Charges	(7,256,917)
Total Goodwill as of December 31, 2009	\$
Earnout for 2010	2,000,000
Impairment Charges	(2,000,000)
Total Goodwill as of December 31, 2010	\$

The Company's market capitalization was significantly impacted by the extreme volatility in the U.S. equity and credit markets and was below the book value of shareholders' equity as of the end of the Company's first quarter. As a result, the Company evaluated whether the decrease in its market capitalization reflected factors that would more likely than not reduce the fair value of the Company's reporting units below their carrying value. Based on a combination of factors, including the economic environment, the sustained period of decline in the Company's market capitalization, and the implied valuation and discount rate assumptions in the Company's industry, the Company concluded there were sufficient indicators to perform an interim impairment test of the reporting units and related intangible assets.

The Company's estimate of the fair value was based on projections of revenues, operating costs, and cash flows considering historical and anticipated future results, general economic and market conditions, as well as the impact of planned business and operational strategies. The key assumptions impacting the fair value of the Company's reporting units during the impairment analysis were: (a) expected cash flow for a period of five years; (b) terminal value based upon zero terminal growth; and (c) a discount rate of 14.65% which was based on the Company's best estimate of the weighted average cost of capital adjusted for risks associated with the Company's reporting units. The Company believes the assumptions used in the impairment analysis were consistent with the risk inherent in the business models of the Company and within the Company's industry.

As a result of the Company's impairment analysis, the Company determined that the carrying value of goodwill exceeded its fair value. Accordingly, the Company performed further analysis to determine the implied fair value of the Company's goodwill. This analysis included a hypothetical valuation of the tangible and intangible assets of the Company as if it had been acquired in a business combination. The analysis disclosed that the carrying amount of goodwill exceeds the implied fair value of goodwill. The Company recognized a non-cash

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goodwill impairment charge of \$2,000,000 and \$7,256,917 during the year ended December 31, 2010 and 2009, respectively. The Company's goodwill has been fully impaired, there will not be any additional impairment charges related to the 2006 acquisition of DVH.

Table of Contents**NOTE 7 ACCRUED EXPENSES**

Accrued expenses consisted of the following:

Category	December 31,	
	2010	2009
Accrued dealer incentive program	\$ 266,662	\$ 320,629
Accrued third party billings	425,345	541,321
Accrued compensation	219,197	299,973
Accrued insurance	102,156	95,156
Accrued interest	28,409	40,690
Accrued repurchase commitment	167,300	275,000
Other	81,493	174,858
Total Accrued Expenses	\$ 1,290,562	\$ 1,747,627

NOTE 8 PRODUCT WARRANTIES

The Company provides the retail home buyer a one-year limited warranty covering defects in material or workmanship in home structure, plumbing and electrical systems. The Company estimated warranty costs are accrued at the time of the sale to the dealer following industry standards and historical warranty cost incurred. Periodic adjustments to the estimated warranty accrual are made as events occur which indicate changes are necessary. As of December 31, 2010 and 2009, the Company has provided a liability of \$1,290,000 and \$1,530,000, respectively for estimated warranty costs relating to homes sold, based upon management's assessment of historical experience factors and current industry trends.

Management reviews its warranty requirements at the close of each reporting period and adjusts the reserves accordingly. The following tabular presentation reflects activity in warranty reserves during the periods presented:

	For the years ended December 31,	
	2010	2009
Balance at beginning of period	\$ 1,530,000	\$ 2,220,000
Warranty charges	1,870,040	1,592,076
Warranty payments	(2,110,040)	(2,282,076)
Balance at end of period	\$ 1,290,000	\$ 1,530,000

NOTE 9 ACCRUED EARNOUT PAYABLE

Earnout Agreement On January 18, 2006, the Company's wholly-owned subsidiary, DeerValley Acquisitions Corp. (dissolved on July 1, 2006), entered into an Earnout Agreement (the "Earnout Agreement"), between Deer Valley Homebuilders, Inc., DeerValley Acquisitions Corp., and the former owners of Deer Valley Homebuilders, Inc. In connection with the Capital Stock Purchase Agreement, the Company entered into the Earnout Agreement, pursuant to which, additional payments may be paid to the former owners of Deer Valley Homebuilders, Inc. as an earnout based upon the Net Income Before Taxes of Deer Valley Homebuilders, Inc. during the next five (5) years ended January 18, 2011, up to a maximum of \$6,000,000. In any given year during the term of the Earnout Agreement, 50% of the pre-tax profit exceeding \$1,000,000 per year will be accrued and become distributable to the prior shareholders.

Table of Contents

On November 19, 2007, the Company entered into an amendment to the Earnout Agreement, dated January 18, 2006, with the original founders (the Founders), now the core operating management for the Company s wholly owned subsidiary, Deer Valley Homebuilders, Inc. (the Earnout Amendment).

In exchange for the elimination of future performance based cash accruals that were expected to total an additional \$2 million over the next 12 to 36 months, the Company issued to the Founders two million shares of Deer Valley s common stock. Through December 31, 2007, the Company paid \$4,000,000 to the Founders, under its Earnout Agreement, including \$2.75 million in December of 2007. At December 31, 2009, the Company Founders have vested rights amounting to \$2,000,000 under the Amended Earnout Agreement subject to completing requirements of the Founders employment agreement. The common stock was to be held in escrow until January 18, 2011 pending completion of the employment agreement requirements. The final number of shares released to recipients may be reduced in accordance with vesting requirements if the original earnout criteria are not met. For those shares that are ultimately released, if the open market price of the shares at the time of the release should be less than \$1.00/share, the Company agreed to either issue additional shares or pay a cash amount equal to the difference between \$1.00 and the share price (i.e. make whole).

The Company accounted for the right to be made whole as a put liability. The Company determines the fair value of the put liability with a commercially available software product that utilizes a proven Monte Carlo valuation methodology. The Monte Carlo model was utilized to incorporate more complex variables than closed-form models such as the Black-Scholes option valuation model. Based on this analysis, the value of the put liability was determined to be approximately \$1,291,844 at February 5, 2010. On February 5, 2010, the Put liability was settled in conjunction with the Second Amendment to the Earnout Agreement dated January 16, 2006.

On January 1, 2008 the Company adopted the guidance under FASB topic ASC 820 Fair Value Measurements and Disclosures , for our financial assets and financial liabilities. The guidance defines fair value, provides guidance for measuring fair value and requires certain disclosures. The guidance discusses valuation techniques such as the market approach (comparable market prices), the income approach (present value of future income or cash flow), and the cost approach (cost to replace the service capacity of an asset or replacement cost). The guidance utilizes a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value into three broad levels. The following is a brief description of those three levels:

Level 1: Observable inputs such as quoted prices (unadjusted) in active markets for identical assets or liabilities

Level 2: Inputs, other than quoted prices, that are observable for the asset or liability; either directly or indirectly. These include quoted prices for similar assets or liabilities in active markets and quoted prices for identical or similar assets or liabilities in markets that are not active.

Level 3: Unobservable inputs that reflect the reporting entity s own assumptions.

We apply the provisions of ASC 820 Fair Value Measurement in valuing our derivative financial instruments. Assets and liabilities measured at fair value are classified in their entirety based on the lowest level of input that is significant to their fair value measurement. Our derivative financial instruments which are required to be measured at fair value on a recurring basis are all measured at fair value using Level 3 inputs. Level 3 inputs are unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities.

Table of Contents

The following table summarizes the inputs used to measure the put liability at fair value:

	February 5, 2010
Settlement guaranteed value	\$ 2,000,000
Indexed shares	2,000,000
Expected volatility	78.6%-99.85%
Effective strike price	\$ 1.00
Trading Market Price	\$ 0.37
Expected dividends	
Expected term in years	1-2 years
Risk free rate of return	.08%-.40%

As a result of the fair value adjustments, the Company has recognized income (expense) of \$32,000 and \$(754,000) for years ended December 31, 2010 and 2009, respectively.

On February 5, 2010, the Company entered into a Second Amendment to the Earnout Agreement dated January 18, 2006, with the original founders (the Founders), now the core operating management for the Company's wholly owned subsidiary, Deer Valley Homebuilders, Inc. (the Second Earnout Amendment). The Former Owners agreed to extend the term of their Employment Agreements and Non-Compete Agreement for two additional years upon substantially the same terms and conditions, in exchange for the Company repurchasing the 2,000,000 shares currently in escrow at a price of \$.35 per share, and agreeing to exercise the existing option to pay the Price Guarantee differential, in cash, in lieu of shares.

As a result of the amended earnout agreement, the Company recorded the remaining liability of \$2,000,000 due to the Former owners under the Earnout Agreement. The Company agreed to repurchase the 2,000,000 shares held in escrow for the former owners for \$700,000. The earnout liability of \$2,000,000 was paid to the former shareholders on December 8, 2010.

NOTE 10 REVOLVING CREDIT LOANS

On April 12, 2008, DVH renewed and consolidated its existing revolving credit line of \$2,500,000 with Fifth Third Bank, and its existing revolving bridge line of credit of \$5,000,000 with Fifth Third Bank (the Consolidated Facility). The Consolidated Facility is a revolving line of credit in an amount not to exceed \$7,500,000 evidenced by a revolving credit note and secured by accounts receivable, inventory, equipment and all other tangible and intangible personal property of DVH and guaranteed by Deer Valley Corporation (DVC). The purpose of the Consolidated Facility is to provide working capital and letters of credit required in the normal course of the Company's business. The Consolidated Facility has a one-year term and has a variable interest rate at 2.50% above LIBOR and provides for conditions to be met, including financial ratios, prior to each advance.

Effective April 12, 2009, DVH renewed and amended its existing Loan and Security Agreement with Fifth Third Bank, providing for a line of credit secured by accounts receivable, inventory, equipment and all other tangible and intangible personal property of DVH. In connection with the renewal the maximum principal amount of the facility was reduced from \$7,500,000 to \$5,000,000. The purpose of the Credit Facility is to provide working capital and letters of credit required in the normal course of the Company's business. The Credit Facility has a one-year term and has a variable interest rate at 2.50% above LIBOR and provides for conditions to meet, including financial ratios, prior to each advance. See new revolving credit loan and security agreement dated October 14, 2009 for new credit facility as shown below.

Table of Contents

On October 14, 2009, Deer Valley entered into Revolving Credit Loan and Security Agreement with Fifth Third Bank, which provides for a revolving line of credit in an amount not to exceed Seven Million Five Hundred Thousand Dollars (the \$7,500,000 Facility). The \$7,500,000 Facility is evidenced by a revolving credit note and secured by accounts receivable, inventory, equipment and all other tangible and intangible personal property of Deer Valley. The purpose of the \$7,500,000 Facility is to provide display model financing for dealers of the products produced by DVH. This financing will be provided through DVC's new subsidiary DVFC and administration of individual dealer loans will initially be handled by a third party administrator. The \$7,500,000 Facility has a two year term and has a variable interest rate at 4.00% above LIBOR or 4.38% at December 31, 2010. An event of default such as non-payment of amounts when due under the loan agreement or a breach of a covenant may accelerate the maturity date of the facility. The facility provides for conditions to be met prior to each advance, including financial ratios. As of December 31, 2010, the Company had an outstanding balance of \$2,400,000 under the revolving credit loan.

On October 14, 2009, Deer Valley entered into Revolving Credit Loan and Security Agreement with Fifth Third Bank, which provides for a revolving line of credit in an amount not to exceed Five Million Dollars (the \$5,000,000 Facility). The \$5,000,000 Facility is evidenced by a revolving credit note and secured by accounts receivable, inventory, equipment and all other tangible and intangible personal property of Deer Valley. The \$5,000,000 Facility is to be utilized for short term working capital financing, letters of credit and as a bridge loan on financing the sale of retail units by DVH. Said financing will be provided through DVC's new subsidiary DVFC, and administration of individual dealer loans will initially be handled by a third party administrator. The \$5,000,000 Facility has a two year term and has a variable interest rate at 2.50% above LIBOR or 2.88% at December 31, 2010. An event of default such as non-payment of amounts when due under the loan agreement or a breach of a covenant may accelerate the maturity date of the facility. The facility provides for conditions to be met prior to each advance, including financial ratios. As of December 31, 2010, the Company had an outstanding balance of \$325,000 under the revolving credit loan.

The amount available under the revolving credit loans is equal to the lesser of \$12,500,000 or an amount based on defined percentages of accounts receivable and inventories reduced by any outstanding letters of credit. At December 31, 2010, \$3,240,872 was available under the revolving credit loans after deducting letters of credit of \$375,000.

In addition to the revolving line of credit described in the preceding paragraph, DVH, during its normal course of business, is required to issue irrevocable standby letters of credit in the favor of independent third party beneficiaries to cover obligations under repurchase agreements. As of December 31, 2010, no amounts had been drawn on the above irrevocable letters of credit by the beneficiaries.

NOTE 11 LONG-TERM DEBT

On May 26, 2006, DVH entered into a Loan Agreement with Fifth Third Bank (the Lender) providing for a loan of Two Million and No/100 Dollars (\$2,000,000) (the Loan) evidenced by a promissory note and secured by a first mortgage on DVH's properties in Guin, Alabama and Sulligent, Alabama, including the structures and fixtures located thereon, as well as DVH's interest in any lease thereof. The purpose of the loan is to pay off an existing loan from another bank secured by the Guin property and to reduce the outstanding balance on DVH's revolving credit facility with the Lender. The net effect of the reduction in the revolving credit balance is to increase the credit available to the Company for working capital under its revolving facility. The Loan has a term from May 26, 2006 through June 1, 2011 and has a variable interest rate at 2.25% above LIBOR. There is no prepayment penalty. Future advances are available under the Loan Agreement, subject to approval by the Lender. Also on May 26, 2006, the Company and DVH guaranteed the Loan. Should Deer Valley default, thereby triggering acceleration of the Loan, the Company would become liable for payment of the Loan.

Table of Contents

Long-term debt of the Company was as follows:

	December 31,	
	2010	2009
Note payable to Fifth Third Bank, payable in monthly installments of \$10,000 including interest at Libor plus 2.25%, maturing on June 1, 2011, secured by all assets of the Company.	\$ 1,624,088	\$ 1,719,424
Less: Current portion of long-term debt	(1,624,088)	(95,336)
Total long-term debt, net of current portion	\$	\$ 1,624,088

Total interest costs for the years ended December 31, 2010 and 2009, amounted to \$134,793 and \$142,861, respectively, as reflected on the face of the accompanying statement of income.

At December 31, 2010, principal repayment requirements on long-term debt were as follows:

For year ended December 31,	Amount
2011	\$ 1,624,088
Total repayments on long-term debt	\$ 1,624,088

NOTE 12 DERIVATIVE LIABILITIES

Effective on January 1, 2009, we adopted the requirements of ASC 815 Derivatives and Hedging Activities that revised the definition of "indexed to a company's own stock" for purposes of continuing classification of derivative contracts linked to our equity instruments. Derivative contracts may be classified in equity only when they both are indexed to a company's own stock and meet certain conditions for equity classification. Under the revised definition, an instrument (or embedded feature) would be considered indexed to an entity's own stock if its settlement amount will equal the difference between the fair value of a fixed number of the entity's equity shares and a fixed monetary amount. We were unable to continue to carry 21,821,160 warrants in equity because they embodied anti-dilution protections that did not achieve the fixed-for-fixed definition. The reclassification of the fair value of the warrants, amounting to \$635,691, to liabilities was recorded on January 1, 2009 as a cumulative effect of a change in accounting principle wherein the original amounts recorded were removed from paid-in capital (\$6,172,913) and the difference (\$24,673,969), representing the fair value changes, was recorded as an adjustment to beginning accumulated deficit. These derivative liabilities are measured at fair value each reporting period and the changes in the fair value are recorded in our consolidated statement of operations.

Table of Contents

The following is a list of the common shares indexed to derivative financial instruments as of December 31, 2010 and December 31, 2009, and other salient terms:

	Exercise Price	December 31, 2010 Common shares indexed	December 31, 2009 Common shares indexed
Class A Warrants (Class A-1 & Class A-2)	\$ 1.50	2,218,690	10,369,351
Class B Warrants	\$ 2.25	1,112,487	4,970,824
Class C Warrants	\$ 0.75		2,000,000
Class D Warrants	\$ 0.75		2,000,000
Class F Warrants (Class F-1 & Class F-2)	\$ 2.25		1,000,000
Class BD-2 Warrants	\$ 1.50	477,479	899,162
Class BD-3 Warrants	\$ 2.25	238,740	449,581
Class BD-4 Warrants	\$ 1.50	66,121	66,121
Class BD-5 Warrants	\$ 3.00	66,121	66,121
Total number of common shares indexed to derivative instruments		4,179,638	21,821,160

During the year ended December 31, 2010, we redeemed certain Common Stock Purchase Warrants exercisable for an aggregate of 17,641,522 shares of our common stock. We paid to the sellers a total purchase price of \$44,800 to redeem such warrants with a fair value of approximately \$375,500 resulting in a gain on extinguishment of \$330,700.

We estimate fair values of derivative financial instruments using various techniques (and combinations thereof) that are considered to be consistent with the objective measuring fair values. In selecting the appropriate technique, we consider, among other factors, the nature of the instrument, the market risks that it embodies and the expected means of settlement. For less complex derivative instruments, such as free-standing warrants, we generally use the Black-Scholes-Merton (BSM) option valuation technique, adjusted for the effect of dilution, because it embodies all of the requisite assumptions (including trading volatility, estimated terms, dilution and risk free rates) necessary to fair value these instruments. Estimating fair values of derivative financial instruments requires the development of significant and subjective estimates that may, and are likely to, change over the duration of the instrument with related changes in internal and external market factors. In addition, option-based techniques (such as BSM) are highly volatile and sensitive to changes in the trading market price of our common stock. Since derivative financial instruments are initially and subsequently carried at fair values, our income (loss) will reflect the volatility in these estimate and assumption changes.

Table of Contents

The following tables summarize the components of derivative liabilities as of December 31, 2010 and 2009 and activity in our derivative liability balances during the year:

	December 31, 2009		Derivative (gains)/ losses		Repurchases	December 31, 2010	
Class A Warrants (Class A-1 & Class A-2)	\$	92,201	\$	129,579	\$ (83,689)	\$	138,091
Class B Warrants		42,749		346,939	(163,328)		226,360
Class C Warrants		45,400		(35,000)	(10,400)		
Class D Warrants		65,800		48,600	(114,400)		
Class F Warrants (Class F-1 & Class F-2)		5,950		(2,675)			
Class BD-2 Warrants		7,913		33,559	(3,275)		41,092
Class BD-3 Warrants		1,978		7,460	(380)		9,396
Class BD-4 Warrants		582		2,440	(42)		3,022
Class BD-5 Warrants		172		549			721
Fair values	\$	262,745	\$	531,451	\$ (375,514)	\$	418,682
Significant assumptions (or ranges):							
Trading market values ⁽¹⁾	\$	0.37				\$	0.72
Term (years)		1.61	3.61				0.61 2.61
Volatility ⁽¹⁾		65.44%	91.90%				89.38% 111.12%
Risk-free rate ⁽²⁾		1.14%	1.70%				0.19% 1.05%

Fair value hierarchy:

- (1) Level 1 inputs are quoted prices in active markets for identical assets and liabilities, or derived there from. Our trading market values and the volatilities that are calculated thereupon are level 1 inputs.
- (2) Level 2 inputs are inputs other than quoted prices that are observable. We use the current published yields for zero-coupon US Treasury Securities, with terms nearest the remaining term of the warrants for our risk free rate.
- (3) Level 3 inputs are unobservable inputs. Inputs for which any parts are level 3 inputs are classified as level 3 in their entirety. The remaining term used equals the remaining contractual term as our best estimate of the expected term.

ASC 820-10-55-62 Fair Value Measurements and Disclosures (pre Codification FAS No. 157 Fair Value Measurements) provides that for assets and liabilities measured at fair value on a recurring basis using significant unobservable inputs (Level 3) during the period, a reconciliation is required of the beginning and ending balances. The reconciliation of our derivative liabilities measured at fair value on a recurring basis using significant unobservable inputs (Level 3) as of December 31, 2010 is as follows:

	Warrant Derivative
Beginning balance, December 31, 2009	\$ 262,745
Total gains or (losses) included in earnings	531,451
Issuances	
Repurchases	(375,514)
Ending balance, December 31, 2010	\$ 418,682

Table of Contents

The following tables summarize the effects on our expense (income) associated with changes in the fair values of our derivative financial instruments:

	Year ended December 31, 2010	Year ended December 31, 2009
Class A Warrants (Class A-1 & Class A-2)	\$ 129,579	\$ (51,107)
Class B Warrants	346,939	(100,908)
Class C Warrants	(35,000)	(68,000)
Class D Warrants	48,600	(141,200)
Class F Warrants (Class F-1 & Class F-2)	(2,675)	(5,250)
Class BD-2 Warrants	33,559	(4,406)
Class BD-3 Warrants	7,460	(1,619)
Class BD-4 Warrants	2,440	(324)
Class BD-5 Warrants	549	(132)
	\$ 531,451	\$ (372,946)

NOTE 13 INCOME TAXES

The income tax provision (benefit) consists of the following:

Table of Contents**Income Taxes:**

The components of the provision for income taxes are as follows:

	2010	2009
Current taxes	\$ 135,270	\$ 78,764
Deferred taxes	108,687	(2,351,025)
Provision for income taxes	\$ 243,957	\$ (2,272,261)

The items accounting for the difference between income taxes computed at the federal statutory rate and the provision for income taxes are as follows:

	2010		2009	
	Amount	Impact on Rate	Amount	Impact on Rate
Income tax at federal rate	\$ (220,780)	34.00%	\$ (2,164,052)	34.00%
State tax, net of Federal effect	(27,442)	4.23%	(268,979)	4.23%
Permanent Differences:				
Basis adjustment for energy credit		0.00%		0.00%
Meals & Entertainment	23,721	-3.65%	8,218	-0.13%
Officers Life Insurance	1,337	-0.21%	1,935	-0.03%
Gain on extinguishment	(126,418)	19.47%		0.00%
Derivative expense	190,920	-29.40%	145,662	-2.29%
Domestic Production Deduction		0.00%	4,921	-0.08%
Total Permanent Differences	89,560	-13.79%	160,736	-2.53%
Deferred Tax Valuation Allowance	402,617	-62.00%	0	0.00%
True Up to Tax Return Deferred Assets	1	0.00%	34	0.00%
Total Provision	\$ 243,956	-37.56%	\$ (2,272,261)	35.70%

Deferred income taxes reflect the net tax effects of temporary differences between the carrying amount of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes. Significant components of the Company's net deferred income taxes are as follows:

	2010	2009
Current Deferred Tax Assets:		
Warranty Reserve	\$ 493,115	\$ 584,858
Repurchase Reserve	63,952	105,122
Loan Loss Reserve	43,960	
Allowance for Doubtful Accounts	1,911	1,910
Accrued Legal Fees	19,114	28,670
Total Current Deferred Tax Asset	622,052	720,560

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Non-Current Deferred Tax Assets:		
Share based compensation		45,834
Goodwill Impairment	2,437,550	2,034,933
Valuation Allowance	(402,617)	
Rounding		(2)
Total Non-Current Deferred Tax Assets	2,034,931	2,080,767
Non-Current Deferred Tax Liability:		
Accelerated Depreciation	(87,687)	(123,343)
Goodwill		
Sale of Assets	(341)	(341)
Total Non-Current Deferred Tax Liability	(88,028)	(123,684)
Total Deferred Tax Assets (Net)	\$ 2,568,955	\$ 2,677,643

The estimated Tax Credit for the State of Alabama for December 31, 2010 and 2009 of 0 and 0, is estimated based on the annual capital credit available for qualifying projects within the state of Alabama and is determined by multiplying the total actual project costs by 5% and is limited to Alabama income tax liability attributable to income generated by or arising out of the qualifying project. Any remainder of unused capital credit available cannot be carried forward or back.

Table of Contents

NOTE 14 COMMITMENTS AND CONTINGENCIES

Litigation The Company in the normal course of business is subject to claims and litigation. Management of the Company is of the opinion that, based on information available, such legal matters will not ultimately have a material adverse effect on the financial position or results of operation of the Company.

Reserve for Repurchase Commitments DVH is contingently liable under the terms of repurchase agreements with financial institutions providing inventory financing for retailers of DVH's products. These arrangements, which are customary in the industry, provide for the repurchase of products sold to retailers in the event of default by the retailer. The risk of loss under these agreements is spread over numerous retailers. The price DVH is obligated to pay generally declines over the period of the agreement (typically 18 to 24 months) and the risk of loss is further reduced by the sale value of repurchased homes. The maximum amount for which the Company is contingently liable under repurchase agreements is approximately \$3,650,000 at December 31, 2010. As of December 31, 2010 the Company reserved \$167,300 for future repurchase losses, based on prior experience and an evaluation of dealers' financial conditions. DVH to date has not experienced significant losses under these agreements, and management does not expect any future losses to have a material effect on the accompanying financial statements.

NOTE 15. EQUITY TRANSACTIONS

Series A Convertible Preferred Stock During the years ended December 31, 2010 and 2009, certain of the Company's shareholders converted 3,750 and 523,300 shares of Series A Preferred stock, stated value \$37,500 and \$5,233,000, into 50,000 and 6,977,335 shares of the Company's common stock.

Common Stock Dividends There were no dividends paid during the years ended December 31, 2010 and 2009.

NOTE 16 RELATED PARTY

In connection with the Capital Stock Purchase Agreement, DVA entered into the Earnout Agreement, pursuant to which, additional payments may be paid to the former owners of Deer Valley Homebuilders, Inc., as an earnout, based upon the net income before taxes of DVH during the five (5) years following January 18, 2006, up to a maximum of \$6,000,000. During the term of the Earnout Agreement, 50% of the pre-tax profit exceeding \$1,000,000 per year will be accrued and become distributable to the former owners of DVH, the Founders, who consist of Joel Stephen Logan, II, the President and General Manager of DVH, Charles L. Murphree, Jr., the Vice President and Regional Sales Director of DVH, and John Steven Lawler, Chief Financial Officer of DVH. Messrs. Logan, Murphree, and Lawler are all directors of Deer Valley Corporation and of DVH. The business purpose of executing the Earnout Agreement was to set the purchase price of DVH by an objective standard, given that the owners of DVH, DVA, and the Company could not agree on an outright purchase price. On November 19, 2007, the Company entered into the Earnout Amendment to the Earnout Agreement with the Founders, now the core operating management for the Company's wholly owned subsidiary, DVH, to generally eliminate the Company's obligations under the Earnout Agreement in exchange for an issuance of two million shares of Deer Valley's common stock to the Founders and release of funds accrued through December 31, 2007.

On February 5, 2010, the Company entered into a second amendment to the Earnout Agreement dated January 18, 2006 (the "Second Earnout Amendment"). The Founders agreed to extend the term of their Employment Agreements and Non-Compete Agreements for two additional years upon substantially the same terms and conditions, in exchange for the Company repurchasing the 2,000,000 shares currently in escrow at a price of \$.35 per share, and agreeing to exercise the existing option to pay the Price Guarantee differential, in cash, in lieu of shares. The Company reassessed the classification of the contract and determined that the contract

Table of Contents

should be reclassified from equity to a liability. The contract was reclassified as of February 5, 2010 the date of the Second Earnout Amendment in the amount of \$2,000,000. A discussion of the terms of the Earnout Amendment can be found at Note 8- Accrued Earnout Payable.

NOTE 17 - SELECTED QUARTERLY FINANCIAL DATA (UNAUDITED)

The following is a summary of the Company's unaudited quarterly results of operations for the periods ended December 31, 2010 and 2009.

	For the three month periods ended December 31,	
	2010 (unaudited)	2009 (unaudited)
REVENUE	\$ 5,518,439	\$ 8,088,967
COST OF REVENUE	4,304,749	6,410,181
GROSS PROFIT	1,213,690	1,678,786
OPERATING EXPENSES:		
Depreciation	4,996	6,154
Selling, general and administrative	778,943	892,627
Goodwill Impairment Charge		7,256,917
TOTAL OPERATING EXPENSES	783,939	8,155,698
OPERATING INCOME	429,751	(6,476,912)
OTHER INCOME (EXPENSES)		
Derivative income	(538,529)	98,899
Gain on extinguishment	330,712	
Interest income	6,841	13,255
Interest expense	(54,394)	(35,964)
TOTAL OTHER INCOME/(EXPENSES)	(255,370)	76,190
INCOME BEFORE INCOME TAXES	174,381	(6,400,722)
INCOME TAX (EXPENSE)/BENEFIT	(58,769)	2,527,334
NET INCOME	\$ 115,612	\$ (3,873,388)
Dividends to preferred stockholders		
Deemed dividend to preferred stockholders on beneficial conversion feature		
Net Income Available to Common Shareholders	\$ 115,612	\$ (3,873,388)
Net Income/(Loss) Per Share (Basic)	\$ 0.01	\$ (0.24)
Net Income/(Loss) Per Share (Fully Diluted)	\$ 0.01	\$ (0.24)
Weighted Average Common Shares Outstanding	17,626,088	15,910,663
Weighted Average Common and Common Equivalent Shares Outstanding	17,626,088	15,910,663

Table of Contents**NOTE 18 SEGMENT INFORMATION**

Our business segments consist of factory-built housing and financial services. Our financial services business commenced during the fourth quarter of 2009 to provide dealer inventory-secured financing for houses built by the Company. Our chief decision making officer considers income (loss) from operations as the basis to measure segment profitability. The following table summarizes net sales, income (loss) from operations, and identifiable assets by segment for the three and nine month period ended September 30, 2010 and 2009.

	December 31, 2010	December 31, 2009
Revenues from external customers		
Factory-built housing	\$ 28,868,755	\$ 27,601,642
Financial Services	259,138	3,673
Total Revenues	\$ 29,127,893	\$ 27,605,315
Income (loss) from operations		
Factory-built housing	\$ 207,539 ⁽¹⁾	\$ (5,365,497) ⁽²⁾
Financial services	65,716	(17,767)
General corporate expenses	(586,225)	(557,736)
Total Income (loss) from operations	\$ (312,970)	\$ (5,941,000)
Derivative income (expense)	\$ (499,451)	\$ (381,054)
Gain on extinguishment	\$ 330,712	\$
Other income (expense)	\$	\$ 201
Interest income	22,617	99,856
Interest expense	(190,260)	(142,861)
	\$ (336,382)	\$ (423,858)
Income (loss) before income taxes	\$ (649,352) ⁽¹⁾	\$ (6,364,858) ⁽²⁾
Identifiable assets		
Factory-built housing	\$ 13,416,204	\$ 14,993,230
Financial Services	4,733,272	1,982,983
Other	96,384	198,542
	\$ 18,245,860	\$ 17,174,755

(1) Includes \$2,000,000 goodwill impairment charge

(2) Includes \$7,256,917 goodwill impairment charge

Table of Contents

ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE
None.

ITEM 9A. CONTROLS AND PROCEDURES
Evaluation of Disclosure Controls and Procedures

Disclosure controls and procedures, as defined in Rule 13a-15(e) promulgated under the Securities Exchange Act of 1934 (the Exchange Act), are designed to ensure that information required to be disclosed by us in the reports that we file or submit under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the Securities and Exchange Commission's rules and forms and that such information is accumulated and communicated to our management, including our Chief Executive Officer and Chief Financial Officer, as appropriate to allow timely decisions regarding required disclosure.

We carried out an evaluation, under the supervision and with the participation of our management, including our Chief Executive Officer and Chief Financial Officer, of the effectiveness of the design and operation of our disclosure controls and procedures as of December 31, 2010. Based upon such evaluation, the Chief Executive Officer and Chief Financial Officer has concluded that, as of the end of such period, the Company's disclosure controls and procedures were not effective as required under Rules 13a-15(e) and 15d-15(e) under the Exchange Act.

Management's Report on Internal Control Over Financial Reporting

Our management is responsible for establishing and maintaining adequate internal controls over financial reporting. Under the supervision and with the participation of our management, including our chief executive officer, we conducted an evaluation of the effectiveness of our internal control over financial reporting using framework similar to criteria referenced in the initial steps of the Internal Control Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO).

A material weakness is a significant deficiency (as defined in the Public Company Accounting Oversight Board's Auditing Standard No. 2), or a combination of significant deficiencies, that results in reasonable possibility that a material misstatement of the annual or interim financial statements will not be prevented or detected on a timely basis. In its assessment of the effectiveness of the Company's internal controls over financial reporting, management determined that there were control deficiencies that constituted material weaknesses, as described below.

* We have noted that there may be an insufficient quantity of dedicated resources and experienced personnel involved in reviewing and designing internal controls. As a result, a material misstatement of the interim and annual financial statements could occur and not be prevented or detected on a timely basis.

* We do not have an audit committee or an independent audit committee financial expert. While not being legally obligated to have an audit committee or independent audit committee financial expert, it is

Table of Contents

the managements view that to have audit committee, comprised of independent board members, and an independent audit committee financial expert is an important entity-level control over the Company's financial statements. Currently, the Board does not have sufficient independent directors to form such an audit committee. Also, the Board of Directors does not have an independent director with sufficient financial expertise to serve as an independent financial expert.

* Due to the complex nature of recording derivatives and similar financial instruments, we noted a need for increased coordination and review of techniques and assumptions used in recording derivatives to ensure accounting in conformity with generally accepted accounting principles.

This annual report does not include an attestation report of our registered public accounting firm regarding internal control over financial reporting. Management's report is not subject to attestation by our registered public accounting firm pursuant to rules of the SEC that permit us to provide only management's report in this annual report.

Remediation Efforts to Address Deficiencies in Internal Control Over Financial Reporting.

As a result of the findings from the investigation and a company-led accounting review, management intends to take practical, cost-effective steps in implementing internal controls, including the following remedial measures:

* Interviewing and potentially hiring outside consultants that are experts in designing internal controls over financial reporting based on criteria established in Internal Control-Integrated Framework issued by COSO.

* The Company has hired an outside consultant to assist with controls over the review and application of derivatives to ensure accounting in conformity with generally accepted accounting principles.

* Board to review and make recommendations to shareholders concerning the composition of the Board of Directors, with particular focus on issues of independence. The Board of Directors to consider nominating an audit committee and audit committee financial expert, which may or may not consist of independent members.

A control system, no matter how well conceived and operated, can provide only reasonable, not absolute, assurance that the objectives of the control system are met. Further, the design of a control system must reflect the fact that there are resource constraints, and the benefits of controls must be considered relative to their costs. Because of the inherent limitations in all control systems, no evaluation of controls can provide absolute assurance that all control issues and instances of fraud, if any, within the Company have been detected. Because of the inherent limitations in a cost-effective control system, misstatements due to error or fraud may occur and not be detected.

Changes in Internal Control Over Financial Reporting

No change in the Company's internal control over financial reporting occurred during the quarter ended December 31, 2010, that materially affected, or is reasonably likely to materially affect, the Company's internal control over financial reporting.

ITEM 9B. OTHER INFORMATION

None.

PART III

ITEM 10. DIRECTORS AND EXECUTIVE OFFICERS OF THE REGISTRANT

Table of Contents**Directors and Executive Officers**

As of March 1, 2011, the directors and executive officers of the Company, their ages, positions, the dates of initial election or appointment as directors or executive officers, and the expiration of their terms are as set forth in the following table.

Name of Director / Executive Officer	Age	Position(s)	Period Served
Charles G. Masters	71	President and Chief Executive Officer of Deer Valley	January 18, 2006 to Present
		Class II Director of Deer Valley Corporation	January 18, 2006 to Present (term expires at next meeting of shareholders)
		President and Member of Board of Directors of DVFC	August 18, 2009 to Present
Joel Stephen Logan, II	42	President and General Manager of DVH	September 22, 2006 to Present
		Class II Director of Deer Valley Corporation	September 22, 2006 to Present (term expires at next meeting of shareholders)
		Member of the Board of Directors of DVH	September 22, 2006 to Present (term expires at next meeting of shareholders)
		Vice President and Member of Board of Directors of DVFC	August 18, 2009 to Present
Charles L. Murphree, Jr.	49	Vice President and Regional Sales Director of DVH	September 22, 2006 to Present
		Class I Director of Deer Valley Corporation	September 22, 2006 to Present (term expires at next meeting of shareholders)
		Member of the Board of Directors of DVH	September 22, 2006 to Present (term expires at next meeting of shareholders)
		Member of Board of Directors of DVFC	August 18, 2009 to Present
John Steven Lawler	42	Chief Financial Officer, Secretary and Treasurer of DVH	September 22, 2006 to Present
		Class III Director of Deer Valley Corporation	September 22, 2006 to Present (term expires at next meeting of shareholders)
		Member of the Board of Directors of DVH	September 22, 2006 to Present (term expires at next meeting of shareholders)
		Chief Financial Officer and Executive Vice President of Deer Valley Corporation	January 27, 2009 to Present
		Secretary, Treasurer and Member of Board of Directors of DVFC	August 18, 2009 to Present
John N. Giordano	53	Class III Director of Deer Valley Corporation	July 27, 2006 to Present (term expires at next meeting of shareholders)
Shadron Stastney	42	Class I Director of Deer Valley Corporation	November 5, 2010 to Present (term expires at next meeting of shareholders)

Experience

Table of Contents

Charles G. Masters, Chief Executive Officer, President and Director of Deer Valley Corporation. Mr. Masters was the founder of DVA. In March 1998, Mr. Masters founded and has since served as CEO and CFO of Bumgarner Enterprises, Inc., an oil and gas development and a business consulting firm. Since 2001, Mr. Masters has also served as Director, CEO and CFO of Ranger Industries, Inc., formerly a public company, which is the sole shareholder of Bumgarner Enterprises. Mr. Masters has founded and served as the CEO and CFO of several private companies involved in the development of military electronic communications and test equipment, pioneering the introduction of microprocessors into point of sale equipment, medical equipment, artificial intelligence devices, and the development of laser scanners. Mr. Masters received a B.S.E.E. (1961) from Duke University, a M.S.E.E. (1964) from the University of Pittsburgh and a M.S.M.S. (1966) from Johns Hopkins University.

Joel Stephen Logan, II, Member of the Board of Directors of Deer Valley Corporation and of DVH, President, and General Manager of DVH. Mr. Logan is well-known throughout the factory-built home industry, having founded and operated two successful companies in the industry. Since leading the group which founded DVH in 2004, Mr. Logan has served as Chairman of the Board, General Manager, and President of that company. In 1996, Mr. Logan led the group which founded a HUD Code housing company, Pinnacle Homes of Alabama. Mr. Logan served as served as President and General Manager of Pinnacle until the company was purchased in 1998. Following the buy-out, Pinnacle became a division of Patriot Homes of Indiana, and Mr. Logan continued as General Manager of the Pinnacle Division until 2003. Mr. Logan holds a degree in Business Administration from Mississippi State University.

Charles L. Murphree, Jr., Member of the Board of Directors of Deer Valley Corporation and of DVH, Vice President and Regional Sales Director of Deer Valley Homebuilders, Inc. As one of the founders of DVH, since April of 2004 Mr. Murphree has served as a Corporate Director, Sales Manager and Vice President of DVH. From 2003 until 2004, Mr. Murphree served as Plant Manager for Clayton Homes, Inc. From 2000 through 2003, Mr. Murphree worked as General Manager of the Energy and LifeStyle Divisions of Southern Energy Homes, Inc. Mr. Murphree graduated from the University of Alabama Huntsville with a Bachelor of Science in Business Administration.

John Steven Lawler, Chief Financial Officer, Executive Vice President and Director of Deer Valley Corporation and Chief Financial Officer and Director of DVH. As part of the DVH's founding group, since April 2004 Mr. Lawler, a certified public accountant, has served as Chief Financial Officer for DVH. From 2001 until 2004, he served as ERP and IT Project Manager for Cavalier Homes, Inc. From 1999 until 2001, Mr. Lawler worked as the ERP Team Leader for Financial Accounting for Cavalier Homes, Inc. Mr. Lawler holds a Bachelor of Science in Business Administration from the University of Alabama.

John N. Giordano, Director of Deer Valley Corporation. For the past five years Mr. Giordano has served as Chair of the Business, Tax and Corporate Finance Practice Group at Bush Ross, P.A., a Tampa, Florida law firm. He is regularly involved in complex business-related transactions, has extensive experience in a broad range of areas, including federal and state securities law, corporate finance, mergers, acquisitions, and tax law, and has acted as general corporate counsel for numerous Florida-based public and private corporations. Mr. Giordano attended the University of Florida, where he received a B.S., a J.D., and an L.L.M. in taxation.

Shadron Stastney, Director of Deer Valley Corporation. Mr. Stastney is a founding partner of Vicis Capital LLC. He graduated from the University of North Dakota in 1990 with a B.A. in Political Theory and History, and from Yale Law School in 1994 with a J.D. focusing on corporate and tax law. From 1994 to 1997, he worked as an associate at Cravath, Swaine and Moore in New York, where he worked in the tax group and in the corporate group, focusing on derivatives. In 1997, he joined CSFB's then-combined convertible/equity derivative origination desk. From 1998 through 2001, he worked in CSFB's corporate equity derivatives origination group, eventually becoming a Director and Head of the Hedging and Monetization Group, a joint venture between derivatives and equity capital markets. In 2001, he jointly founded Victus Capital Management, LP, and in 2004, he jointly founded Vicis Capital LLC.

Significant Employees

Table of Contents

Other than the executive officers of Deer Valley named above, no other employees are required to be disclosed under this item. Because of their importance to the success of the Company, Deer Valley maintains key man life insurance policies, with Deer Valley as beneficiary, on Joel Stephen Logan II, John Steven Lawler, and Charles Murphree.

Family Relationships

There are no family relationships among any of our directors and executive officers.

Involvement In Legal Proceedings

To the best of our knowledge, there is no material proceeding to which any director, officer or affiliate of the Company, any owner of record or beneficially of more than 5% of any class of voting securities of the Company, or security holder is a party adverse to the Company or has a material interest adverse to the Company or any of its subsidiaries.

To the best of our knowledge, during the past ten years, none of our directors or executive officers were involved in any of the following: (1) any bankruptcy petition filed by or against any property or business of which such person was a general partner or executive officer either at the time of the bankruptcy or within two years prior to that time; (2) any conviction in a criminal proceeding or being subject to a pending criminal proceeding (excluding traffic violations and other minor offenses); (3) being subject to any order, judgment, or decree, not subsequently reversed, suspended or vacated, of any court of competent jurisdiction, permanently or temporarily enjoining, barring, suspending, or otherwise limiting his involvement in any type of business, securities or banking activities; or (4) being found by a court of competent jurisdiction (in a civil action), the SEC, or the Commodities Futures Trading Commission to have violated a federal or state securities or commodities law, and the judgment has not been reversed, suspended, or vacated.

Section 16(a) Beneficial Ownership Reporting Compliance

Section 16(a) of the Securities Exchange Act of 1934, as amended, requires the Company's directors, officers and holders of more than 10% of the Company's equity securities to file with the Securities and Exchange Commission initial reports of ownership and reports of changes in ownership. Based solely on a review of the forms, reports, and certificates filed with the Company by such persons, all Section 16(a) filing requirements were complied with by such persons during the last fiscal year or prior fiscal years, except as otherwise set forth below:

Section 16(a) Beneficial Ownership Reporting Compliance

Name of Filer	Title	# of Late Reports	# of Transactions not timely reported	# of Failure to File
Hans Beyer	Former Director	1	1	0
John N. Giordano	Director	1	1	0
Dale Phillips	Former Director	1	1	0
Charles G. Masters	Officer/Director	1	1	0
Joel Stephen Logan, II	Officer/Director	2	2	0
Charles L. Murphree, Jr	Officer/Director	2	2	0
John Steven Lawler	Officer/Director	2	2	0

Code of Ethics

The Company has not adopted a code of ethics which applies to its principal executive officer, principal financial officer, principal accounting officer or controller, or persons performing similar functions. The Company desires to appoint independent members to the Board of Directors before adopting such a code. The Company is actively searching for individuals who would be considered independent, as well as qualified to serve as directors.

Table of Contents**Material Changes to Nominations by Security Holders of Director Candidates**

In the past fiscal year, there has been no material change to the procedures by which security holders may recommend nominees to the small business issuer's board of directors.

Audit Committee

We do not currently have a standing audit committee. The Company's Chief Executive Officer is actively researching candidates for membership on the Board of Directors who would be independent and who, accordingly, could serve on an audit committee. The entire Board of Directors is currently performing the equivalent functions of an audit committee, none of whom have been determined to be an audit committee financial expert.

Audit Committee Financial Expert

We do not currently have an audit committee financial expert as defined under Item 407(e) of Regulation S-K. As discussed above, our Board of Directors plans to form an Audit Committee. In addition, the Board is actively seeking to appoint an individual to the Board of Directors and the Audit Committee who would be deemed an audit committee financial expert.

ITEM 11. EXECUTIVE COMPENSATION**Summary of Executive Compensation**

The following table sets forth information regarding the compensation earned by our Chief Executive Officer and each of our most highly compensated executive officers whose total compensation exceeded \$100,000 for the fiscal year ended December 31, 2010 with respect to services rendered by such persons.

SUMMARY COMPENSATION TABLE

Name and Principal Position	Year	Salary	Bonus	Stock Awards	Option Awards	Non-Equity Incentive Plan Compensation	Non-qualified deferred compensation earnings	All Other Compensation	Total
Charles G. Masters ⁽¹⁾	2010	\$ 150,000			\$			\$ 10,100 ⁽¹²⁾	\$ 160,100
	2009	\$ 150,000			\$			\$ 10,000 ⁽¹²⁾	\$ 160,000
Joel Stephen Logan, II ⁽²⁾	2010	\$ 52,000	\$ 205		\$	\$ 168,785 ⁽⁵⁾		\$ 11,025 ⁽¹¹⁾	\$ 232,015
	2009	\$ 52,000	\$		\$	\$ 152,564 ⁽⁶⁾		\$ 15,067 ⁽¹¹⁾	\$ 219,631
Charles L. Murphree, Jr. ⁽³⁾	2010	\$ 52,000	\$ 205		\$	\$ 85,315 ⁽⁷⁾		\$ 16,140 ⁽¹¹⁾	\$ 153,660
	2009	\$ 52,000	\$		\$	\$ 77,668 ⁽⁸⁾		\$ 15,067 ⁽¹¹⁾	\$ 144,735
John Steven Lawler ⁽⁴⁾	2010	\$ 52,000	\$ 205		\$	\$ 81,688 ⁽⁹⁾		\$ 10,100 ⁽¹²⁾	\$ 143,993
	2009	\$ 52,000	\$		\$	\$ 74,057 ⁽¹⁰⁾		\$ 10,000 ⁽¹²⁾	\$ 136,057

(1) On January 18, 2006, Mr. Masters was elected to serve as a Director, Chief Executive Officer, and President of the Company. Mr. Masters salary was \$150,000 per year in 2010 and 2009.

(2) Mr. Logan is a Director of the Company and President and General Manager of Deer Valley Homebuilders, Inc., a material operating subsidiary of the Company acquired on January 18, 2006. Mr. Logan's 2010 bonus of \$205 is a Christmas bonus paid to each employee of Deer Valley Homebuilders, Inc.

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- (3) Mr. Murphree is Director of the Company and Vice President and Regional Sales Director of Deer Valley Homebuilders, Inc, a material operating subsidiary of the Company acquired on January 18, 2006. Mr. Murphree's 2010 bonus of \$205 is a Christmas bonus paid to each employee of Deer Valley Homebuilders, Inc.

Table of Contents

- (4) Mr. Lawler is Director, Chief Financial Officer and Executive Vice President of the Company and Chief Financial Officer of Deer Valley Homebuilders, Inc, a material operating subsidiary of the Company acquired on January 18, 2006. Mr. Lawler's 2010 bonus of \$205 is a Christmas bonus paid to each employee of Deer Valley Homebuilders, Inc.
- (5) Non-equity incentive plan compensation consisted of hitch bonuses and profit-sharing arrangements described in Employment Agreements with Named Executive Officers below. Amount reflects accruals in fiscal year 2010, including a hitch bonus of \$1,320 and profit-sharing of \$33,965 accrued but unpaid in 2010. In 2010, Mr. Logan was paid \$58,680 as a hitch bonus, which includes \$3,540 accrued but unpaid in 2009, and \$131,428 in profit-sharing, which includes \$53,068 accrued but unpaid in 2009.
- (6) Non-equity incentive plan compensation consisted of hitch bonuses and profit-sharing arrangements described in Employment Agreements with Named Executive Officers below. Amount reflects accruals in fiscal year 2009, including a hitch bonus of \$3,540 and profit-sharing of \$53,068 accrued but unpaid in 2009. In 2009 Mr. Logan was paid \$54,000 as a hitch bonus, which includes \$4,740 accrued but unpaid in 2008, and \$86,397 in profit-sharing, which includes \$39,801 accrued but unpaid in 2008.
- (7) Non-equity incentive plan compensation consisted of hitch bonuses and profit-sharing arrangements described in Employment Agreements with Named Executive Officers below. Amount reflects accruals in fiscal year 2010, including a hitch bonus of \$1,567 and profit-sharing of \$16,314 accrued but unpaid in 2010. In 2010, Mr. Murphree was paid \$33,429 as a hitch bonus, which includes \$3,633 accrued but unpaid in 2009, and \$63,128 in profit-sharing, which includes \$25,490 accrued but unpaid in 2009.
- (8) Non-equity incentive plan compensation consisted of hitch bonuses and profit-sharing arrangements described in Employment Agreements with Named Executive Officers below. Amount reflects accruals in fiscal year 2009, including a hitch bonus of \$3,633 and profit-sharing of \$25,490 accrued but unpaid in 2009. In 2009, Mr. Murphree was paid \$28,996 as a hitch bonus, which includes \$2,833 accrued but unpaid in 2008, and \$41,499 in profit-sharing, which includes \$19,117 accrued but unpaid in 2008.
- (9) Non-equity incentive plan compensation consisted of hitch bonuses and profit-sharing arrangements described in Employment Agreements with Named Executive Officers below. Amount reflects accruals in fiscal year 2010, including a hitch bonus of \$770 and profit-sharing of \$14,742 accrued but unpaid in 2010. In 2010, Mr. Lawler was paid \$34,230 as a hitch bonus, which includes \$2,065 accrued but unpaid in 2009, and \$34,230 in profit-sharing, which includes \$23,033 accrued but unpaid in 2009.
- (10) Non-equity incentive plan compensation consisted of hitch bonuses and profit-sharing arrangements described in Employment Agreements with Named Executive Officers below. Amount reflects accruals in fiscal year 2009, including a hitch bonus of \$2065 and profit-sharing of \$23,033 accrued but unpaid in 2009. In 2009, Mr. Lawler was paid \$31,500 as a hitch bonus, which includes \$2,765 accrued but unpaid in 2008, and \$37,499 in profit-sharing, which includes \$17,275 accrued but unpaid in 2008.
- (11) Amount relates to health insurance premiums and director fees in the respective fiscal year.
- (12) Amount relates to director fees in the respective fiscal year.

Employment Agreements with Named Executive Officers

On January 18, 2006, DVH entered into a five year employment agreement with Joel Stephen Logan, II. Under the terms of Mr. Logan's Employment Agreement, Mr. Logan is (a) entitled to receive a fixed annual salary of \$52,000, (b) entitled to receive a monthly hitch bonus of \$60 per floor produced by DVH, (c) is eligible to participate and receive 4.6% of the net income before taxes of DVH, and (d) entitled to receive health benefits and coverage, as provided by DVH. On February 26, 2010, DVH and Mr. Logan extended the expiration date of the employment agreement and the non-compete period from January 18, 2011 to January 18, 2013.

Table of Contents

On January 18, 2006, DVH entered into a seven year employment agreement with Charles L. Murphree, Jr. Under the terms of Mr. Murphree's Employment Agreement, Mr. Murphree is (a) entitled to receive a fixed annual salary of \$52,000, (b) entitled to receive a monthly hitch bonus of \$33.33 per floor produced by DVH, (c) is eligible to participate and receive 2.2% of the net income before taxes of DVH, and (d) entitled to receive health benefits and coverage, as provided by DVH. On February 26, 2010, DVH and Mr. Murphree extended the expiration date of the employment agreement and the non-compete period from January 18, 2011 to January 18, 2013.

On January 18, 2006, DVH entered into a seven year employment agreement with John Steven Lawler. Under the terms of Mr. Lawler's Employment Agreement, Mr. Lawler is (a) entitled to receive a fixed annual salary of \$52,000, (b) entitled to receive a monthly hitch bonus of \$35 per floor produced by DVH, (c) is eligible to participate and receive 2% of the net income before taxes of DVH, and (d) entitled to receive health benefits and coverage, as provided by DVH. On February 26, 2010, DVH and Mr. Lawler extended the expiration date of the employment agreement and the non-compete period from January 18, 2011 to January 18, 2013.

On September 7, 2007, Deer Valley Corporation entered into a one year employment agreement with Charles G. Masters, which renews automatically each subsequent year. Under the terms of Mr. Masters Employment Agreement, Mr. Masters is (a) entitled to receive a fixed annual salary of \$150,000, and (b) entitled to receive a bonus at the discretion of the independent directors of the Company.

Each of the employment agreements described above provides for severance payments, in the amount of the unpaid fixed annual salary due under such agreements.

Outstanding Equity Awards

The following table sets forth information concerning unexercised options, stock that has not vested and equity incentive plan awards for our Chief Executive Officer and each of our most highly compensated executive officers whose total compensation exceeded \$100,000 for the fiscal year ended December 31, 2009 with respect to services rendered by such persons.

OUTSTANDING EQUITY AWARDS AT FISCAL YEAR-END

Name of Executive Officer	Option Awards		Equity Incentive Plan Awards: Number of Securities Underlying Unexercised Options	Option Exercise Price	Option Expiration Date	Number of Shares of Stock That Have Not Vested	Stock Awards		Equity Incentive Plan Awards: Market or Payout Value of Unearned Shares That Have Not Vested
	Number of Exercisable Securities Underlying Unexercised Options	Number of Unexercisable Securities Underlying Unexercised Options					Market Value of Shares of Stock That Have Not Vested	Equity Incentive Plan Awards: Number of Unearned Shares That Have Not Vested	

In February 2010, the Company's Board of Directors approved the repurchase and cancellation of the entire class of the director options held by each member of the Board of Directors. The repurchase of all outstanding options was accomplished for the nominal sum of \$700.00.

Compensation of Directors

The following table sets forth information concerning compensation of the directors who are not included in the Summary Compensation Table or the Outstanding Equity Awards at Fiscal Year-End table above for the fiscal year ended December 31, 2010 with respect to services rendered by such persons.

Table of Contents**DIRECTOR COMPENSATION**

Name	Year	Fees Earned or Paid in Cash	Stock Awards	Option Awards	Non-Equity Incentive Plan Compensation	Change in Pension Value and		Total
						Nonqualified Deferred Compensation Earnings	All Other Compensation	
Hans Beyer (Former Director)	2010	\$ 20,100						\$ 20,100
	2009	\$ 10,000						\$ 10,000
John N. Giordano	2010	\$ 10,100						\$ 10,100
	2009	\$ 10,000						\$ 10,000
Dale Phillips (Former Director)	2010	\$ 20,100						\$ 20,100
	2009	\$ 10,000						\$ 10,000

In addition, the Company reimburses directors for their reasonable expenses for attending Board and Board Committee meetings.

ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED STOCKHOLDER MATTERS**Securities Authorized for Issuance Under Equity Compensation Plans**

See *Securities Authorized For Issuance Under Equity Compensation Plans* and Equity Compensation Plan Information table under Item 5 concerning the authorization and issuance of securities of the Company under an equity compensation plan.

Security Ownership of Certain Beneficial Owners and Management

The table below sets forth information with respect to the beneficial ownership of our capital stock as of March 1, 2010 for (i) any person whom we know to be the beneficial owner of more than 5% of our outstanding common stock (ii) each of our directors or those nominated to be directors, and executive officers and (iii) all of our directors and executive officers as a group.

SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT

Title of Class ⁽¹⁾	Name and Address of Beneficial Owner ⁽²⁾	Amount and Nature of Beneficial Ownership	Percent of Class ⁽³⁾
Common Stock; Common Stock issuable upon conversion of derivative securities	Charles G. Masters, Member of the Board of Directors of Deer Valley Corporation, Chief Executive Officer and President of the Deer Valley Corporation ⁽⁴⁾	16,978,415 Direct/ Indirect ⁽⁴⁾	81.05%
Common Stock	Joel Stephen Logan, II, Member of the Board of Directors of Deer Valley Corporation and of DVH, President and General Manager of DVH	216,328 Direct Ownership	1.04%

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Common Stock	Charles L. Murphree, Jr.,	144,353	*
	Member of the Board of Directors of Deer Valley Corporation and of DVH, Vice President and Regional Sales Director of DVH	Direct Ownership	

Table of Contents

Title of Class⁽¹⁾	Name and Address of Beneficial Owner⁽²⁾	Amount and Nature of Beneficial Ownership	Percent of Class⁽³⁾
Common Stock	John Steven Lawler, Member of the Board of Directors of Deer Valley Corporation and of DVH, Chief Financial Officer and Executive Vice President of Deer Valley Corporation and Chief Financial Officer of DVH	72,178 Direct Ownership	*
Common Stock	John N. Giordano Member of the Board of Directors of Deer Valley Corporation ⁽⁵⁾	0	0%
Common Stock	Shadron Stastney Member of the Board of Directors of Deer Valley Corporation ⁽⁶⁾	0 ⁽⁶⁾	0%
Common Stock; Common Stock issuable upon conversion of derivative securities	Vicis Capital Master Fund ⁽⁶⁾	16,653,049 Direct Ownership ⁽⁶⁾⁽⁷⁾	80.11%
Common Stock and derivative securities convertible into Common Stock	All executive officers and directors as a group (6 persons)	17,411,274	83.12%

*Less than 1%.

- (1) All of the Company's Series B and D Convertible Preferred Stock automatically converted to common stock on July 24, 2006 and so does not appear here. Our outstanding Series A Convertible Preferred Stock, Series C Convertible Preferred Stock, and Series E Convertible Preferred Stock are not separately reported above because such holders vote on an as-converted basis with common shareholders on all matters save those involving a material alteration to the rights of holders of Series A, C, or E Convertible Preferred Stock. Therefore, it is the Company's view that ownership of more than 5% of such preferred stock is immaterial for purposes of determining voting control of the Company unless convertible into more than 5% of our common stock.
- (2) Unless otherwise indicated, the mailing address of the shareholder is 205 Carriage St., Guin, Alabama 35563.
- (3) Applicable percentage of ownership is based on 20,785,859, shares of common stock, comprised of the following being issued and outstanding as of March 15, 2011: (i) 17,252,892 shares of common stock (which excludes 246,625 shares of treasury common sock), (ii) 286,667 common shares issuable upon conversion of 21,500 shares of the Company's Series A Preferred Stock (iii) 2,246,300 common shares issuable upon conversion of 22,463 shares of the Company's Series C Preferred Stock, and (iv) 1,000,000 shares issuable upon exercise of 1,000,000 shares of the Company's Series E Preferred Stock. Calculations do not include outstanding warrants or options, or other rights issued by the Company, unless the reporting person is the beneficial owner of the warrant, option, or other right. Beneficial ownership is determined in accordance with the rules of the Commission and generally includes voting of investment power with respect to securities. Shares of common stock subject to securities exercisable or convertible into shares of common stock that are currently exercisable or exercisable within 60 days are deemed to be beneficially owned by the person holding such options for the purpose of computing the percentage of ownership of such persons, but are not treated as outstanding for the purpose of computing the percentage ownership of any other person. Unless otherwise noted, we believe that all shares are beneficially owned and that all persons named in the table have sole voting and investment power with respect to all shares of common stock owned by them.
- (4) Consists of (a) 94,498 common shares directly owned by Charles G. Masters, (b) 69,424 common shares owned by Charles Masters spouse, (c) 33,334 common shares issuable upon exercise of the Company's

Table of Contents

- Series A Common Stock Purchase Warrant owned by Charles Masters spouse, (d) 2,024 common shares issuable upon exercise of another of the Company's Series A Common Stock Purchase Warrants owned by Charles Masters spouse, (e) 16,667 common shares issuable upon exercise of the Company's Series B Common Stock Purchase Warrant owned by Charles Masters spouse, and (f) 109,419 common shares issuable upon exercise of the Company's Series BD Common Stock Purchase Warrants directly owned by Charles G. Masters. In addition, on January 6, 2011, Vicis Capital Master Fund entered into a Securities Option and Right of First Refusal Agreement with Charles G. Masters. Pursuant to such Option Agreement, the Fund granted Mr. Masters an option to purchase from the Fund all, but not less than all, of the following: (i) 13,406,749 shares of the Issuer's Common Stock; (ii) 22,463 shares of the Issuer's Series C Convertible Preferred Stock (convertible into 2,246,300 common shares); and (iii) 1,000,000 shares of the Issuer's Series E Convertible Preferred Stock (convertible into 1,000,000 common shares). The shares subject to the Option Agreement are also referenced in footnote 7 below. Upon the optionee's exercise of the option, the optionee shall pay the Fund a purchase price of \$12,000,000. Charles G. Masters disclaims beneficial ownership of securities owned by his spouse, except to the extent of his pecuniary interest therein, and the inclusion of these shares in this filing shall not be deemed an admission of beneficial ownership of all of the reported shares for purposes of Section 16 or for any other purpose. The mailing address for Mr. Masters is 3111 W. Dr. MLK Blvd., Ste 100, Tampa, FL 33607.
- (5) The address for Mr. Giordano is 1801 N. Highland Ave., Tampa, Florida 33602.
- (6) Vicis Capital LLC serves as the investment advisor to Vicis Capital Master Fund, For purposes of Rule 13d-3 under the Securities Exchange Act of 1934, as amended, Vicis Capital LLC may be deemed to beneficially own, but has disclaimed ownership of, all shares owned by Vicis Capital Master Fund. The voting and dispositive power granted to Vicis Capital LLC by Vicis Capital MasterFund may be revoked at any time. Shadron Stastney, a member of Vicis Capital LLC and its chief operating officer, together with John Succo and Sky Lucas, have voting and dispositive control over these securities. No single natural person can exercise voting or investment power with respect to the securities owned by Vicis Capital Master Fund, and investment decisions with respect to these securities are made by a majority of these persons. The address for Vicis Capital Master Fund and Mr. Stastney is 445 Park Avenue, Suite 1901, New York, New York 10022.
- (7) Consists of (a) 13,406,749 common shares, (b) 2,246,300 common shares issuable upon conversion of 22,463 shares of the Company's Series C Preferred Stock, and (c) 1,000,000 shares issuable upon exercise of 1,000,000 shares of the Company's Series E Preferred Stock. On January 6, 2011, Vicis Capital Master Fund entered into a Securities Option and Right of First Refusal Agreement with Charles G. Masters. Pursuant to such Option Agreement, the Fund granted the optionee an option to purchase from the Fund all, but not less than all, of the following: (i) 13,406,749 shares of the Issuer's Common Stock; (ii) 22,463 shares of the Issuer's Series C Convertible Preferred Stock; and (iii) 1,000,000 shares of the Issuer's Series E Convertible Preferred Stock. Upon the optionee's exercise of the option, the optionee shall pay the Fund a purchase price of \$12,000,000 and the optionee will receive all of the above referenced securities. The shares subject to the Option Agreement are also referenced in footnote 4 above.

Change in Control and Acquisition

On January 6, 2011, Vicis Capital Master Fund entered into a Securities Option and Right of First Refusal Agreement with Charles G. Masters. Pursuant to such Option Agreement, the Fund granted Mr. Masters an option to purchase from the Fund all, but not less than all, of the following: (i) 13,406,749 shares of the Issuer's Common Stock; (ii) 22,463 shares of the Issuer's Series C Convertible Preferred Stock; and (iii) 1,000,000 shares of the Issuer's Series E Convertible Preferred Stock. Upon the optionee's exercise of the option, the optionee shall pay the Fund a purchase price of \$12,000,000. Except for the Option Agreement, there are no existing agreements which may provide for a change in control of the Company.

Table of Contents**ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS****Transactions with Related Persons, Promoters and Certain Control Persons**

Except as set forth below, there were no transactions during the last two fiscal years, and there are no proposed transactions to which the Company or its subsidiary was or is to become a party, in which any director, executive officer, director nominee, beneficial owner of more than five percent (5%) of any class of our stock, or members of their immediate families had, or is to have, a direct or indirect material interest.

In connection with that certain Capital Stock Purchase Agreement, DVA entered into the Earnout Agreement, pursuant to which, additional payments may be paid to the former owners of Deer Valley Homebuilders, Inc., as an earnout, based upon the net income before taxes of DVH during the five (5) years following January 18, 2006, up to a maximum of \$6,000,000. During the term of the Earnout Agreement, 50% of the pre-tax profit exceeding \$1,000,000 per year will be accrued and become distributable to the former owners of DVH, the Founders, who consist of Joel Stephen Logan, II, the President and General Manager of DVH, Charles L. Murphree, Jr., the Vice President and Regional Sales Director of DVH, and John Steven Lawler, Director of Finance of DVH. Messrs. Logan, Murphree, and Lawler are all directors of Deer Valley Corporation and of DVH. The business purpose of executing the Earnout Agreement was to set the purchase price of DVH by an objective standard, given that the owners of DVH, DVA, and the Company could not agree on an outright purchase price. On November 19, 2007, the Company entered into the First Amendment to the Earnout Agreement with the Founders, now the core operating management for the Company's wholly owned subsidiary, DVH, to provide for the issuance of two million shares of Deer Valley's common stock into escrow for the benefit of the Founders, and guarantee that at the time of the escrow release, the total value of such escrowed shares would be equal to or greater than \$2 million (the "escrow shortfall obligation"). In February 2010, the Company repurchased of the escrowed shares for \$0.35/share (an aggregate of \$700,000). The purchase price of \$700,000 replaced the shares in escrow. Also, in February 2010, the Company exercised its option to satisfy the "escrow shortfall obligation" with a cash payment of \$1,300,000 thus eliminating the potential for any share dilution related to the escrow value guarantee. Pursuant to the Second Amendment to the Earnout Agreement effective as of February 26, 2010, the escrowed funds were released, and the "escrow shortfall obligation" paid, to the beneficiaries on December 8, 2010. The escrow shortfall obligation is recorded as a put liability of \$1,323,844 on the Company's balance sheet for the year ended December 31, 2009, contained in this filing. A discussion of the terms of the Earnout Amendment can be found at *Commitment and Contingencies* under Note 14 of the Notes to Consolidated Financial Statements for the years ended December 31, 2009 and 2008.

The Company repurchased and cancelled all options held by the directors exercisable, in the aggregate, for 700,000 common shares at strike prices evenly divided between \$1.09 and \$1.14. The entire repurchase was accomplished for the nominal sum of \$700.00.

On December 29, 2011, the Company redeemed (a) certain Common Stock Purchase Warrants exercisable for an aggregate of 312,141 shares of its common stock from Joel Logan for a total redemption price of \$811.57, (ii) certain Common Stock Purchase Warrants exercisable for an aggregate of 208,095 shares of its common stock from Charles Murphree for a total redemption price of \$541.05, and (c) certain Common Stock Purchase Warrants exercisable for an aggregate of 104,048 shares of its common stock from Steve Lawler for a total redemption price of \$270.52.

On October 14, 2010, the Company redeemed certain Common Stock Purchase Warrants exercisable for an aggregate of 15,846,704 shares of its common stock from its majority shareholder. The Company paid its majority shareholder a total purchase price of \$40,000 to redeem such warrants.

John N. Giordano, a director of the Company, is also a shareholder of Bush Ross, P.A., the Company's outside general legal counsel. The Company paid less than \$120,000 for legal services during the fiscal year ending December 31, 2010.

Table of Contents**Corporate Governance Director Independence**

The Company's stock is quoted on the Over The Counter Bulletin Board, which does not have director independence requirements. Under Item 407(a) of Regulation S-K, the Company has chosen to measure the independence of its directors under the definition of independence used by the American Stock Exchange, which can be found in the AMEX Company Guide, §121(A)(2) (2007). Under such definition, none of the directors of the Company are independent, because the Company's board of directors cannot affirmatively determine that any of its directors does not have a relationship that would interfere with the exercise of independent judgment in carrying out the responsibilities of a director.

ITEM 14. PRINCIPAL ACCOUNTANT FEES AND SERVICES**Pre-Approval Policies and Procedures**

Prior to engaging our accountants to perform a particular service, our board of directors obtains an estimate for the service to be performed. All of the services described above were approved by the board of directors in accordance with its procedures.

Audit Fees Disclosure

The aggregate following table presents fees for professional services rendered by KBL, LLP (KBL) and Meeks International, LLC (Meeks) for the audit of our annual financial statements for 2010 and 2009 and fees billed for audit-related services, tax services and all other services rendered by KBL and Meeks for 2010 and 2009.

	Meeks 2010	KBL 2010	KBL 2009
Audit fees ^(a)	\$ 52,000	\$ 128,500	\$ 145,000
Audit-related fees ^(b)	\$ 3,100	\$	\$
Tax fees	\$ 3,325	\$ 15,450	\$ 21,800
All other fees	\$	\$	\$ 7,800

(a) Fees for the audit of our annual financial statements and quarterly reviews. Includes amounts for expenses incurred during the audit.

(b) Audit-related services to assist in the response to comments from the Securities and Exchange Commission.

Table of Contents

ITEM 15. EXHIBITS

Exhibit No.	Description
3.01	Articles of Incorporation of Deer Valley Corporation (1)
3.02	Bylaws of Deer Valley Corporation (1)
4.01	Certificate of Designation, Rights, and Preferences of Series A Convertible Preferred Stock (1)
4.02	Certificate of Designation, Rights, and Preferences of Series B Convertible Preferred Stock (1)
4.03	Certificate of Designation, Rights, and Preferences of Series C Convertible Preferred Stock (1)
4.04	Certificate of Designation, Rights, and Preferences of Series D Convertible Preferred Stock (1)
4.05	Certificate of Designation, Rights, and Preferences of Series E Convertible Preferred Stock (2)
10.01	Investor Rights Agreement, by and among the Company, each of the purchasers of the Company's Series A Convertible Preferred Stock, and certain other persons a party thereto (3)
10.02	Earnout Agreement (3)
10.03	Form of Series A Common Stock Purchase Warrant (3)
10.04	Form of Series B Common Stock Purchase Warrant (3)
10.05	Form of Series C Common Stock Purchase Warrant (4)
10.06	Form of Series D Common Stock Purchase Warrant (4)
10.07	Form of Series E Common Stock Purchase Warrant (4)
10.08	Form of Series F Common Stock Purchase Warrant (2)
10.09	Form of Series BD-1 Common Stock Purchase Warrant (4)
10.10	Form of Series BD-2 Common Stock Purchase Warrant (4)
10.11	Form of Series BD-3 Common Stock Purchase Warrant (4)
10.12	Form of Series BD-4 Common Stock Purchase Warrant (4)
10.13	Form of Series BD-5 Common Stock Purchase Warrant (4)
10.14	Form of Loan Agreement (5)
10.15	Form of Commercial Promissory Note (5)
10.16	Form of Mortgage, Assignment of Leases and Rents, Security Agreement and Fixture Filing (5)
10.17	Form of Guaranty of Loan, Cytation Corp. (5)
10.18	Form of Guaranty of Loan, DeerValley Acquisitions Corp. (5)
10.19	Form of Guaranty of Deer Valley Corporation (6)
10.20	Form of Guaranty of Deer Valley Corporation (6)
10.21	Form of Series F Warrant (7)
10.22	Deer Valley Corporation 2007 Long Term Incentive Plan effective July 1, 2007 (8)
10.23	Form of Stock Option Agreement (8)
10.24	Employment Agreement with Charles G. Masters (8)
10.25	Amendment to Earnout Agreement (9)
10.26	Escrow Agreement (9)
10.27	Revolving Credit Loan and Security Agreement \$7,500,000 Revolving Credit Loan (10)

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10.28	Revolving Credit Note \$7,500,000 (10)
10.29	Revolving Credit Loan and Security Agreement \$5,000,000 Revolving Credit Loan (10)
10.30	Revolving Credit Note \$5,000,000 (10)
10.31	Second Amendment to Earnout Agreement (11)
10.32	First Amendment to Escrow Agreement (11)
10.33	Employment Agreement Joel Stephen Logan, II (11)
10.34	First Amendment to Employment Agreement Joel Stephen Logan, II (11)
10.35	Employment Agreement Charles L. Murphree, Jr. (11)
10.36	First Amendment to Employment Agreement Charles L. Murphree, Jr. (11)
10.37	Employment Agreement John Steven Lawler (11)
10.38	First Amendment to Employment Agreement John Steven Lawler (11)
21.01	List of Subsidiaries of the Company. (12)
31.01	Certification of Chief Executive Officer pursuant to Rule 13a-14(a) and 15d-14(a) as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002, dated March 25,2011. (12)

Table of Contents

- 31.02 Certification of Acting Chief Financial Officer pursuant to Rule 13a-14(a) and 15d-14(a) as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002, dated March 25, 2011. (12)
- 32.01 Certification of Chief Executive Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, dated March 25, 2011. (12)
- 32.02 Certification of Acting Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, dated March 25, 2011. (12)

- (1) Previously filed as an exhibit to the Form 8-K, filed with the SEC on July 28, 2006 and incorporated herein by reference.
- (2) Previously filed as an exhibit to the Form 10-QSB, filed with the SEC on November 20, 2006 and incorporated herein by reference.
- (3) Previously filed as an exhibit to the Form 8-K filed with the SEC on January 25, 2006 and incorporated herein by reference.
- (4) Previously filed as an exhibit to the Registration Statement on Form SB-2 filed with the SEC on April 19, 2006 and incorporated herein by reference.
- (5) Previously filed as an exhibit to the Form 8-K filed with the SEC on June 1, 2006 and incorporated herein by reference.
- (6) Previously filed as an exhibit to the Form 10-KSB, filed with the SEC on April 11, 2007 and incorporated herein by reference.
- (7) Previously filed as an exhibit to the Form 10-QSB, filed with the SEC on August 14, 2007 and incorporated herein by reference.
- (8) Previously filed as an exhibit to the Form 10-QSB, filed with the SEC on November 6, 2007 and incorporated herein by reference.
- (9) Previously filed as an exhibit to the Form 8-K filed with the SEC on November 21, 2007 and incorporated herein by reference.
- (10) Previously filed as an exhibit to the Form 8-K filed with the SEC on October 19, 2009 and incorporated herein by reference.
- (11) Previously filed as an exhibit to the Form 10-K filed with the SEC on March 31, 2010 and incorporated herein by reference.
- (12) Filed herewith.

Table of Contents

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the Company has duly caused this Report to be signed on its behalf by the undersigned, thereunto duly authorized.

DEER VALLEY CORPORATION

By: /s/ Charles G Masters
Charles G. Masters
President and Chief Executive Officer

Date: March 25, 2011

Pursuant to the requirements of the Securities Exchange Act of 1934, this Report has been signed by the following persons on behalf of the Company and in the capacities indicated on March 25, 2011.

Signature	Title
<i>/s/ Charles G Masters</i> Charles G. Masters	President, Chief Executive Officer (Principal Executive Officer) and Director
<i>/s/ John S Lawler</i> John S. Lawler	Chief Financial Officer (Principal Financial Officer and Accounting Officer) and Director
<i>/s/ Joel S Logan, II</i> Joel S. Logan, II	Director
<i>/s/ Charles L Murphree</i> Charles L. Murphree	Director
<i>/s/ John N Giordano</i> John N. Giordano	Director
<i>/s/ Shadron Stastney</i> Shadron Stastney	Director