

DEER VALLEY CORP
Form 10-K
March 20, 2014
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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 28, 2013

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)

Florida
(State of Incorporation)

20-5256635
(I.R.S. employer

identification no.)

3030 N Rocky Point Drive W, Suite 150, 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.

Large accelerated filer Accelerated Filer
Non-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 \$28,937,716. The aggregate market value of the voting and non-voting common equity held by non-affiliates as of June 30, 2013 was \$1,746,961¹. As of March 1, 2014, the number of shares outstanding of the Registrant's common stock (excluding 2,352,761 shares of treasury common stock) was 15,433,423, of which 12,793,806 shares of common stock were held by affiliates.

¹ Market value based upon sale price of \$.65 occurring on June 30, 2013.

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DEER VALLEY CORPORATION

2013 FORM 10-K

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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 other similar 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, Deer Valley Financial Corp (DVFC), a Florida corporation formed in September 2009 and Deer Valley Home Repair Services, Inc. (DVHRS), a Florida corporation formed in February 2012.

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 DVH and DVHRS, design and manufacture factory built 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. Our financial subsidiary, 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.

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 and developers (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

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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 maintaining a conservative cost structure. (v) The Company continually looks for new market opportunities and expanding our product offering by developing product designs and production methods.

Our business segments consist of factory-built housing and financial services. Our financial services business provides 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 15 - Segment Information of the notes to Consolidated Financial Statements for information on our net sales, income from operations, and identifiable assets by segment for the periods ended December 28, 2013 and December 31, 2012.

Manufacturing Operations

We produce all of our factory built homes at our plant in Guin, Alabama, which normally operates on a single shift, five-day work week. The Company's average production rate was approximately 19 floors produced per week, during the fourth quarter of 2013 and approximately 16 floors produced per week for the fiscal year 2013. As of December 28, 2013, our backlog of orders stood at 9 production days.

Our plant in Guin, Alabama operated at a capacity of 56% and 46% during the quarter ended December 28, 2013 and the fiscal year ended December 28, 2013, respectively. We have one idle plant located in Sulligent, Alabama.

The Company manufactures homes that are designed as primary residences ready for immediate occupancy. Most of our homes are customized at the Company's factory to the home buyers' specifications. The Company has concentrated on the medium to higher priced segments of the manufactured housing market.

While our 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 costs 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. 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 our 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 an 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 28, 2013, our total backlog of orders stood at \$1,100,000, compared to \$1,690,000 at December 31, 2012. Dealer orders are subject to cancellation prior to commencement of production, however, because we operate in an industry where order lead times are extremely short such cancellations rarely occur. Because we initiate production against a specific product order, we do not have significant inventories of finished goods or a backlog of product orders, we do not view backlog to be indicative of the level of our future revenues.

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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.

Products

Most of our homes are constructed in accordance with the National Manufactured Home Construction and Safety Standards promulgated by HUD. We also produce modular homes constructed in accordance with the local building codes in effect at the point of delivery. Of the homes we produced in 2013, approximately 76% were HUD code homes and approximately 24% were modular homes. The following table sets forth certain sales information for 2013 and 2012:

Shipments	2013	Floors	2013	Units	2012	Floors	2012	Units
HUD-Code		578		279		622		306
Modular		186		78		137		64
Total		764		357		759		370

We offer a variety of different floor plans, ranging in size from approximately 840 to more than 3,000 square feet. A single section home is generally 600 to 1,300 square feet, while multi section homes built with two or more modules range from 1,400 to more than 3,000 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, 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 superior construction standards, energy efficient homes and customize floor plans and design features to match homebuyers' preferences are principal factors which differentiate 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.

Our residential 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 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 homes and to permit our customers to customize their purchases.

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The Company continues to expand its product offerings in its modular home line. The homes are currently offered in fourteen states: Alabama, Arkansas, Florida, Georgia, Illinois, Kansas, Kentucky, Louisiana, Mississippi, Missouri, Oklahoma, Tennessee, Texas 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

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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.

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. Instead we rely on constant consumer feedback from our network of dealers, developers and vendors to continually review our product offerings, expand product designs, production methods and marketing strategies.

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.

Independent Dealer Network, Sales and Marketing

As of the date of this filing, we had approximately 55 participating independent dealers marketing our factory-built homes at around 60 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. During 2013, the Company did not have sales to any one customer of greater than 10%. During 2012, the Company had sales to one customer of approximately 12%. These sales were made through the Company's network of independent distributors.

The utilization of our independent dealer network has enabled 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 28, 2013, 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	48%
South Atlantic	Florida, Georgia, West Virginia	9%

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North Central

Kansas, Illinois, Missouri

4%

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.

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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 typically 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 accounted for approximately, 36% of the Company's sales during 2013, compared to 47% of the Company's sales during 2012.

Although inventory-secured financing continues to be restrictive for the industry's wholesale distribution chain, recently a national lender introduced finance programs subject to less financial involvement of the manufacturer. The increased flexibility has allowed the Company to begin to reduce its involvement in direct inventory-secured financing. However, until greater access to credit for inventory financing becomes available participation in inventory-secured financing is needed to maintain our distribution base.

On April 12, 2013, the Company entered into a new credit arrangement with its primary bank by entering into a new Revolving Credit Loan and Security Agreement, 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 "Construction Facility"). The Construction 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 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.

Deer Valley's financial subsidiary, DVFC is using proceeds from the Construction Facility to furnish up to a 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 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.

See Note 8 - Revolving Credit Loans of the Notes to Consolidated Financial Statements for information on our \$5,000,000 display model line of credit, \$3,000,000 working capital line of credit, and the \$2,500,000 Construction Facility.

Continuing Operations

Factory-Built Homes - Industry Trends

Although, the manufactured housing industry continues to operate at historically low production and shipment levels, 2013 represents the third consecutive year of growth for industry shipments of HUD code homes. According to data

provided by the Manufactured Housing Institute (MHI), our industry shipped approximately 60,000 HUD code manufactured homes for the calendar year 2013, compared to approximately 55,000 HUD code manufactured homes for the calendar year 2012.

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The manufactured housing industry and Company home sales continue to struggle due to ongoing economic challenges. Low consumer confidence levels and high unemployment and underemployment rates are two of the most significant challenges affecting buyers of factory-built homes. Low consumer confidence regarding the outlook for jobs is not conducive for potential customers to commit to a home purchase. Historically lower-income households are among the largest segments of new factory-built home purchasers. Lower-income households are particularly affected by high unemployment and underemployment rates.

We believe our market and housing in general have reached bottom and continue to show signs of improvement; however, we expect that there may be periods of volatility in the future. We believe that, as employment and consumer confidence levels improve, pent-up demand will be released, and, gradually, more buyers will enter the market. We believe the key to full recovery in our business depends on these factors as well as an increased availability of consumer financing for the retail purchase of manufactured homes.

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. 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.

The Company addressed the limited availability of dealer inventory financing by the creation of DVFC. DVFC was created to provide 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 continues to fund the financial subsidiary through the reallocation of existing cash reserves in combination with funds available from its commercial bank credit facility. Administrative services for DVFC's new inventory-secured loan program are provided by a third party financial servicing company.

In connection with an inventory-secured financing arrangement by third parties, 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.

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As of December 28, 2013, DVH's contingent repurchase liability under inventory-secured financing arrangements through independent dealers was approximately \$2,915,000. 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, entry into the industry remains a challenge 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 energy efficient, heavy built homes that exceed industry standards for construction thresholds, 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. 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

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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

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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 each of the staes in which we operate.

In 2010, the Dodd-Frank Wall Street Reform and Consumer Protection Act (Dodd-Frank Act) was passed into law. The Dodd-Frank Act is a sweeping piece of legislation, and the financial services industry is still assessing its implications. Congress detailed some significant changes, but the Dodd-Frank Act leaves many details to be determined by regulation and further study. The full impact will not be fully known for months or even years, as regulations that are intended to implement the Dodd-Frank Act are adopted by the appropriate agencies, and the text of the Dodd-Frank Act is analyzed by impacted stakeholders and possibly the courts. The Dodd-Frank Act established the Consumer Finance Protection Bureau (CFPB) to regulate consumer financial products and services. On January 10, 2013 the CFPB released certain mortgage finance rules required under the Dodd-Frank Act. These rules define standards for origination of Qualified Mortgages, establish specific requirements for lenders to prove borrowers ability to repay loans, and outline the conditions under which Qualified Mortgages will be subject to safe harbor limitations on liability to borrowers. The rules became effective January 10, 2014 apply to consumer credit transactions secured by a dwelling, which include chattel-only loans (manufactured home without land). The rules also establish interest rate and other cost parameters for determining which Qualified Mortgages fall under safe harbor protection. Among other issues, Qualified Mortgages with interest rates and other costs outside the limits will be rebuttable by borrowers and expose the lender and its assignees (including investors in loans, pools of loans, and instruments secured by loans or loan pools) to litigation and penalties. While many manufactured homes are currently financed with agency-conforming mortgages in which the ability to repay is verified and at interest rates and other costs that would be within the safe harbor limits, a significant amount of loans as currently written, especially chattel loans and non-conforming land-home loans, would fall outside the safe harbor. After the rules are in effect, lenders may become reluctant to write such loans, and investors reluctant to own or participate in owning such loans because of the uncertainty of potential litigation and other costs. If so, some prospective buyers of manufactured homes may be unable to secure financing necessary to complete purchases. In addition, compliance with the law may be costly from implementation of new processes, procedures, controls and infrastructure which may be required to comply with

the regulations. Compliance may also create operational constraints and place limits on pricing. Failure to comply with these regulations, changes in these or other regulations, or the imposition of additional regulations, could affect our earnings, limit our access to capital and have a material adverse effect on our business and results of operations.

In 2010, the Patient Protection and Affordable Care Act, as amended by the Health Care and Education Reconciliation Act, was passed into law. As enacted, the Health Reform Law reforms, among other things, certain aspects of health insurance. The Health Reform Law could increase our healthcare costs, adversely impacting the Company's earnings.

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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 28, 2013, we had 188 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 3030 N Rocky Point Drive W, Suite 150, Tampa, FL 33607. The telephone number at the Company's executive offices is (813) 418-5250. 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 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. MINE SAFETY DISCLOSURES

None

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Table of Contents**PART II****ITEM 5. MARKET FOR COMMON EQUITY, RELATED STOCKHOLDER MATTERS, AND REGISTANT 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
2012 Quarter Ended		
March 31, 2012	\$.70	\$.55
June 30, 2012	\$.80	\$.46
September 30, 2012	\$.80	\$.70
December 31, 2012	\$.75	\$.54
2013 Quarter Ended		
March 30, 2013	\$.65	\$.60
June 29, 2013	\$.80	\$.60
September 28, 2013	\$.65	\$.59
December 28, 2013	\$.66	\$.65

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 1, 2014, there were 307 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.

Table of Contents**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, warrant and rights		Weighted-average exercise price of outstanding options, warrants and rights	Number of securities remaining available for future issuances under equity compensation plans (excluding securities reflected in column (a))
	(a)	(b)	(c)	(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 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 2013 or 2012. There were no outstanding stock options as of December 28, 2013 and December 31, 2012.

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 28, 2013.

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, 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

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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

The Company, through its wholly owned subsidiaries DVH and DVHRS, designs and manufactures factory built 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. Our financial subsidiary, 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.

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 and developers (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 maintaining a conservative cost structure. (v) The Company continually looks for new market opportunities and expanding our product offering by developing product designs and production methods.

Our business segments consist of factory-built housing and financial services. Our financial services business provides 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 15 - Segment Information of the notes to Consolidated Financial Statements for information on our net sales, income from operations, and identifiable assets by segment for the periods ended December 28, 2013 and December 31, 2012.

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 28, 2013 and year ended December 31, 2012 is that of the Company on a consolidated basis with DVH, DVFC and DVHRS.

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Revenues. The Company had gross revenues of \$28,937,716 in fiscal year 2013, as compared to \$26,220,656 in fiscal year 2012. Accordingly, revenues increased \$2,717,060 or an increase of 10.4% compared to the prior year. The increase in revenue for 2013, is primarily attributable to an increase in the average wholesale price per unit in 2013 compared to prior year. Our average wholesale price per unit increased to approximately \$79,000 in fiscal year 2013, as compared to \$69,250 in fiscal year 2012. The increase in the average wholesale price is primarily the result of a change in the product mix. Our product mix in 2013 featured a greater percentage of modular homes and homes featuring innovative exterior elevations. Although we remain cautiously optimistic, several challenges such as persistently high unemployment levels and low consumer confidence levels continue to hinder a recovery for our industry and the Company's sales.

Gross Profit. Gross profit was \$5,542,376 or 19.2% of total revenue for 2013, compared to \$4,939,821 or 18.8% of total revenue for 2012. The increase in gross profit as a percentage of revenue is primarily the result of changes in the product mix. 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 fiscal year ending December 28, 2013 were \$4,147,385, compared to \$4,111,943 for the fiscal year 2012. Selling, general and administrative cost increased \$35,442 for the fiscal year ending December 28, 2013, in comparison to the corresponding period for 2012. The increase in our selling, general and administration expenses is due to an increase in salaries and wages compared to the same corresponding period for 2012. 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.

Operating Income. Operating income is derived by deducting cost of revenue, depreciation and amortization and selling, general and administration expenses from total revenue. Operating income for 2013 was \$1,384,296 compared to \$814,989 in 2012. Accordingly, operating income increased \$569,307 or an increase of 69.9% compared to the prior year. The improvement was due to the increase in revenue and gross profit discussed above.

Other Income (Expense). Derivative income for the year ended December 31, 2012 was \$34,486. The Company did not have any derivative income or expenses for the year ended December 28, 2013. Our derivative income/expense represents changes in the fair value of our derivative warrants. These derivative liabilities are sensitive to changes in the trading market price of our common stock and the total number of common shares indexed to derivative instruments. The decrease in derivative income is due to expiration of 1,112,487 Class B warrants in August 2013. See Note 10 - Derivative Liabilities of the notes to Consolidated Financial Statements for additional disclosure data.

Income Tax Expense. An income expense of \$528,546 was recognized for the year ended December 28, 2013, compared to an income tax benefit of \$37,956 for the year ended December 31, 2012. For the year ended December 31, 2012, we reversed all of the previously recorded valuation allowance for deferred tax assets after determining that realization of the deferred tax assets was more likely than not. This determination was based upon our achieving historical profitability and our outlook for ongoing profitability. See Note 11 - Income Taxes of the notes to Consolidated Financial Statements for additional disclosure data.

Net Income. The net income for 2013 was \$815,233 or .05 per diluted share, compared to net income of \$839,135, or .06 per diluted share, in 2012.

Net Income attributable to common stockholders - Net income attributable to common stockholders represents our net income as adjusted for deemed dividends on redemption on our preferred stock. See Note 13 - Equity Transactions

of the Consolidated Financial Statements for additional disclosure data.

Table of Contents**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 \$3,107,213 in cash and cash equivalents as of December 28, 2013, compared to \$2,434,227 in cash and cash equivalents as of December 31, 2012. The increase in cash and cash equivalents is primarily attributable to the decrease in our inventory finance receivable. Although inventory-secured financing continues to be in short supply for the industry's wholesale distribution chain, recently a national lender introduced finance programs subject to less financial involvement of the manufacturer. The increased flexibility has allowed the Company to begin to reduce its involvement in direct inventory-secured financing. Nevertheless, until greater access to credit for inventory financing becomes available participation in inventory-secured financing is needed to maintain our distribution base. 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.

For the fiscal year ended December 28, 2013, our operating activities provided net cash of \$2,859,056, as compared to our operating activities used net cash of \$703,899 for fiscal year ended December 31, 2012. Our significant change in cash flow is primarily attributable to a decrease in our participation in inventory finance receivables, which was offset in part by an increase in accounts receivable and construction loan receivable.

For the fiscal year ended December 28, 2013, operating activities provided net cash of \$2,859,056 primarily as a result of the following:

- (a) We had net income of \$815,233

Changes in our operating assets and liabilities are as follows:

- (b) a decrease in inventory finance receivable of \$2,177,243 (a source of cash), primarily a result a smaller percentage of sales utilizing the Company's inventory secured financing programs due to a national inventory lender returning to the market,
- (c) A decrease in inventories of \$237,105 (a source of cash), primarily as a result of a decrease in finished goods inventory as a result of the holiday shutdown period, which were offset in part by
- (d) an increase in accounts receivable of \$478,169 (use of cash), the decrease in accounts receivable is a result of a smaller percentage of sales utilizing the Company's inventory secured financing programs due to a national inventory lender returning to the market, and
- (e) an increase in construction loan receivables of \$693,257 (a use of cash), as result of the initial funding of construction-to-permanent loans.

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For the fiscal year ended December 31, 2012, operating activities used net cash of \$703,899 primarily as a result of the following:

- (a) We had net income of \$839,135

Changes in our operating assets and liabilities are as follows:

- (b) an increase in inventories of \$505,844 (a use of cash), primarily a result of increase in finished goods inventory as a result of weather delays in shipment of homes and bulk purchases of raw materials to avoid anticipated price increases,
- (c) an increase in inventory finance notes receivable of \$1,335,548 (use of cash), the increase in inventory finance notes receivable is a result of expansion of DVFC created to provide short-term inventory-secured loans to qualified retail dealers and developers, and

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- (d) a decrease in accrued income tax payable of \$453,923 (use of cash), the decrease in income tax payable is a result of decreased taxable income, which were offset in part by
- (e) a decrease in accounts receivable of \$986,011 (source of cash), the decrease in accounts receivable is a result of payments received related to a subcontract for the manufacture and delivery of manufactured homes to a governmental agency

The net cash used in investing activities for the fiscal year ended December 28, 2013 was \$226,653, which reflects normal equipment purchases. The net cash provided by investing activities for the fiscal year ended December 31, 2012 was \$2,894,371, which reflects proceeds from the sale of short-term investments of \$2,900,000.

The net cash used in financing activities for the fiscal year ended December 28, 2013 was \$1,959,417, primarily attributable to (i) scheduled principal payments of long-term debt of \$125,600 (ii) net repayments of revolving credit loans of \$1,693,200 and (iii) purchase of treasury stock at a cost of \$140,617. The net cash used in financing activities for the fiscal year ended December 31, 2012 was \$3,026,293, primarily attributable to (i) the redemption of all of the Company's issued and outstanding Series C and Series E Convertible Preferred Stock, together with a block of the Company's common stock and options to purchase shares of common stock, for an aggregate price of \$3,200,000 and purchases of treasury stock at a cost of \$824,923, which were offset in part by (ii) net proceeds from revolving credit loans of \$550,000 used to finance our inventory finance notes receivable.

During the year ended December 31, 2012 the Company entered into (i) a common stock redemption agreement wherein the Company purchased 1,096,291 shares of common stock; (ii) a securities redemption and purchase agreement wherein (a) the Company purchased 22,463 shares of Series C Preferred and 1,000,000 shares of Series E Preferred, representing 100% of the issued and outstanding shares of each class and linked to 3,246,300 shares of common stock and (b) the Company purchased an option to purchase from Vicis Capital Master Fund's remaining 12,310,359 shares of common stock (the Option). The aggregate purchase price of the stock redemption agreement was \$3,200,000.

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.

DVH, during its normal course of business, is required to issue irrevocable standby letters of credit to cover obligations under its workers compensation insurance policy in the amount of \$65,000. As of December 28, 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 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 28, 2013, 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 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.

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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 the Company or its auditors has made any material 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 \$1,185,000 on its balance sheet as of December 28, 2013 compared with a warranty liability reserve of \$1,170,000 on its balance sheet as of December 31, 2012. Based on management's assessment of historical experience and current trends in wholesale shipments and dealer inventories we increased our warranty provision by \$15,000 for the fiscal year ended December 28, 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 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 \$230,429 as of December 28, 2013, as compared to \$268,754 as of December 31, 2012.

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 an 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,
- (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.

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The maximum amount for which the Company is contingently liable under such agreements amounted to approximately \$2,915,000 at December 28, 2013, as compared to \$2,657,000 at December 31, 2012. As of December 28, 2013 and December 31, 2012, we had reserves of \$116,605 and \$106,280, respectively, established for future repurchase commitments, based upon our prior experience and evaluation of our independent dealers' financial conditions. We have decreased 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.

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

From time to time, new accounting pronouncements are issued by the Financial Accounting Standards Board (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.

Off-Balance Sheet Arrangements

None

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ITEM 8. FINANCIAL STATEMENTS

Deer Valley Corporation & Subsidiaries

Consolidated Financial Statements

For the Years Ended December 28, 2013 and December 31, 2012

Contents:

<u>Report of Independent Registered Public Accounting Firm</u>	F-1
<u>Consolidated Balance Sheets as of December 28, 2013 and December 31, 2012</u>	F-2
<u>Consolidated Statements of Operations for the Years Ended December 28, 2013 and December 31, 2012</u>	F-3
<u>Consolidated Statements of Changes in Stockholders' Equity for the Years Ended December 28, 2013 and December 31, 2012</u>	F-4
<u>Consolidated Statements of Cash Flows for the Years Ended December 28, 2013 and December 31, 2012</u>	F-7
<u>Notes to Consolidated Financial Statements for the Years Ended December 28, 2013 and December 31, 2012</u>	F-8

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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

The Board of Directors and Stockholders

Deer Valley Corporation & Subsidiaries

Tampa, Florida

We have audited the accompanying consolidated balance sheets of Deer Valley Corporation & Subsidiaries (the Company) as of December 28, 2013 and December 31, 2012, and the related consolidated statements of operations, changes in stockholders' equity, and cash flows for the years then ended. These 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 consolidated 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 & Subsidiaries at December 28, 2013 and December 31, 2012, and the results of their operations and their cash flows for the years then ended in conformity with U. S. generally accepted accounting principles.

/s/ Thomas Howell Ferguson P.A.

Thomas Howell Ferguson P.A.

Tallahassee, Florida

March 20, 2014

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

	December 28, 2013	December 31, 2012
ASSETS		
Current Assets:		
Cash	\$ 3,107,213	\$ 2,434,227
Accounts receivable, net	1,537,027	1,058,858
Inventory	1,310,618	1,547,723
Deferred tax asset	567,693	629,090
Inventory finance notes receivable	2,607,456	3,537,638
Construction loan notes receivable	693,257	
Prepaid expenses and other current assets	120,069	122,280
Total Current Assets	9,943,333	9,329,816
Fixed Assets:		
Property, plant and equipment, net	2,143,707	2,128,005
Other Assets:		
Inventory finance notes receivable, net	3,287,772	4,407,293
Deferred tax asset	1,621,179	1,891,861
Other assets	17,482	20,578
Total Other Assets:	4,926,433	6,319,732
Total Assets	\$ 17,013,473	\$ 17,777,553
LIABILITIES AND STOCKHOLDERS EQUITY		
Current Liabilities:		
Current maturities on long term debt	\$ 125,600	\$ 125,600
Revolving credit loans	3,056,799	4,750,000
Accounts payable	364,887	197,915
Accrued expenses	1,514,010	1,398,306
Accrued warranties	1,185,000	1,170,000
Income tax payable	140,162	57,732
Total Current Liabilities	6,386,458	7,699,553
Long Term Liabilities:		
Long-term debt, net of current maturities	816,400	942,000

Total Long Term Liabilities	816,400	942,000
Total Liabilities	7,202,858	8,641,553
Commitments and Contingencies (Note 10)		
Stockholders Equity:		
Common stock, \$0.001 par value, 100,000,000 shares authorized, 17,786,184 and 17,786,184 shares issued and 15,434,447 and 15,657,661 outstanding, respectively.	17,788	17,788
Additional paid-in capital	33,254,293	33,254,293
Treasury Stock, at cost; 2,351,737 and 2,128,523 shares, respectively	(1,275,616)	(1,134,998)
Accumulated deficit	(22,185,850)	(23,001,083)
Total Stockholders Equity	9,810,615	9,136,000
Total Liabilities and Stockholders Equity	\$ 17,013,473	\$ 17,777,553

See notes to consolidated financial statements

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Deer Valley Corporation & Subsidiaries

Consolidated Statements of Operations

	For the years ended	
	December 28, 2013	December 31, 2012
REVENUE	\$ 28,937,716	\$ 26,220,656
COST OF REVENUE	23,395,340	21,280,835
GROSS PROFIT	5,542,376	4,939,821
OPERATING EXPENSES:		
Depreciation and Amortization	10,695	12,889
Selling, general and administrative	4,147,385	4,111,943
TOTAL OPERATING EXPENSES	4,158,080	4,124,832
OPERATING INCOME	1,384,296	814,989
OTHER INCOME (EXPENSES)		
Derivative income		34,486
Interest income	535	3,344
Other income	2,000	1,640
Interest expense	(43,052)	(53,280)
TOTAL OTHER INCOME/(EXPENSES)	(40,517)	(13,810)
INCOME BEFORE INCOME TAXES	1,343,779	801,179
INCOME TAX (EXPENSE)	(528,546)	37,956
NET INCOME	\$ 815,233	\$ 839,135
Reconciliation of income from operations to income attributable to common shareholders:		
Income from operations	\$ 815,233	\$ 839,135
Deemed distribution on redemption of preferred stock		118,182
Income from operations and numerator for basic income per common share	\$ 815,233	\$ 957,317
Net Income Per Share (Basic)	\$ 0.05	\$ 0.06

Net Income Per Share (Fully Diluted)	\$ 0.05	\$ 0.06
Weighted Average Common Shares Outstanding	15,493,116	16,200,509
Weighted Average Common and Common Equivalent Shares Outstanding	15,493,116	16,200,509

See notes to consolidated financial statements

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Deer Valley Corporation & Subsidiaries

Consolidated Statements of Changes in Stockholders' Equity

For the Years Ended December 28, 2013 and December 31, 2012

	Preferred A		Preferred C		Series E	
	Shares	Amount	Shares	Amount	Shares	Amount
Balance - December 31, 2011	21,500	\$ 215	22,463	\$ 224	1,000,000	\$ 10,000
Conversion of Series A Preferred	(21,500)	(215)				
Redemption of Series C and E Preferred			(22,463)	(224)	(1,000,000)	(10,000)
Purchase of Common Stock Option						
Treasury Stock purchase at cost						
Deemed distribution on redemption of preferred stock						
Net Income						
Balance - December 31, 2012		\$		\$		\$
Treasury Stock purchase at cost						
Net Income						
Balance - December 28, 2013		\$		\$		\$

See notes to consolidated financial statements

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Deer Valley Corporation & Subsidiaries

Consolidated Statements of Changes in Stockholders' Equity (continued)

For the Years Ended December 28, 2013 and December 31, 2012

	Common		Additional	Treasury	
	Shares	Amount	Paid in Capital	Shares	Amount
Balance - December 31, 2011	17,499,517	\$ 17,501	\$ 35,998,560	(621,454)	\$ (310,075)
Conversion of Series A Preferred	286,667	287	(72)		
Redemption of Series C and E Preferred			(1,864,776)		
Purchase of Common Stock Option			(879,419)		
Treasury Stock purchase at cost				(1,507,069)	(824,923)
Deemed distribution on redemption of preferred stock					
Net Income					
Balance - December 31, 2012	17,786,184	\$ 17,788	\$ 33,254,293	(2,128,523)	\$ (1,134,998)
Treasury Stock purchase at cost				(223,214)	(140,618)
Net Income					
Balance - December 28, 2013	17,786,184	\$ 17,788	\$ 33,254,293	(2,351,737)	\$ (1,275,616)

See notes to consolidated financial statements

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Deer Valley Corporation & Subsidiaries

Consolidated Statements of Changes in Stockholders Equity (continued)

For the Years Ended December 28, 2013 and December 31, 2012

	Accumulated Deficit	Total Stockholders Equity
Balance - December 31, 2011	\$ (23,958,400)	\$ 11,758,025
Conversion of Series A Preferred		
Redemption of Series C and E Preferred		(1,875,000)
Purchase of Common Stock Option		(879,419)
Treasury Stock purchase at cost		(824,923)
Deemed distribution on redemption of preferred stock	118,182	118,182
Net Income	839,135	839,135
Balance - December 31, 2012	\$ (23,001,083)	\$ 9,136,000
Treasury Stock purchase at cost		(140,618)
Net Income	815,233	815,233
Balance - December 28, 2013	\$ (22,185,850)	\$ 9,810,615

See notes to consolidated financial statements

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

	For the years ended	
	December 28, 2013	December 31, 2012
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income	\$ 815,233	\$ 839,135
Adjustments to reconcile net income to net cash provided by/used in operating activities:		
Depreciation and amortization	212,951	209,556
Derivative (income)		(34,486)
Gain on sale of equipment	(2,000)	(1,640)
Bad debt expense	(127,540)	128,560
Changes in assets and liabilities:		
(Increase)/decrease in receivables	(478,169)	986,011
(Increase)/decrease in inventories	237,105	(505,844)
(Increase)/decrease in deferred tax asset	332,079	(146,729)
(Increase)/decrease in inventory finance receivable	2,177,243	(1,335,548)
(Increase)/decrease in construction loan receivable	(693,257)	
(Increase)/decrease in prepayments and other	5,306	(3,006)
Increase/(decrease) in accounts payable	166,971	(212,409)
Increase/(decrease) in income tax payable	82,430	(453,923)
Increase/(decrease) in estimated services and warranties	15,000	(160,000)
Increase/(decrease) in accrued expenses	115,704	(13,576)
CASH FLOW PROVIDED/(USED) IN OPERATING ACTIVITIES	\$ 2,859,056	\$ (703,899)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchases of equipment	(228,653)	(9,724)
Proceeds from sale of property, plant and equipment	2,000	4,095
Sales of short-term investments		2,900,000
CASH FLOW (USED) IN/PROVIDED BY INVESTING ACTIVITIES	\$ (226,653)	\$ 2,894,371
CASH FLOWS (USED) IN FINANCING ACTIVITIES:		
Repayment of long-term debt	(125,600)	(115,133)
Proceeds from revolving credit loans	16,036,287	11,125,000
Repayments of revolving credit loans	(17,729,487)	(10,575,000)
Purchases of common stock option		(879,419)
Purchases of treasury stock	(140,617)	(824,923)
Purchases of preferred stock		(1,756,818)

CASH FLOW (USED) IN FINANCING ACTIVITIES	\$ (1,959,417)	\$ (3,026,293)
NET INCREASE/(DECREASE) IN CASH	\$ 672,986	\$ (835,821)
CASH, Beginning	\$ 2,434,227	\$ 3,270,048
CASH, Ending	\$ 3,107,213	\$ 2,434,227

SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION:

Cash paid during the period for:

Interest	\$ 187,622	\$ 177,553
Taxes	\$ 106,008	\$ 568,723

SUPPLEMENTAL DISCLOSURE OF NON CASH INVESTING AND FINANCING ACTIVITIES:

Conversion of preferred stock for common stock-net	\$	\$ 215
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See notes to consolidated financial statements

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Deer Valley Corporation & Subsidiaries

Notes to Consolidated Financial Statements

For the Years Ended December 28, 2013 and December 31, 2012

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, -Deer Valley Financial Corp (DVFC) a Florida corporation and Deer Valley Home Repair Services, Inc. (DVHRS), 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. Inventory-secured loan financing is offered to qualified retail dealers and developers, through DVFC, a wholly owned subsidiary. 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 consolidated financial statements. The consolidated 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 consolidated 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. We believe our significant estimates include, allowance for loan losses, warranty liability, volume incentives payable, and reserve for repurchase commitments.

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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 three different financial institutions. The balances are insured by the Federal Deposit Insurance Corporation up to \$250,000. Bank deposit accounts at times, may exceed federally insured limits. The Company has not experienced any losses in such accounts.

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. At December 28, 2013 and December 31, 2012, reserves for uncollectible accounts are \$15,000.

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. The Company periodically evaluates the collectibility 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 \$201,960 and \$329,500 at December 28, 2013 and December 31, 2012, respectively. 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

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 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 fair value is lower, records 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,

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under the direct supervision of our management. For tangible property, plant and equipment, there have been no changes in assumptions or methodologies for the year ended December 28, 2013 as compared to December 31, 2012. The Company did not have definite-lived intangible assets at December 28, 2013 and December 31, 2012.

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.

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 financing 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.

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 years ending December 28, 2013 and December 31, 2012 were \$43,446 and \$62,947, respectively.

Concentration of Sales to Certain Customers - During 2013, the Company did not have sales to any one customer of greater than 10%. During 2012, the Company had sales to one customer of approximately 12%. 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

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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

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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 10 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.

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 income per share. Basic income per share is computed by dividing income attributable to common shareholders by the weighted average number of common shares outstanding. Diluted income per share is computed similarly to basic income 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.

	For the years ended	
	December 28, 2013	December 31, 2012
Income attributable to common shareholders	\$ 815,233	\$ 957,317
Weighted average shares outstanding:		
Basic	15,493,116	16,200,509
Diluted	15,493,116	16,200,509
Income per share:		
Basic	\$ 0.05	\$ 0.06
Diluted	\$ 0.05	\$ 0.06

The Company has no dilutive common stock equivalent shares at December 28, 2013 and December 31, 2012. The Company's outstanding warrants at December 31, 2012 of which all expired August 11, 2013 were anti-dilutive.

NOTE 3 - INVENTORY

Inventory consisted of the following components:

	December 28, 2013	December 31, 2012
Raw Materials	\$ 891,039	\$ 884,884
Work-in-Process	223,755	229,259
Finished Goods	195,824	433,580
Total Inventory	\$ 1,310,618	\$ 1,547,723

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Table of Contents**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:

	December 28, 2013	December 31, 2012
Inventory finance notes receivable	\$ 6,097,188	\$ 8,274,431
Allowance for loan loss	(201,960)	(329,500)
	\$ 5,895,228	\$ 7,944,931
Current portion of inventory finance notes receivable	(2,607,456)	(3,537,638)
Inventory finance notes receivable, net	\$ 3,287,772	\$ 4,407,293

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 \$(127,540) and \$128,560 for years ending December 28, 2013 and December 31, 2012, respectively. The following table represents changes in the estimated allowance for loan losses:

	December 28, 2013	December 31, 2012
Balance at beginning of period	\$ 329,500	\$ 200,940
(Benefit)/Provision for credit losses	(127,540)	128,560
Balance at end of period	\$ 201,960	\$ 329,500

NOTE 5 - PROPERTY, PLANT, AND EQUIPMENT

Property, Plant and Equipment consisted of the following:

Category	December 28, 2013	December 31, 2012
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Land and improvements	\$ 481,526	\$ 423,244
Buildings	1,978,088	1,978,088
Machinery and equipment	1,252,748	1,136,882
Furniture and fixtures	217,060	207,820
	3,929,422	3,746,034
Accumulated depreciation	(1,785,715)	(1,618,029)
Total Property, Plant, and Equipment	\$ 2,143,707	\$ 2,128,005

Depreciation expense totaled \$212,951, of which \$202,256 is included in cost of revenue and \$10,695 is included in operating expenses, and \$209,556, of which \$196,667 is included in cost of revenue and \$12,889 is included in operating expenses, for the years ended December 28, 2013 and December 31, 2012, respectively.

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Table of Contents**NOTE 6 - ACCRUED EXPENSES**

Accrued expenses consisted of the following:

Category	December 28, 2013	December 31, 2012
Accrued dealer incentive program	\$ 230,429	\$ 268,754
Accrued third party billings	542,079	477,832
Accrued compensation	339,743	239,225
Accrued insurance	65,197	90,943
Accrued interest	11,985	17,394
Accrued repurchase commitment	152,510	106,280
Other	172,067	197,878
Total Accrued Expenses	\$ 1,514,010	\$ 1,398,306

NOTE 7 - 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's 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 28, 2013 and December 28, 2012, the Company has provided a liability of \$1,185,000 and \$1,170,000, 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, 2013	December 31, 2012
Balance at beginning of period	\$ 1,170,000	\$ 1,330,000
Warranty charges	1,538,363	1,193,893
Warranty payments	(1,523,363)	(1,353,893)
Balance at end of period	\$ 1,185,000	\$ 1,170,000

NOTE 8 - REVOLVING CREDIT LOANS

Effective September 10, 2013, Deer Valley renewed its \$5,000,000 Revolving Credit Loan and Security Agreement with Fifth Third Bank, used for display model financing for dealers of the products produced by DVH (the Display Model LOC). The Display Model LOC has a two year term and has a variable interest rate at 4.00% above LIBOR or

4.16825% at December 28, 2013. As of December 28, 2013, the Company had an outstanding balance of \$750,000 under the revolving credit loan.

Effective September 10, 2013, Deer Valley renewed its Revolving Credit Loan and Security Agreement with Fifth Third Bank, used for short term working capital financing, letters of credit and as a bridge loan on financing the sale of retail units by DVH (the Working Capital LOC). The Working Capital LOC has a two year term and has a variable interest rate at 2.50% above LIBOR or 2.6824% at December 28, 2013. As of December 28, 2013, the Company had an outstanding balance of \$1,725,000 under the revolving credit loan.

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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 December 28, 2013, the Company had an outstanding balance of \$581,799 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 December 28, 2013, \$6,095,461 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 December 28, 2013, no amounts had been drawn on the above irrevocable letters of credit by the beneficiaries.

NOTE 9 - 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, DVH and the Lender entered into that certain Amendment to Loan Agreement effective June 1, 2011, pursuant to which, among matters, (a) DVH 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.

Long-term debt of the Company was as follows:

	December 28, 2013	December 31, 2012
Note payable to Fifth Third Bank, payable in monthly installments of \$10,467 plus interest at Libor plus 4.0%, maturing on June 1, 2016, secured by all assets of the Company.	\$ 942,000	\$ 1,067,600
Less: Current portion of long-term debt	(125,600)	(125,600)

Total long-term debt, net of current portion	\$ 816,400	\$ 942,000
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At December 28, 2013, principal repayment requirements on long-term debt were as follows:

For year ended December 31,	Amount
2014	125,600
2015	125,600
2016	565,200
Total repayments on long-term debt	\$ 816,400

NOTE 10 - DERIVATIVE LIABILITIES

As of 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 at December 31, 2012 was \$0. The Company's Class B Warrants expired on August 11, 2013.

The effects on our income associated with changes in the fair values of our derivative financial instruments for the year ended December 31, 2012 was \$34,486 (none in 2013).

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. 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. Significant assumptions (or ranges) used in valuing our outstanding warrants at December 31, 2012 are as follows:

Trading market values (1)	\$ 0.60
Term (years) (3)	0.61
Volatility (1)	44.80%
Risk-free rate (2)	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.

NOTE 11 - INCOME TAXES

The Company's 2013 consolidated effective tax rate was 39.33% as compared to (4.72%) in 2012. The large increase in the effective tax rate is due to the Company benefiting from the release of the valuation allowance in 2012, previously recorded against the deferred tax asset for goodwill amortization.

In prior years, the Company recorded and maintained a valuation allowance against the deferred tax asset resulting from the amortization of goodwill. Changes in the valuation allowance and the corresponding impact on the effective income tax rate resulted from Management's assessment of the Company's ability to utilize the

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tax deduction from goodwill amortization. The decrease in valuation allowance in 2012 was \$402,617. Based upon the Company's history of earnings and expected sufficient earnings in future periods, Management has determined that it is more likely than not that the Company will realize a tax benefit when the deferred tax asset attributable to goodwill reverses. Therefore, no valuation allowance has been recorded as of December 28, 2013 and December 31, 2012.

The Company and its subsidiaries file income tax returns for U.S. Federal and Alabama purposes. The Company is not currently under a tax examination, but the statute of limitations has not yet expired. The Company generally remains subject to examination of its U.S. federal income tax returns for 2010 and subsequent years as the IRS has a three year window to assess/collect taxes. In addition, the Company also remains subject to examination of its Alabama income tax returns for 2010 and subsequent years. However, if required income taxes are understated by more than 25%, the statute of limitations is extended to 6 years, potentially opening the years of 2007 through 2009 as well.

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

Income Taxes:

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

	2013	2012
Current income taxes	\$ 196,466	\$ 108,772
Deferred income taxes	332,080	(146,728)
(Benefit)/Provision for income taxes	\$ 528,546	\$ (37,956)

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

	2013		2012	
	Amount	Impact on Rate	Amount	Impact on Rate
Income tax at federal rate	\$ 456,885	34.00%	\$ 272,394	34.00%
State tax, net of Federal effect	56,788	4.23%	33,857	4.23%
Permanent Differences:				
Meals & Entertainment	20,792	1.55%	19,207	2.40%
Officers Life Insurance	1,337	0.10%	1,337	0.17%
Derivative expense		0.00%	(13,175)	-1.64%
Charitable Contribution C/F	(646)	-0.05%		0.00%
Domestic Production Activities Deduction	(25,954)	-1.94%		0.00%
Total Permanent Differences	(4,471)	-0.34%	7,369	0.93%
Deferred Tax Valuation Allowance		0.00%	(402,617)	-50.25%
True Up to Tax Return - Deferred Assets		0.00%	51,041	6.37%
NOL Deduction	(27,192)	-2.02%		0.00%
Total Tax Credits	(20,068)	-1.49%		0.00%
Prior Period over/under accrual	66,612	4.95%		0.00%
Rounding	(8)	0.00%		0.00%
Total (Benefit) Provision	\$ 528,546	39.33%	\$ (37,956)	-4.72%

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:

	2013	2012
Current Deferred Tax Assets:		
Warranty Reserve	\$ 452,978	\$ 447,243
Repurchase Reserve	58,298	40,627
Allowance for Loan Losses	77,201	125,955
Allowance for Doubtful Accounts	5,734	5,734
Inventory Reserve	5,531	5,708
Accrued Legal Fees	3,823	3,823
Total Current Deferred Tax Asset	603,565	629,090
Non-Current Deferred Tax Assets:		
Goodwill Impairment	1,706,420	1,950,130
Valuation Allowance		
Total Non-Current Deferred Tax Assets	1,706,420	1,950,130
Current Deferred Tax Liabilities:		
Prepaid insurance	(35,872)	
Total Current Deferred Tax Liabilities	(35,872)	
Non-Current Deferred Tax Liability:		
Accelerated Depreciation	(93,709)	(65,799)
Sale of Assets	8,468	7,530
Total Non-Current Deferred Tax Liability	(85,241)	(58,269)
Total Deferred Tax Assets (Net)	\$ 2,188,872	\$ 2,520,951

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NOTE 12 - 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.

Accrued 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 \$2,915,000 at December 28, 2013. As of December 28, 2013 the Company accrued \$152,510 for future repurchase losses (included in accrued expenses) 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 13 - EQUITY TRANSACTIONS

Preferred Stock - During the year ended December 31, 2012 certain of the Company's shareholders converted 21,500 shares of Series A Preferred stock, stated value \$215, into 286,667 shares of the Company's common stock. The conversion represented all of the outstanding shares of the Company's Series A Preferred stock.

Series A Preferred Stock - Our Series A Convertible Preferred Stock had the following rights, preferences, privileges, and restrictions:

Rank - Our Series A Convertible Preferred Stock ranks senior to our Common Stock, Series C Convertible Preferred Stock, and Series E Convertible Preferred Stock.

Stated Value - \$10.00 per shares of Series A Convertible Preferred Stock.

Conversion - Each share of Series A Convertible Preferred Stock, at its stated value of \$10 per share, together with any accrued and unpaid dividends, is convertible at the option of the holder at any time into Common Stock at a price of Seventy Five Cents (\$.75) per share of Common Stock.

Dividends - A holder of Series A Convertible Preferred Stock is entitled to receive a dividend at a rate per annum equal to seven percent (7%), payable semi-annually, at the option of the Company, (i) in cash, to the extent funds are legally available therefor, or (ii) in shares of registered Common Stock at a ten percent (10%) discount to the *Market Price* (as such term is defined in the designations for the Series A Convertible Preferred Stock). The Series A Convertible Preferred Stock ceases to accrue the seven percent (7%) fixed dividend on the earliest of (a) the payment of the liquidation preference on each share of Series A Convertible Preferred Stock upon the liquidation, dissolution or winding-up of the Corporation, (b) the conversion of the Series A Preferred Stock in common stock, or (c) two (2) years from the date of issuance

of the share of Series A Convertible Preferred Stock. After two (2) years from the date of issuance of a share of Series A Convertible Preferred Stock, the holders of Series A Convertible Preferred Stock participate ratably, on an as-converted basis, with our common stock as to the payment of dividends.

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Liquidation Rights - In the event of any liquidation, dissolution or winding up of the Company, either voluntary or involuntary, our Series A preferred shareholders are entitled to receive an amount per share equal to the greater of \$10 for each outstanding share plus accrued and unpaid dividends, as adjusted for stock dividends, stock distributions, splits, combinations or recapitalizations, or the amount such shareholders would be entitled to receive had they converted their Series A preferred shares into common shares. These rights are prior and in preference to any distribution of any of our assets to our common shareholders, holders of Series C Preferred Stock, or Series E Preferred Stock.

Voting Rights - The holders of Series A Preferred stock have the right to vote on an as-converted basis, with our common shareholders on all matters submitted to a vote of our shareholders.

Treasury Stock - Pursuant to a Common Stock Repurchase Program approved by our Board of Directors, a total of 223,214 and 1,507,069 shares were purchased during the years ended December 28, 2013 and December 31, 2012 at a cost of \$140,618 and \$824,923 and recorded as treasury stock. Shares purchased during the year ended December 31, 2012 are inclusive of the shares purchased pursuant to the common stock redemption agreement described below.

Stock Redemption Agreement - During the year ended December 31, 2012 the Company entered into: (i) a Common Stock Redemption Agreement wherein the Company purchased 1,096,291 shares of common stock; (ii) a Securities Redemption and Purchase Agreement wherein (a) the Company purchased 22,463 shares of Series C Preferred and 1,000,000 shares of Series E Preferred, representing 100% of the issued and outstanding shares of each class and convertible to 3,246,300 shares of common stock and (b) the Company purchased an option to purchase Vicis Capital Master Fund s remaining 12,310,359 shares of common stock (the Option). The aggregate purchase price of the stock redemption agreement was \$3,200,000 and was allocated to the financial instruments acquired on the basis of relative fair value.

The above referenced option is a freestanding forward contract with a call option (right to buy) element that provides for the Company s right and option, but not its responsibility, to purchase 12,310,359 shares, and no fewer shares, of its common stock until the Option expiration on June 1, 2013. The option provides for graduated exercise prices over the term to expiration: \$5,300,000 through June 1, 2012; thereafter, \$6,300,000 through August 1, 2012; thereafter, \$6,800,000 through December 1, 2012; and thereafter \$7,300,000 through the expiration date on June 1, 2013.

Accounting for redemptions of preferred stock is provided in ASC S99-2 and states that if a registrant redeems its preferred stock, the difference between (1) the fair value of the consideration transferred to the holders of the preferred stock and (2) the carrying amount of the preferred stock in the Company s balance sheet should be reflected in a manner similar to a dividend on preferred stock and subtracted from net income to arrive at income attributable to common shareholders in the calculation of earnings per share. A credit of \$118,182 resulted from the calculation under this method and has been added to net income to arrive at income attributable to common shareholders for the year ended December 31, 2012.

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The following is a summary of the Company's unaudited quarterly results of operations for the periods ended December 28, 2013 and December 31, 2012.

	For the three month periods ended	
	December 28, 2013	December 31, 2012
	(unaudited)	(unaudited)
REVENUE	\$ 8,974,216	\$ 6,819,321
COST OF REVENUE	7,099,767	5,357,046
GROSS PROFIT	1,874,449	1,462,275
OPERATING EXPENSES:		
Depreciation	2,709	3,182
Selling, general and administrative	1,110,136	996,072
TOTAL OPERATING EXPENSES	1,112,845	999,254
OPERATING INCOME	761,604	463,021
OTHER INCOME (EXPENSES)		
Derivative income/(expense)		1,200
Interest income	121	188
Interest expense	(10,342)	(11,707)
TOTAL OTHER (EXPENSE)	(10,221)	(10,319)
INCOME BEFORE INCOME TAXES	751,383	452,702
INCOME TAX BENEFIT/(EXPENSE)	(327,762)	174,683
NET INCOME	\$ 423,621	\$ 627,385
Net Income Per Share (Basic)	\$ 0.03	\$ 0.04
Net Income Per Share (Fully Diluted)	\$ 0.03	\$ 0.04
Weighted Average Common Shares		
Outstanding	15,493,116	16,200,509
Weighted Average Common and Common		
Equivalent Shares Outstanding	15,493,116	16,200,509

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Our business segments consist of factory-built housing and financial services. Our chief decision making officer considers income from operations as the basis to measure segment profitability. The following table summarizes net sales, income from operations, and identifiable assets by segment for the years ended December 28, 2013 and December 31, 2012.

	December 28, 2013	December 31, 2012
Revenues from external customers		
Factory-built housing	\$ 28,252,606	\$ 25,616,574
Financial Services	685,110	604,082
Total Revenues	\$ 28,937,716	\$ 26,220,656
Income from operations		
Factory-built housing	\$ 1,497,515	\$ 1,209,987
Financial services	456,717	191,897
General corporate expenses	(569,936)	(586,895)
Total Income from operations	\$ 1,384,296	\$ 814,989
Identifiable assets by segment		
Factory-built housing	\$ 10,125,643	\$ 9,579,386
Financial Services	6,763,645	8,102,910
Other	124,185	95,257
	\$ 17,013,473	\$ 17,777,553

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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 28, 2013. Based upon such evaluation, 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.

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 the management's 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.

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.

Table of Contents*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, including:

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.

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 28, 2013, 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****Directors and Executive Officers**

As of March 1, 2014, 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	74	President and Chief Executive Officer of Deer Valley	January 18, 2006 to Present

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		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	45	President and General Manager of DVH	September 22, 2006 to Present
		Chief Operating Officer and Vice President of Deer Valley Corporation	July 1, 2012 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

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Charles L. Murphree, Jr.	52	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	45	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	56	Class III Director of Deer Valley Corporation	July 27, 2006 to Present (term expires at next meeting of shareholders)

Experience

Charles G. Masters, Chief Executive Officer, President and Director of Deer Valley Corporation. In March 1998, Mr. Masters founded and served as CEO and CFO of Bumgarner Enterprises, Inc., an oil and gas exploration, development and a business consulting firm. From 2001 to present, Mr. Masters has also served as Director, CEO and CFO of Ranger Industries, Inc. Mr. Masters has founded and served as the CEO and CFO of several private companies involved in the development and production of military electronic communications and test equipment, pioneering the introduction of microprocessors into point of sale equipment, medical equipment, artificial intelligence

devices, and 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, Chief Operating Officer and Director of Deer Valley Corporation and President and Director 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, and President of Deer Valley Homebuilders, Inc. In 1996, Mr. Logan led the group which founded a HUD Code housing company, Pinnacle Homes of Alabama. Mr. Logan 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 General Manager 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.

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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. Mr. Giordano serves 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.

Significant Employees

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

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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
None				

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Table of Contents**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.

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 registrant'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 28, 2013 with respect to services rendered by such persons.

SUMMARY COMPENSATION TABLE

Name and Principal Position	Year	Salary	Bonus	Stock Awards	Option Awards	Non-Equity	Non-qualified	All	Total
						Incentive	deferred	Other	
						Compensation	earnings	compensation	
Charles G. Masters ⁽¹⁾	2013	\$ 150,000						\$ 10,000 ⁽⁸⁾	\$ 160,000
	2012	\$ 150,000						\$ 10,000 ⁽⁸⁾	\$ 160,000
Joel Stephen Logan, II	2013	\$ 91,000						\$ 10,000 ⁽⁸⁾	\$ 101,000

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	2012	\$ 84,250	\$ 36,954 ⁽²⁾	\$ 10,000 ⁽⁸⁾	\$ 131,454
Charles L. Murphree, Jr.	2013	\$ 85,150	\$ 126,249 ⁽³⁾	\$ 20,481 ⁽⁷⁾	\$ 231,880
	2012	\$ 78,000	\$ 92,113 ⁽⁴⁾	\$ 19,637 ⁽⁷⁾	\$ 186,183
John Steven Lawler	2013	\$ 85,150	\$ 91,789 ⁽⁵⁾	\$ 10,000 ⁽⁸⁾	\$ 186,939
	2012	\$ 78,000	\$ 71,612 ⁽⁶⁾	\$ 10,000 ⁽⁸⁾	\$ 159,612

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- (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 2013 and 2012.
- (2) Non-equity incentive plan compensation consisted of hitch bonuses and profit-sharing arrangements described in Employment Agreements with Named Executive Officers below. In 2012, Mr. Logan was paid \$27,240 as a hitch bonus, which includes \$3,180 accrued but unpaid in 2011, and \$78,105 in profit-sharing, which includes \$65,211 accrued but unpaid in 2011.
- (3) 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 2013, including a hitch bonus of \$3,180 and profit-sharing of \$45,600 accrued but unpaid in 2013. In 2013, Mr. Murphree was paid \$44,580 as a hitch bonus, which includes \$2,520 accrued but unpaid in 2012, and \$66,895 in profit-sharing, which includes \$31,736 accrued but unpaid in 2012.
- (4) 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 2012, including a hitch bonus of \$2,520 and profit-sharing of \$31,736 accrued but unpaid in 2012. In 2012, Mr. Murphree was paid \$36,879 as a hitch bonus, which includes \$3,700 accrued but unpaid in 2011, and \$56,001 in profit-sharing, which includes \$31,323 accrued but unpaid in 2011.
- (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 2013, including a hitch bonus of \$2,650 and profit-sharing of \$30,400 accrued but unpaid in 2013. In 2013, Mr. Lawler was paid \$37,150 as a hitch bonus, which includes \$2,100 accrued but unpaid in 2012, and \$44,743 in profit-sharing, which includes \$21,304 accrued but unpaid in 2012.
- (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 2012, including a hitch bonus of \$2,100 and profit-sharing of \$21,304 accrued but unpaid in 2012. In 2012, Mr. Lawler was paid \$32,290 as a hitch bonus, which includes \$1,855 accrued but unpaid in 2011, and \$46,077 in profit-sharing, which includes \$28,304 accrued but unpaid in 2011.
- (7) Amount relates to health insurance premiums and director fees in the respective fiscal year.
- (8) Amount relates to director fees in the respective fiscal year.

Employment Agreements with Named Executive Officers

Effective July 1, 2012, DVH entered into the First Amended and Restated 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 \$91,000, (b) an annual discretionary compensation bonus as determined by the Board of Directors in its sole discretion, and (c) entitled to receive health benefits and coverage, as provided by DVH. The term of Mr. Logan's Employment Agreement expires on January 18, 2016. Mr. Logan is subject to a non-compete that expires on the earlier of twenty-four months after termination of employment or the end of the term.

Effective July 1, 2012, DVH entered into the First Amended and Restated 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 \$78,000 through June 4, 2013 and \$91,000 for the remainder of the term, (b) entitled to receive a monthly hitch bonus of \$60.00 per floor produced by DVH, (c) is eligible to participate and

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receive 4.5% of the net income before taxes of DVH, and (d) entitled to receive health benefits and coverage, as provided by DVH. The term of Mr. Murphree's Employment Agreement expires on January 18, 2016. Mr. Murphree is subject to a non-compete that expires on the earlier of twenty-four months after termination of employment or the end of the term.

Effective July 1, 2012, DVH entered into the First Amended and Restated 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 \$78,000 through June 4, 2013 and \$91,000 for the remainder of the term, (b) entitled to receive a monthly hitch bonus of \$50.00 per floor produced by DVH, (c) is eligible to participate and receive 3.0% of the net income before taxes of DVH, and (d) entitled to receive health benefits and coverage, as provided by DVH. The term of Mr. Lawler's Employment Agreement expires on January 18, 2016. Mr. Lawler is subject to a non-compete that expires on the earlier of twenty-four months after termination of employment or the end of the term.

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 the remaining term of such agreements (or twenty-four months, if the remaining term is greater than twenty-four months).

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 28, 2013 with respect to services rendered by such persons.

OUTSTANDING EQUITY AWARDS AT FISCAL YEAR-END

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

Table of Contents**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 28, 2013 with respect to services rendered by such persons.

DIRECTOR COMPENSATION

Name	Year	Fees Earned or Paid in Cash	Stock Awards	Option Awards	Non-Equity Incentive Plan Compensation	Change in Pension Value and Non-Equity Deferred Compensation	All Other Compensation	Total
John N. Giordano	2013	\$ 10,000						\$ 10,000
	2012	\$ 10,000						\$ 10,000
Shadron Stasney	2013	\$ 10,000						\$ 10,000
	2012	\$ 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, 2014 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

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	Name and Address of Beneficial Owner ⁽¹⁾	Amount and Nature of Beneficial Ownership	Percent of Class ⁽²⁾
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 ⁽³⁾	50,588 Direct/ Indirect ⁽³⁾	*
Common Stock	Joel Stephen Logan, II, Member of the Board of Directors of Deer Valley Corporation and of DVH, President of DVH	216,328 Direct Ownership	1.4%
Common Stock	Charles L. Murphree, Jr., Member of the Board of Directors of Deer Valley Corporation and of DVH, Executive Vice President and General Manager of DVH	144,353 Direct Ownership	*
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	*

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Title of Class	Name and Address of Beneficial Owner ⁽¹⁾	Amount and Nature of Beneficial Ownership	Percent of Class ⁽²⁾
Common Stock	John N. Giordano	0 ⁽⁴⁾	
	Member of the Board of Directors of Deer Valley Corporation ⁽⁴⁾		0%
Common Stock	Vicis Capital Master Fund ⁽⁶⁾	12,310,359	
		Direct Ownership ^{(5) (6)}	79.8%
Common Stock	All executive officers and directors as a group (5 persons)	483,447	3.1%

* Less than 1%.

(1) Unless otherwise indicated, the mailing address of the shareholder is 205 Carriage St., Guin, Alabama 35563.

(2) Applicable percentage of ownership is based on 15,433,423, shares of common stock (excluding 2,352,761 shares of treasury common stock) being issued and outstanding. 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.

(3) Consists of (a) 14,498 common shares directly owned by Charles G. Masters, (b) 36,090 common shares owned by Charles Masters spouse. 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 3030 N. Rocky Point Drive W, Suite 150, Tampa, FL 33607.

(4) The address for Mr. Giordano is 1801 N. Highland Ave., Tampa, Florida 33602.

(5) 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 Master Fund 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.

(6) On March 30, 2012 the Company entered into (i) a common stock redemption agreement wherein the Company purchased 1,096,291 shares of common stock; (ii) a securities redemption and purchase agreement wherein (a) the Company purchased 22,463 shares of Series C Preferred and 1,000,000 shares of Series E Preferred, representing 100% of the issued and outstanding shares of each class and convertible to 3,246,300 shares of common stock and (b) the Company purchased an option to purchase from Vicis Capital Master Fund s remaining

12,310,359 shares of common stock (the Option). The aggregate

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purchase price of the stock redemption agreement was \$3,200,000 and was allocated to the financial instruments acquired on the basis of relative fair value. The above referenced option expired on June 1, 2013.

Change in Control and Acquisition

None

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.

On March 30, 2012 the Company entered into (i) a common stock redemption agreement wherein the Company purchased 1,096,291 shares of common stock; (ii) a securities redemption and purchase agreement wherein (a) the Company purchased 22,463 shares of Series C Preferred and 1,000,000 shares of Series E Preferred, representing 100% of the issued and outstanding shares of each class and convertible to 3,246,300 shares of common stock and (b) the Company purchased an option to purchase from Vicis Capital Master Fund s remaining 12,310,359 shares of common stock (the Option). The aggregate purchase price of the stock redemption agreement was \$3,200,000 and was allocated to the financial instruments acquired on the basis of relative fair value.

The above referenced option expired on June 1, 2013.

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 \$75,000 for legal services during the fiscal year ending December 28, 2013.

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.

Table of Contents**Audit Fees Disclosure**

The aggregate following table presents fees for professional services rendered by Thomas Howell Ferguson P.A. (THF) and Meeks International, LLC (Meeks) for the audit of our annual financial statements for 2013 and 2012 and fees billed for audit-related services, tax services and all other services rendered by THF and Meeks for 2013 and 2012.

	THF 2013	THF 2012	Meeks 2012
Audit fees (a)	\$ 137,256	\$ 39,061	\$ 144,284
Tax fees	\$ 25,600	\$ 4,890	\$ 21,706
All other fees	\$ 3,729	\$	\$ 6,515

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

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 C Convertible Preferred Stock (1)
4.03	Certificate of Designation, Rights, and Preferences of Series E Convertible Preferred Stock (2)
10.01	Form of Series B Common Stock Purchase Warrant (3)
10.02	Form of Loan Agreement (4)
10.03	Form of Commercial Promissory Note (4)
10.04	Form of Mortgage, Assignment of Leases and Rents, Security Agreement and Fixture Filing (4)
10.05	Form of Guaranty of Loan, Cytation Corp. (4)
10.06	Form of Guaranty of Loan, DeerValley Acquisitions Corp. (4)
10.07	Form of Guaranty of Deer Valley Corporation (5)
10.08	Form of Guaranty of Deer Valley Corporation (5)
10.09	Deer Valley Corporation 2007 Long Term Incentive Plan effective July 1, 2007 (6)
10.10	Form of Stock Option Agreement (6)
10.11	Employment Agreement with Charles G. Masters (6)
10.12	Revolving Credit Loan and Security Agreement - \$7,500,000 Revolving Credit Loan (7)
10.13	Revolving Credit Note - \$7,500,000 (7)
10.14	Revolving Credit Loan and Security Agreement - \$5,000,000 Revolving Credit Loan (7)
10.15	Revolving Credit Note - \$5,000,000 (7)
10.16	Amendment to Loan Agreement - Real Estate Loan (8)
10.17	Amendment to Loan Agreement - \$7,500,000 Revolving Credit Loan (8)
10.18	Amendment to Loan Agreement - \$5,000,000 Revolving Credit Loan (8)
10.19	Amendment to Loan Agreement - Real Estate Loan (9)
10.20	Renewal Commercial Promissory Note - \$1,256,000(9)
10.21	Guaranty of Loan Agreement - Deer Valley Corporation (9)
10.22	Guaranty of Loan Agreement - Deer Valley Finance Corporation (9)
10.23	Second Amendment to Revolving Credit Loan and Security Agreement - \$5,000,000 (10)
10.24	Revolving Credit Note - \$5,000,000 (10)

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10.25	Second Amendment to Revolving Credit Loan and Security Agreement - \$3,000,000 (10)
10.26	Revolving Credit Note - \$3,000,000 (10)
10.27	Third Amendment to Revolving Credit Agreement - \$5,000,000 (11)
10.28	Third Amendment to Revolving Credit Agreement - \$3,000,000(11)
10.29	Fourth Amendment to Loan Agreement - Real Estate Loan (11)
10.30	First Amended and Restated Agreement - Joel Stephen Logan, II (12)
10.31	First Amended and Restated Agreement - Charles L. Murphree, Jr. (12)
10.32	First Amended and Restated Agreement - John Steven Lawler (12)
10.33	Revolving Credit Loan and Security Agreement - \$2,500,000 (13)
10.34	Revolving Credit Note - \$2,500,000 (13)
21.01	List of Subsidiaries of the Company. (14)
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 20, 2014. (14)
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 20, 2014. (14)
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 20, 2014. (14)
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 20, 2014. (14)
101.INS	XBRL Instance Document (14)
101.SCH	XBRL Taxonomy Extension Scheme Document (14)
101.CAL	XBRL Taxonomy Extension Calculation Linkbase Document (14)

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101.DEF	XBRL Taxonomy Extension Definition Linkbase Document (14)
101.LAB	XBRL Taxonomy Extension Label Linkbase Document (14)
101.PRE	XBRL Taxonomy Extension Presentation Linkbase Document (14)

- (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 Form 8-K filed with the SEC on June 1, 2006 and incorporated herein by reference.
- (5) Previously filed as an exhibit to the Form 10-KSB, filed with the SEC on April 11, 2007 and incorporated herein by reference.
- (6) Previously filed as an exhibit to the Form 10-QSB, filed with the SEC on November 6, 2007 and incorporated herein by reference.
- (7) Previously filed as an exhibit to the Form 8-K filed with the SEC on October 19, 2009 and incorporated herein by reference.
- (8) Previously filed as an exhibit to the Form 8-K, filed with the SEC on April 8, 2010 and incorporated herein by reference.
- (9) Previously filed as an exhibit to the Form 8-K, filed with the SEC on July 12, 2011 and incorporated herein by reference.
- (10) Previously filed as an exhibit to the Form 8-K, filed with the SEC on October 25, 2011 and incorporated herein by reference.
- (11) Previously filed as an exhibit to the Form 8-K, filed with the SEC on April 25, 2012 and incorporated herein by reference.
- (12) Previously filed as an exhibit to the Form 8-K, filed with the SEC on June 28, 2012 and incorporated herein by reference.
- (13) Previously filed as an exhibit to the Form 8-K, filed with the SEC on April 19, 2013 and incorporated herein by reference.
- (14) Filed herewith.

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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 20, 2014

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 20, 2014.

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	Chief Operating Officer and Director
<i>/s/ Charles L Murphree</i> Charles L. Murphree	Director
<i>/s/ John N Giordano</i> John N. Giordano	Director