

DEER VALLEY CORP  
Form 10-Q  
August 08, 2013  
Table of Contents

**UNITED STATES**  
**SECURITIES AND EXCHANGE COMMISSION**  
WASHINGTON, D.C. 20549

**FORM 10-Q**

(Mark One)

**QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the quarterly period ended June 29, 2013

OR

**TRANSITION REPORT PURSUANT TO 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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<b>Florida</b> (State or other jurisdiction of incorporation or organization)	<b>20-5256635</b> (I.R.S. employer identification no.)
<b>3030 N Rocky Point Drive W, Suite 150, Tampa, FL</b> (Address of principal executive offices)	<b>33607</b> (Zip code)
<b>Registrant's telephone number, including area code: (813) 418-5250</b>	

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

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

Large accelerated filer <input type="checkbox"/>	Accelerated Filer <input type="checkbox"/>
Non-accelerated filer <input type="checkbox"/>	Smaller reporting company <input checked="" type="checkbox"/>

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes  No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes  No

The Registrant had 15,469,298 shares of Common Stock, par value \$0.001 per share, outstanding as of August 2, 2013.

**Table of Contents****TABLE OF CONTENTS**

	<b>PAGE</b>
<b>PART I</b>	
<b><u>FINANCIAL INFORMATION</u></b>	
Item 1	
<u>Financial Statements</u>	
<u>Condensed Consolidated Balance Sheets</u>	
<u>As of June 29, 2013 (unaudited)</u>	
<u>As of December 31, 2012</u>	F-2
<u>Condensed Consolidated Statements of Operations</u>	
<u>Three and Six Months ended June 29, 2013 (unaudited)</u>	
<u>Three and Six Months ended June 30, 2012 (unaudited)</u>	F-3
<u>Condensed Consolidated Statements of Cash Flows</u>	
<u>Six Months ended June 29, 2013 (unaudited)</u>	
<u>Six Months ended June 30, 2012 (unaudited)</u>	F-4
<u>Notes to Condensed Consolidated Financial Statements (unaudited)</u>	F-5 F-12
Item 2	
<u>Management's Discussion and Analysis</u>	1
Item 4	
<u>Controls and Procedures</u>	7
<b>PART II</b>	
<b><u>OTHER INFORMATION</u></b>	
Item 1	
<u>Legal Proceedings</u>	8
Item 2	
<u>Unregistered Sales of Equity Securities and Use of Proceeds</u>	8
Item 3	
<u>Defaults Upon Senior Securities</u>	9
Item 4	
<u>Mine Safety Disclosures</u>	9
Item 5	
<u>Exhibits</u>	10

Unless otherwise indicated or the context otherwise requires, all references 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., an Alabama corporation, Deer Valley Finance Corp., a Florida corporation, and Deer Valley Home Repair Services, Inc., a Florida corporation.

**Table of Contents**

**Item 1. Financial Statements**

**Deer Valley Corporation & Subsidiaries**

**Condensed Consolidated Financial Statements**

**Contents:**

<b><u>Condensed Consolidated Balance Sheets as of June 29, 2013 (unaudited) and December 31, 2012</u></b>	<b>F-2</b>
<b><u>Condensed Consolidated Statements of Operations for the Three and Six Month Periods Ended June 29, 2013 and June 30, 2012 (unaudited)</u></b>	<b>F-3</b>
<b><u>Condensed Consolidated Statements of Cash Flows for the Six Month Period Ended June 29, 2013 and June 30, 2012 (unaudited)</u></b>	<b>F-4</b>
<b><u>Notes to Condensed Consolidated Financial Statements (unaudited)</u></b>	<b>F-5 - F-12</b>

F-1

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

	<b>June 29, 2013 (unaudited)</b>	<b>December 31, 2012</b>
<b>Current Assets:</b>		
Cash	\$ 2,138,064	\$ 2,434,227
Accounts receivable, net	1,263,031	1,058,858
Inventory	1,657,361	1,547,723
Deferred tax asset	548,944	629,090
Inventory finance notes receivable	3,831,246	3,537,638
Construction loan notes receivable	1,000,960	
Prepaid expenses and other current assets	258,219	122,280
<b>Total Current Assets</b>	<b>10,697,825</b>	<b>9,329,816</b>
<b>Fixed Assets:</b>		
Property, plant and equipment, net	2,084,796	2,128,005
<b>Other Assets:</b>		
Inventory finance notes receivable, net	3,131,908	4,407,293
Deferred tax asset	1,794,951	1,891,861
Other assets	19,030	20,578
<b>Total Other Assets:</b>	<b>4,945,889</b>	<b>6,319,732</b>
<b>Total Assets</b>	<b>\$ 17,728,510</b>	<b>\$ 17,777,553</b>

**LIABILITIES AND STOCKHOLDERS EQUITY**

<b>Current Liabilities:</b>		
Current maturities on long term debt	\$ 125,600	\$ 125,600
Revolving credit loans	4,806,799	4,750,000
Accounts payable	286,464	197,915
Accrued expenses	1,397,844	1,398,306
Accrued warranties	1,080,000	1,170,000
Income tax payable		57,732
<b>Total Current Liabilities</b>	<b>7,696,707</b>	<b>7,699,553</b>
<b>Long Term Liabilities:</b>		
Long-term debt, net of current maturities	879,200	942,000
<b>Total Long Term Liabilities</b>	<b>879,200</b>	<b>942,000</b>
<b>Total Liabilities</b>	<b>8,575,907</b>	<b>8,641,553</b>
<b>Commitments and Contingencies (Note 11)</b>		
<b>Stockholders Equity:</b>		

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Common stock, \$0.001 par value, 100,000,000 shares authorized, 17,786,184 shares issued and 15,481,438 and 15,657,661 shares outstanding, respectively.	17,788	17,788
Additional paid-in capital	33,254,293	33,254,293
Treasury Stock, at cost; 2,304,746 and 2,128,523 shares, respectively	(1,246,083)	(1,134,998)
Accumulated deficit	(22,873,395)	(23,001,083)
<b>Total Stockholders Equity</b>	<b>9,152,603</b>	<b>9,136,000</b>
<b>Total Liabilities and Stockholders Equity</b>	<b>\$ 17,728,510</b>	<b>\$ 17,777,553</b>

*See notes to condensed consolidated financial statements (unaudited)*

F-2

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

	For The Three Month Period Ended		For The Six Month Period Ended	
	June 29, 2013 (unaudited)	June 30, 2012 (unaudited)	June 29, 2013 (unaudited)	June 30, 2012 (unaudited)
<b>REVENUE</b>	\$ 7,223,477	\$ 7,643,245	\$ 12,678,028	\$ 12,962,209
<b>COST OF REVENUE</b>	5,846,887	6,341,144	10,408,686	10,826,475
<b>GROSS PROFIT</b>	1,376,590	1,302,101	2,269,342	2,135,734
<b>OPERATING EXPENSES:</b>				
Depreciation	2,712	3,221	5,739	6,486
Selling, general and administrative	947,181	998,519	2,024,231	2,135,681
<b>TOTAL OPERATING EXPENSES</b>	949,893	1,001,740	2,029,970	2,142,167
<b>OPERATING INCOME/(LOSS)</b>	426,697	300,361	239,372	(6,433)
<b>OTHER INCOME (EXPENSES)</b>				
Derivative income		6,230		16,465
Interest income	121	230	292	2,938
Other income				1,640
Interest expense	(10,906)	(12,254)	(22,025)	(25,782)
<b>TOTAL OTHER (EXPENSES)</b>	(10,785)	(5,794)	(21,733)	(4,739)
<b>INCOME/(LOSS) BEFORE INCOME TAXES</b>	415,912	294,567	217,639	(11,172)
<b>INCOME TAX (EXPENSE)/BENEFIT</b>	(158,986)	(114,916)	(89,950)	116
<b>NET INCOME/(LOSS)</b>	<b>\$ 256,926</b>	<b>\$ 179,651</b>	<b>\$ 127,689</b>	<b>\$ (11,056)</b>
Reconciliation of net income/(loss) to income attributable to common stockholders:				
Income/(loss) from operations	\$ 256,926	\$ 179,651	\$ 127,689	\$ (11,056)
Deemed distribution on redemption of preferred stock				118,182
<b>Income attributable to common shareholders an numerator for basic</b>				
Income per common share	\$ 256,926	\$ 179,651	\$ 127,689	\$ 107,126
<b>Net Income Per Share (Basic)</b>	<b>\$ 0.02</b>	<b>\$ 0.01</b>	<b>\$ 0.01</b>	<b>\$ 0.01</b>
<b>Net Income Per Share (Fully Diluted)</b>	<b>\$ 0.02</b>	<b>\$ 0.01</b>	<b>\$ 0.01</b>	<b>\$ 0.01</b>
<b>Weighted Average Common Shares Outstanding</b>	<b>15,508,736</b>	<b>16,019,656</b>	<b>15,539,432</b>	<b>17,252,314</b>
<b>Weighted Average Common and Common Equivalent Shares Outstanding</b>	<b>15,508,736</b>	<b>16,019,656</b>	<b>15,539,432</b>	<b>16,499,699</b>

*See notes to condensed consolidated financial statements (unaudited)*

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

	For The Six Month Period Ended	
	June 29, 2013 (unaudited)	June 30, 2012 (unaudited)
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>		
Net income/(loss)	\$ 127,689	\$ (11,056)
Adjustments to reconcile net income/(loss) to net cash provided by/(used) in operating activities:		
Depreciation	103,428	106,552
Derivative (income)/expense		(16,465)
Gain on sale of equipment		(1,640)
Provision for credit losses	(87,990)	59,830
Changes in assets and liabilities:		
(Increase)/decrease in receivables	(204,173)	1,522,162
(Increase)/decrease in inventories	(109,638)	(331,379)
(Increase)/decrease in deferred tax asset	177,056	138,586
(Increase)/decrease in inventory finance receivable	1,069,768	131,622
(Increase)/decrease in construction loan receivable	(1,000,960)	
(Increase)/decrease in prepaid expenses and other assets	(134,393)	(51,626)
Increase/(decrease) in accounts payable	88,549	185,386
Increase/(decrease) in income tax payable	(57,732)	(470,325)
Increase/(decrease) in estimated services and warranties	(90,000)	(90,000)
Increase/(decrease) in accrued expenses	(463)	78,943
<b>CASH FLOW (USED) IN/PROVIDED BY OPERATING ACTIVITIES</b>	<b>\$ (118,859)</b>	<b>\$ 1,250,590</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>		
Purchases of equipment	(60,219)	(2,779)
Proceeds from sale of property, plant and equipment		2,000
Sales of short-term investments		2,900,000
<b>CASH FLOW (USED) IN/PROVIDED BY INVESTING ACTIVITIES</b>	<b>\$ (60,219)</b>	<b>\$ 2,899,221</b>
<b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>		
Repayment of long-term debt	(62,800)	(62,800)
Proceeds from revolving credit loans	7,246,287	5,775,000
Repayments of revolving credit loans	(7,189,487)	(5,975,000)
Purchases of common stock option		(879,419)
Purchases of treasury stock	(111,085)	(616,518)
Purchases of preferred stock		(1,756,818)
<b>CASH FLOW (USED) IN FINANCING ACTIVITIES</b>	<b>\$ (117,085)</b>	<b>\$ (3,515,555)</b>
<b>NET (DECREASE)/INCREASE IN CASH</b>	<b>\$ (296,163)</b>	<b>\$ 634,256</b>
<b>CASH, Beginning</b>	<b>\$ 2,434,227</b>	<b>\$ 3,270,048</b>
<b>CASH, Ending</b>	<b>\$ 2,138,064</b>	<b>\$ 3,904,304</b>
<b>SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION:</b>		
Cash paid during the period for:		
Interest	\$ 105,148	\$ 84,124

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Taxes	\$	90,000	\$	330,123
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**SUPPLEMENTAL DISCLOSURE OF NON CASH INVESTING AND FINANCING ACTIVITIES:**

Conversion of Series A preferred stock for common stock-net	\$		\$	215
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*See notes to condensed consolidated financial statements (unaudited)*

F-4

**Table of Contents**

**Deer Valley Corporation & Subsidiaries**

**Notes to Condensed Consolidated Financial Statements**

**June 29, 2013**

**(unaudited)**

**NOTE 1 - BASIS OF PRESENTATION**

The accompanying unaudited condensed consolidated financial statements for the three and six month periods ended June 29, 2013 and June 30, 2012 have been prepared in accordance with accounting principles generally accepted in the United States of America for interim financial information and pursuant to the rules and regulations of the Securities and Exchange Commission for Form 10-Q. Accordingly, they do not include all the information and footnotes required by accounting principles generally accepted in the United States of America for complete financial statements.

The unaudited financial information included in this report includes all adjustments which are, in the opinion of management, necessary to reflect a fair statement of the results for the interim period. The operations for the three and six month periods ended June 29, 2013 are not necessarily indicative of the results of the full fiscal year.

The condensed consolidated financial statements included in this report should be read in conjunction with the consolidated financial statements and notes thereto included in the Registrant's December 31, 2012 Annual Report on Form 10-K and subsequent filings on Form 10-Q and Form 8-K.

**NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

***Principles of Consolidation*** - The condensed 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. Each fiscal quarter consists of 13 weeks, with an occasional fourth quarter extending to 14 weeks, if necessary.

***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 June 29, 2013 these balances totaled \$2,138,064. The balances are insured by the Federal Deposit Insurance Corporation up to \$250,000. At June 29, 2013, \$1,940,397 of our cash balances exceeded the current FDIC insurance limits.

***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. The Company periodically evaluates the collectability of our notes receivable and considers the need to establish an allowance for doubtful accounts based upon our historical collection experience. We have established an allowance for doubtful accounts of \$241,510 as of June 29, 2013 and \$260,770 at June 30, 2012.

***Construction Loan Notes Receivable*** - The Company provides bridge financing to an established mortgage originator to provide on a revolving basis, 80% of the funding for construction-to-permanent loans prior to the issue of a certificate of occupancy and ultimate resale of the loan to either private or government controlled long term financing entities.

***Impairment of Long-Lived Assets*** - Property and intangible assets are material to our consolidated 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

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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 the fair value is 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

F-5

**Table of Contents**

available information, under the direct supervision of our management. For tangible property, plant and equipment, there have been no changes in assumptions or methodologies in the three and six month periods ended June 29, 2013 as compared to June 30, 2012. The Company did not have definite-lived intangible assets at June 29, 2013 and June 30, 2012.

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's factory-built housing segment 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. The Company's financial services segment includes the following types of expenses in cost of sales: interest expense

**Selling, General and Administrative** - 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.

**Derivative Financial Instruments** - We generally do not use derivative financial instruments to hedge exposures to cash-flow risks or market-risks that may affect the fair values of our financial instruments. However, we have entered into certain financial instruments, such as the issuance of certain freestanding warrants, which do not meet the conditions for equity classification due to their *down-round* protection features. As required by ASC 815 *Derivatives and Hedging*, these instruments are required to be carried as derivative liabilities, at fair value with changes in fair value, in our financial statements with changes in fair value reflected in our income (loss). See Note 9 *Derivative Liabilities* of the condensed consolidated financial statements for additional disclosure data.

**Earnings (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.

The Company's dilutive common stock equivalent shares as of June 29, 2013 and June 30, 2012 include all of the Convertible Preferred shares and any incremental shares associated with the Company's outstanding warrants and stock options.

See the detailed list of Common Stock Equivalents below.

Securities	Exercise Price	Expiration Date	Common Stock Equivalents as of	
			June 29, 2013	June 30, 2012
<i>Warrants:</i>				
Class B Warrants	\$ 2.25	August 11, 2013	1,112,487	1,112,487
<b>Total</b>			<b>1,112,487</b>	<b>1,112,487</b>

<b>Total common stock equivalents</b>	<b>1,112,487</b>	<b>1,112,487</b>
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F-6

**Table of Contents**

**Income Taxes** - Income taxes are accounted for using the asset and 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.

**NOTE 3 - INVENTORY**

Inventory consisted of the following components:

	June 29, 2013	December 31, 2012
Raw Materials	\$ 859,198	\$ 884,884
Work-in-Process	282,340	229,259
Finished Goods	515,823	433,580
<b>Total Inventory</b>	<b>\$ 1,657,361</b>	<b>\$ 1,547,723</b>

**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. Administrative services for inventory-secured financing are provided by Triad Financial Services, Inc. of Jacksonville, Florida. 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, consisted of the following:

	June 29, 2013	December 31, 2012
Inventory finance notes receivable - current	\$ 3,831,246	\$ 3,537,638
Inventory finance notes receivable - long-term	3,373,418	4,736,793
Allowance for loan loss	(241,510)	(329,500)
<b>Total Inventory finance notes receivable</b>	<b>\$ 6,963,154</b>	<b>\$ 7,944,931</b>

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. 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 a (benefit)/provision for credit losses of \$(87,990) and \$59,830 for six month period ending June 29, 2013 and June 30, 2012, respectively. The following table represents changes in the estimated allowance for loan losses:

	June 29, 2013	June 30, 2012
Balance at beginning of period	\$ 329,500	\$ 200,940
(Benefit)/Provision for credit losses	(87,990)	59,830
<b>Balance at end of period</b>	<b>\$ 241,510</b>	<b>\$ 260,770</b>



**Table of Contents****NOTE 5 - ACCRUED EXPENSES**

Accrued expenses consisted of the following:

Category	June 29, 2013	December 31, 2012
Accrued dealer incentive program	\$ 202,962	\$ 268,754
Accrued third party billings	485,206	477,832
Accrued compensation	340,642	239,225
Accrued insurance	81,948	90,943
Accrued interest	17,084	17,394
Accrued repurchase commitment	78,785	106,280
Other	191,217	197,878
<b>Total Accrued Expenses</b>	<b>\$ 1,397,844</b>	<b>\$ 1,398,306</b>

**NOTE 6 - 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 June 29, 2013, the Company has recorded an accrued liability of \$1,080,000 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 Three Month Period Ended June 29, 2013	For The Six Month Period Ended June 29, 2013
Balance at beginning of period	\$ 1,085,000	\$ 1,170,000
Warranty charges	365,558	613,767
Warranty payments	(370,558)	(703,767)
Balance at end of period	\$ 1,080,000	\$ 1,080,000

**NOTE 7 - REVOLVING CREDIT LOANS**

Effective October 14, 2011, Deer Valley (a) renewed its Revolving Credit Loan and Security Agreement with its primary bank, used for display model financing for dealers of the products produced by DVHB (the Display Model LOC), and (b) in connection with such renewal, Deer Valley reduced the limits of the Display Model LOC from \$7,500,000 to \$5,000,000. The \$5,000,000 Facility has a two year term and has a variable interest rate at 4.00% above LIBOR or 4.375% at June 29, 2013. The loan 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. As of June 29, 2013, the Company had an outstanding balance of \$2,275,000 under the revolving credit loan.

Effective October 14, 2011, Deer Valley (a) renewed its Revolving Credit Loan and Security Agreement with its primary bank, used for short term working capital financing, letters of credit and as a bridge loan on financing the sale of retail units by DVHB (the Working Capital LOC), and (b) in connection with such renewal, Deer Valley reduced the limits of the Working Capital LOC from \$5,000,000 to \$3,000,000. The \$3,000,000 Facility has a two year term and has a variable interest rate at 2.50% above LIBOR or 2.875% at June 29, 2013. The loan 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. As of June 29, 2013, the Company had an outstanding balance of \$1,550,000 under the revolving credit loan.



**Table of Contents**

Effective April 12, 2013 Deer Valley entered into a Revolving Credit Loan and Security Agreement with its primary bank, used for funding construction-to-permanent loans prior to the issue of a certificate of occupancy and ultimate resale of the loan to either a private or government controlled long term financing entities. The \$2,500,000 Facility has a two year term and has a variable interest rate at 4.0% above LIBOR. The loan 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. As of June 29, 2013, the Company had an outstanding balance of \$981,799 under the revolving credit loan.

The amount available under the revolving credit loans is equal to the lesser of \$10,500,000 or an amount based on defined percentages of accounts receivable and inventories reduced by any outstanding letters of credit. At June 29, 2013, \$6,711,362 was available under the revolving credit loans after deducting letters of credit of \$65,000.

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 insurance policies. As of June 29, 2013, no amounts had been drawn on the above irrevocable letters of credit by the beneficiaries.

**NOTE 8 - 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 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 Loan had 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. On June 1, 2011 Fifth Third Bank agreed to extend to maturity date on the loan until an amendment to the loan agreement could be finalized.

On July 8, 2011, DVHB and the Lender entered into that certain Amendment to Loan Agreement effective June 1, 2011, pursuant to which, among matters, (a) DVHB made a cash payment to reduce the outstanding principal balance of the Real Estate Loan to \$1,256,000, (b) the term of the Real Estate Loan was extended to June 1, 2016, and (c) the variable interest rate was set at 400 basis points (4.00%) above the One-Month LIBOR-Index Rate. The Real Estate Loan is guaranteed by DVC and DVFC.

**NOTE 9 - DERIVATIVE LIABILITIES**

Under ASC 815, share-linked contracts which contain full ratchet anti-dilution provisions are not considered indexed to a company's own stock for purposes of determining whether it meets the first part of the scope exception in ASC 815-10-15-74. The application of this standard required us to (1) evaluate our instrument's contingent exercise provisions and (2) evaluate the instrument's settlement provisions. Based upon applying this approach to instruments within the scope of the consensus, we determined that certain of our warrants do not meet the definition of Indexed to a Company's Own Stock provided in the Consensus. Accordingly, those Warrants are recorded as liabilities at their fair value. ASC 815

Derivatives and Hedging requires that the fair value of these liabilities be re-measured at the end of every reporting period with the change in value reported in the statement of operations.

As of June 29, 2013 and December 31, 2012, derivative financial instruments recorded as liabilities consisted of Class B Warrants indexed to 1,112,487 shares of our common stock with an exercise price of \$2.25. The fair value of the Class B warrants as of June 29, 2013 and December 31, 2012 was \$0.

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

	Three months ended June 29, 2013	Three months ended June 30, 2012
Class A Warrants (Class A-1 & Class A-2)	\$	\$
Class B Warrants		6,230
Class BD-2 Warrants		
Class BD-3 Warrants		
Class BD-4 Warrants		

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Class BD-5 Warrants

	\$	\$ 6,230
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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

F-9

**Table of Contents**

nature of the instrument, the market risks that it embodies and the expected means of settlement. We value our derivative warrants using a Binomial Lattice valuation model which provides for early exercise scenarios and incorporates the down-round anti-dilution protection possibilities that could arise in early exercise scenarios.

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 Lattice models) 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 value, our (income) loss will reflect the volatility in these estimate and assumption changes.

	June 29, 2013	December 31, 2012
<b>Significant assumptions (or ranges):</b>		
Trading market values (1)	\$ 0.65	\$ 0.60
Term (years) (3)	.13	.61
Volatility (3)	23.67%	44.8%
Risk-free rate (2)	.06%	0.06%

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.

**Table of Contents****NOTE 10 - INCOME TAXES****Income Taxes:**

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

	<b>Six months ended June 29, 2013</b>
Current income tax (benefit)	\$ (87,107)
Deferred income tax expense	177,057
<b>Total income tax expense</b>	<b>\$ 89,950</b>

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

	<b>Six months ended June 29, 2013</b>	
	<b>Amount</b>	<b>Impact on Rate</b>
Income tax expense at federal rate	\$ 73,996	34.00%
State tax expense, net of Federal effect	9,197	4.23%
<b>Permanent Differences:</b>		
Meals and entertainment	6,423	2.95%
Officers' life insurance	334	0.15%
Total permanent differences	6,757	3.10%
<b>Total income tax expense</b>	<b>\$ 89,950</b>	<b>41.33%</b>

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:

	<b>June 29, 2013</b>
<b>Current Deferred Tax Assets:</b>	
Warranty reserve	\$ 412,841
Repurchase reserve	30,116
Loan loss reserve	92,320
Allowance for doubtful accounts	5,734
Inventory reserve	4,110
Accrued legal fees	3,823
<b>Total Current Deferred Tax Asset</b>	<b>548,944</b>

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<b>Non-Current Deferred Tax Assets:</b>	
Goodwill impairment	1,837,930
<b>Total Non-Current Deferred Tax Assets</b>	
	<b>1,837,930</b>
<b>Non-Current Deferred Tax Liability:</b>	
Accelerated depreciation	(50,509)
Sale of assets	7,530
<b>Total Non-Current Deferred Tax Liability</b>	
	<b>(42,979)</b>
 Total Deferred Tax Assets (Liabilities) - Net	 \$ 2,343,895

### **NOTE 11 - 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 \$1,969,635 at June 29, 2013. As of June 29, 2013 the Company reserved \$78,785 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.

**Table of Contents****NOTE 12 - EQUITY TRANSACTIONS**

*Common Stock Dividends* - There were no dividends paid during the six month period ended June 29, 2013.

*Treasury Stock* - Pursuant to a common stock repurchase program approved by our Board of Directors, a total of 176,223 shares were purchased during the six month period ended June 29, 2013 at a cost of \$111,085 and recorded as treasury stock.

**NOTE 13 - SEGMENT INFORMATION**

Our business segments consist of factory-built housing and financial services. Our factory-built housing business segment designs and manufacturers factory-built homes, which are marketed through a network of independent retailers. Our financial services business segment provides dealer inventory-secured financing for houses built by the Company and provides bridge financing to an established mortgage originator for the funding of construction-to-permanent loans for ultimate resale. 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 six month periods ended June 29, 2013 and June 30, 2012.

	<b>For The Three Months Ended</b>		<b>For The Six Months Ended</b>	
	<b>June 29, 2013</b>	<b>June 30, 2012</b>	<b>June 29, 2013</b>	<b>June 30, 2012</b>
Revenues from external customers				
Factory-built housing	\$ 7,015,550	\$ 7,515,007	\$ 12,308,366	\$ 12,694,535
Financial services	207,927	128,238	369,662	267,674
Total revenues	\$ 7,223,477	\$ 7,643,245	\$ 12,678,028	\$ 12,962,209
Income (loss) from operations				
Factory-built housing	\$ 355,928	\$ 353,082	\$ 347,344	\$ 273,837
Financial services	185,494	49,472	228,669	84,199
General corporate expenses	(114,725)	(102,193)	(336,641)	(364,469)
Total income (loss) from operations	\$ 426,697	\$ 300,361	\$ 239,372	\$ (6,433)
Identifiable assets by segment				
Factory-built housing	\$ 9,422,659	\$ 10,286,781		
Financial Services	8,266,399	6,732,055		
Other	82,431	59,243		
	\$ 17,771,489	\$ 17,078,079		

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**Table of Contents**

**Item 2. Management's Discussion and Analysis**

**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, risks discussed in our Annual Report on Form 10-K. 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**

The Company, through its wholly owned subsidiaries Deer Valley Homebuilders, Inc. ( DVH ) and Deer Valley Home Repair Services, Inc. ( DVHRS ), designs and manufactures factory built homes which are marketed in 12 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. Our financial subsidiary, Deer Valley Financial Corp ( DVFC ), provides dealer inventory-secured financing for our factory built homes and provides bridge financing to an established mortgage originator for the funding of construction-to-permanent loans for ultimate resale.

Our business segments consist of factory-built housing and financial services. Our financial services provide qualified independent retail dealers and developers with inventory-secured financing for homes the Company produces and provides bridge financing for construction-to-permanent loans for ultimate resale. 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 13 - Segment Information of the Notes to Condensed Consolidated Financial Statements for information on our net sales, income (loss) from operations, and identifiable assets by segment for the three and six month periods ended June 29, 2013 and June 30, 2012.

**Industry and Company Outlook**

The factory-built housing industry and the Company continue to operate at low production and shipment levels. According to data provided by the Manufactured Housing Institute ( MHI ), our industry shipped approximately 55,000 HUD code homes during the calendar year 2012, compared to approximately 52,000 homes shipped in 2011 and 50,000 homes shipped in both calendar years 2010 and 2009.

While we are encouraged by the positive trends in shipments of HUD code homes, several challenges such as persistently high unemployment levels, ongoing economic weakness and uncertainty, the restrictive mortgage

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## **Table of Contents**

lending environment and the potential for more foreclosures continue to threaten a recovery in our industry. Until there is a more robust U.S. economic recovery, we expect shipments of HUD code homes to remain at historically low levels, with uneven improvement across markets.

Before an emergence from current low shipment levels can occur, increased availability of consumer financing for the retail purchase of factory-built is necessary. Although, the overall demand for new homes has continued to show signs of improvement, the current lending environment that favors site-built housing and more affluent homebuyers has resulted in an adverse impact for buyers of factory-built homes. Restrictive underwriting guidelines, irregular appraisal processes, higher interest rates compared to site-built homes, regulatory burdens, reduction in the number of institutions lending to factory-built home buyers and limited secondary market availability for factory-built home loans are significant restraints to industry growth.

The Company's executives continue to focus on challenges faced by our industry and the general economy. (i) As part of the Company's strategic plan, management seeks to identify niche market opportunities where our custom building capabilities provide us with a competitive advantage. The Company continues to focus on the production of custom built, energy efficient, heavy built homes and has intensified efforts in innovative exterior elevations to meet the needs of homeowners, dealers, developers and government agencies (ii) Management has addressed the limited availability of dealer inventory financing with the establishment of its wholly owned subsidiary, (DVFC). The subsidiary was created to provide inventory-secured loans to qualified retail dealers and developers. (iii) Management has addressed a need for consumer financing by teaming with an established mortgage originator to increase the availability of affordable loans for qualified retail buyers of factory-built homes. (iv) The Company continues to focus on operating activities to improve manufacturing efficiencies and increase gross margins.

### **Manufacturing Operations**

We produce all of our factory-built homes at our plant in Guin, Alabama. Our plant is currently staffed for a single shift; 40 hour work week and producing on average 15 floors per week. During the quarter ended June 29, 2013, the Company's average production rate was approximately 14 floors produced per week or 41% of our maximum capacity of a single shift, 40 hour work week. As of June 29, 2013, our backlog of orders stood at approximately \$1,750,000 or approximately 16 days at our current production rate. We have one idle plant located in Sulligent, Alabama.

When evaluating the Company's operating performance, the key performance indicators management examines are (1) the Company's production rate, in floors produced per day, (2) the cost of sales, (3) the size of the Company's sales backlog, and (4) the prevailing market conditions. For more information on these performance indicators, please see the attached financial statements and notes thereto and the section of the Company's Annual Report on Form 10-K titled "Description of Business".

### **Financial Operations**

The Company offers inventory-secured financing for its products to a limited number of qualified retail dealers and developers. Products shipped to dealers under the Company's inventory-secured financing program are recorded by the Company as sales and the dealers obligations to the Company are reflected as inventory finance notes receivable.

Finance contracts require periodic installments of principal and interest over periods of up to twenty-four months. These notes are secured by a first priority secured interest in the inventory collateral and other security depending on borrower circumstances. Dealers who sell products utilizing inventory-secured financing are required to make immediate payment for those products to the Company upon sale to the retail customer. This type of inventory-secured financing accounts for approximately, 34% of the Company's sales for the three month period ending June 29, 2013 compared to 45% of the Company's sales for the three month period ended June 30, 2012.

On April 12, 2013, the Company extended its existing credit arrangements with its primary bank by entering into a new Revolving Credit Loan and Security Agreement with its primary bank, which provides for a revolving line of credit in an amount not to exceed Two Million Five Hundred Thousand and No/100 Dollars (\$2,500,000.00) (the "Loan"). The Loan 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 Loan matures on June 30, 2015 and has a variable interest rate of 4.00% above LIBOR. An event of default such as non-payment of amounts when due or a breach of a covenant may accelerate the maturity date of the facility. The facility provides for conditions to meet prior to each advance, including financial ratios.

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## **Table of Contents**

Deer Valley's financial subsidiary, DVFC is using proceeds from the Loan to furnish up to total of \$2.5 million dollars to CIS Financial Services, Inc. d/b/a CIS Home Loans (CIS), to provide on a revolving basis, 80% of the funding for construction-to-permanent loans prior to the issue of a certificate of occupancy and ultimate resale of the loan to either private or government controlled long term financing entities.

Single-closing, construction-to-permanent mortgage is a common form of financing for new site-built homes. Often, however, it is not readily available to buyers of factory-built homes. This specific source of retail financing is important for the factory-built housing industry. Through this new arrangement with CIS, Deer Valley is able to assist its dealers and homebuyers with increased availability of this type of retail financing to the buyers of factory-built homes.

## **Results of Operations**

*The following discussion examines the results of the Company's operations for the three and six month periods ended June 29, 2013. This discussion of our financial condition and results of operations should be read in conjunction with our condensed consolidated financial statements and notes to the consolidated 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. It is also imperative that one read our December 31, 2012 Annual Report on Form 10-K and subsequent filings on Form 8-K.*

## **HISTORICAL RESULTS THREE AND SIX MONTH PERIODS ENDED JUNE 29, 2013 AND JUNE 30, 2012.**

**Revenues.** Overall gross revenue for the three month period ended June 29, 2013 was \$7,223,477 compared to \$7,643,245 for the three month period ended June 30, 2012, representing a decrease of \$419,768, or approximately 5.5%. Overall gross revenue for the six month period ended June 29, 2013 was \$12,678,028 compared to \$12,962,209 for the six month period ended June 30, 2012, representing a decrease of \$284,181, or approximately 2.2%. The decrease in revenue is primarily from fewer homes sold, which were partially offset by an increase in the average sales prices. Our average wholesale price per unit increased to approximately \$79,400 from \$68,250 for the six month period ended June 29, 2013, compared to the six month period ended June 30, 2012. The increase in the average sales price is attributable to sales price adjustments from higher material costs and from a product mix of larger homes with greater amenities. Although we remain cautiously optimistic, several challenges such as persistently high unemployment levels, ongoing economic weakness and uncertainty, the restrictive mortgage lending environment and the threat of more foreclosures continue to hinder a robust recovery in the housing market.

**Gross Profit.** Gross profit for the three month period ended June 29, 2013 was \$1,376,590 or 19.1% of total revenue compared to \$1,302,101 or 17.0% of total revenue for the three month period ended June 30, 2012. Gross profit for the six month period ended June 29, 2013 was \$2,269,342 or 17.9% of total revenue compared to \$2,135,734 or 16.5% of total revenue for the six month period ended June 30, 2012. The increase in gross profit is primarily attributable to a decrease in labor and related costs of 1.75%. 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.

**Selling, General, and Administrative Expenses.** Selling, general, and administrative expenses for the three month period ended June 29, 2013 were \$947,181 compared to \$998,519 for the three month period ended June 30, 2012. Selling, general, and administrative expenses for the six month period ended June 29, 2013 were \$2,024,231 compared to \$2,135,681 for the six month period ended June 30, 2012. The decrease in selling, general and administrative expenses, primarily relates to a decrease in sales and marketing expenses. 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.

**Net Income (Loss).** The net income for the three month period ended June 29, 2013 was \$256,926 compared to net income of \$179,651 for the three month period ended June 30, 2012, representing an increase in net income of \$77,275. The net income for the six month period ended June 29, 2013 was \$127,689 compared to net (loss) of

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**Table of Contents**

\$(11,056) for the six month period ended June 30, 2012, representing an increase in net income of \$138,745. The increase in net income for the three and six month periods ended June 29, 2013 compared to the three and six month periods ended June 30, 2012, is attributable to an increase in gross profit and a decrease in selling, general and administrative expenses.

**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 \$2,138,064 in cash and cash equivalents as of June 29, 2013, compared to \$2,434,227 in cash and cash equivalents and short-term investments as of December 31, 2012. The decrease in cash and cash equivalents is primarily attributable to an increase in accounts receivable and inventories. 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.

As of June 29, 2013, the aggregate balance on our loan facilities was \$4,806,799. In addition, we have a real estate loan from its primary bank that had a balance, as of June 29, 2013, of \$1,004,800.

**1 - Cash flow from operating activities:**

For the six month period ended June 29, 2013, operating activities used net cash of \$118,859 primarily as a result of the following:

- (a) an increase in accounts receivable of \$204,173 (a use of cash), primarily as a result of a return to normal production levels subsequent to holiday shutdown period at December 31, 2012,
- (b) an increase in inventories of \$109,638 (a use of cash), primarily as a result of a return to normal production levels subsequent to holiday shutdown period at December 31, 2012, and
- (c) an increase in construction loan receivables of \$1,000,960 (a use of cash), as result of the initial funding of construction-to-permanent loans, which were partially offset by,
- (d) a decrease in inventory finance notes receivable of \$1,069,768 (a source of cash), primarily as a result of a national inventory lender returning to the market, and
- (e) a decrease in deferred tax asset of \$177,056 (a source of cash).

**2 - Cash flow from investing activities:**

The net cash used in investing activities for the six month period ending June 29, 2013 was \$60,219, which reflects capitalization of normal operating purchases of equipment.

**3 - Cash flow from financing activities:**

The net cash used in financing activities for the six month period ending June 29, 2013 was \$117,085, which is primarily attributable purchases of treasury stock at a cost of \$111,085 and scheduled principal payments of long-term debt of \$62,800, which were partially offset by net proceeds from revolving credit loans of \$56,800.

The Company is contingently liable under the terms of the repurchase agreements with financial institutions providing inventory financing for retailers of our products. For more information on the repurchase agreements, including the Company's contingent liability there under, please see Reserve for Repurchase Commitments below.

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DVH, during its normal course of business, is required to provide irrevocable standby letters of credit to cover obligations under its workers compensation insurance policy in the amount of \$65,000. As of June 29, 2013, 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

- 4 -

## **Table of Contents**

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 quarter ended June 29, 2013, contained in this filing and the Company's Form 10-K for December 31, 2012. 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 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 believes the Company's estimates are reasonable. 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 \$1,080,000 on its balance sheet as of June 29, 2013. Based on management's assessment of historical experience and current trends in wholesale shipments and dealer inventories we decreased our warranty provision by \$5,000 for the quarter ended June 29, 2013. 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 effect 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. We had a reserve for volume incentives payable of \$202,962 as of June 29, 2013.

### **Reserve for Repurchase Commitments**

Most of our independent dealers finance their purchases under a wholesale floor plan 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 floor plan 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) historically we have had only isolated instances where we have incurred a repurchase obligation, although there is no guarantee that such historical trends will continue,

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- (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.

- 5 -

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## **Table of Contents**

The maximum amount for which the Company is contingently liable under such agreements amounted to approximately \$1,969,635 as of June 29, 2013, as compared to \$3,300,000 as of June 30, 2012. As of June 29, 2013 and June 30, 2012, we had reserves of \$78,785 and \$122,785, respectively, established for future repurchase commitments, based upon our prior experience and evaluation of our independent dealers' financial conditions. Deer Valley to date has not experienced any significant losses under these agreements; consequently, management does not expect any future losses to have a material effect on our accompanying financial statements.

### **Allowance loan loss for 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. The Company periodically evaluates the collectability of our notes receivable and considers the need to establish an allowance for doubtful accounts based upon our historical collection experience. The Company had a total inventory-secured financing receivable of \$7,204,664 as of June 29, 2013. We have established an allowance for doubtful accounts of \$241,510 as of June 29, 2013 and \$260,770 at June 30, 2012.

The risk of loss that we face in connection with inventory-secured financing is lessened by several factors, including the following:

- (i) the financing for our products are spread over a number of independent dealers,
- (ii) historically we have had only isolated instances where we have had our dealers default on floor plan financing, although there is no guarantee that such historical trends will continue, and
- (iii) we anticipate that we would be able to resell homes repossessed from dealers at current market prices, although there is no guarantee that we will be able to do so.

Although we maintain an allowance for doubtful accounts, there can be no assurance that such allowance will remain at current levels or that such allowances will be adequate.

### **Impairment of Long-Lived Assets**

As previously discussed, the factory-built 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 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. Based on our estimates of the fair value of idled facility no impairment charges have been recorded.

### **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.

The Company provides limited inventory-secured financing for its independent dealers. Products shipped to dealers under the Company's inventory-secured financing program are recorded by the Company as sales and the dealers' obligations to the Company are reflected as inventory finance note receivables. Interest on inventory finance note receivables is recognized in the period that it is earned.



## **Table of Contents**

### **Recent accounting pronouncements**

*Recent accounting pronouncements* - We have reviewed accounting pronouncements and interpretations thereof that have effective dates during the periods reported and in future periods. The applicability of any standard is subject to the formal review of our financial management and certain standards are under consideration.

From time to time, new accounting pronouncements are issued by the FASB and other regulatory bodies that are adopted by the Company as of the specified effective dates. Unless otherwise discussed, management believes that the impact of recently issued standards, which are not yet effective, will not have a material impact on the Company's Consolidated Financial Statements upon adoption.

### **Item 4. Controls and Procedures**

#### **Evaluation of Disclosure Controls and Procedures**

The Company's Chief Executive Officer and Chief Financial Officer have evaluated the effectiveness of the Company's disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Exchange Act) as of the fiscal period ending June 29, 2013 covered by this Quarterly Report on Form 10-Q. Based upon our evaluation of disclosure controls and procedures, the Chief Executive Officer and Chief Financial Officer have 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.

#### **Changes in Internal Controls over Financial Reporting**

During the quarter ended June 29, 2013, there have been no changes in the Company's internal control over financial reporting that have materially affected, or is reasonably likely to materially affect, the Company's internal control over financial reporting.

#### **Inherent Limitations of the Effectiveness of Disclosure and Internal Controls**

A control system, no matter how well conceived and operated, can provide only reasonable, not absolute, assurance that the objectives of the disclosure control system or internal control system are met. Because of the inherent limitations of any disclosure control system or internal control system, no evaluation of controls can provide absolute assurance that all control issues, if any, within a company have been detected.

**Table of Contents****PART II OTHER INFORMATION****Item 1. 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 2. Unregistered Sales of Equity Securities and Use of Proceeds**

**Treasury Stock** - Pursuant to a common stock repurchase program approved by our Board of Directors, a total of 176,223 shares were purchased during the six month period ended June 29, 2013 at a cost of \$111,085 and recorded as treasury stock.

## ISSUER PURCHASES OF EQUITY SECURITIES

Period	(a) Total number of shares purchased	(b) Average price paid per share	(c) Total number of shares purchased as part of publicly announced plans or programs	(d) Maximum number (or approximate dollar value) of shares that may yet be purchased under the plans or programs
<b>Month #1</b>				
Jan. 1 to Jan. 31, 2013	81,545	\$ .62	0	0
<b>Month #2</b>				
Feb. 1 to Feb. 28, 2013	30,000	\$ .65	0	0
<b>Month #3</b>				
Mar. 1 to Mar. 31, 2013	20,003	\$ .65	0	0
<b>Month #4</b>				
Apr. 1 to Apr. 30, 2013	4,951	\$ .65	0	0
<b>Month #5</b>				
May 1 May 31, 2013	28,554	\$ .62	0	0
<b>Month #6</b>				
June. 1 to June 30, 2013	11,170	\$ .65	0	0
Total (1)	176,223	\$ .63	0	0

(1) Total does not include 12,140 shares of the Company's common stock repurchased by the Company between July 1, 2013 and August 2, 2013 at an average price of \$.64 per share.

**Table of Contents**

**Item 3. Defaults Upon Senior Securities**

None.

**Item 4. Mine Safety Disclosures**

None

**Table of Contents**

**Item 5. Exhibits**

<b>Exhibit No.</b>	<b>Description</b>
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)
10.1	Revolving Credit Loan and Security Agreement - \$2,500,000 (3)
10.2	Revolving Credit Note - \$2,500,000 (3)
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 August 8, 2013. (4)
31.02	Certification of 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 August 8, 2013. (4)
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 August 8, 2013. (4)
32.02	Certification of 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 August 8, 2013. (4)
101.INS	XBRL Instance Document (5)
101.SCH	XBRL Taxonomy Extension Scheme Document (5)
101.CAL	XBRL Taxonomy Extension Calculation Linkbase Document (5)
101.LAB	XBRL Taxonomy Extension Label Linkbase Document (5)
101.PRE	XBRL Taxonomy Extension Presentation Linkbase Document (5)

- (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 April 19, 2013 and incorporated herein by reference
- (4) Filed herewith.
- (5) Pursuant to Rule 406T of Regulation S-T, these Interactive Data Files are deemed not filed or part of a registration statement or prospectus for purposes of Sections 11 or 12 of the Securities Act of 1933, as amended, are deemed not filed for purposes of Section 18 of the Securities Exchange Act of 1934, as amended, and otherwise are not subject to the liability under these sections.

**Table of Contents**

**SIGNATURE**

Pursuant to the requirements of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

Deer Valley Corporation  
(Registrant)

Dated: August 8, 2013

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