

DEER VALLEY CORP
Form 424B3
March 20, 2009
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Filed pursuant to Rule 424(b)(3)
Registration No. 333-133377

PROSPECTUS SUPPLEMENT NO. 15

to prospectus dated July 26, 2006

DEER VALLEY CORPORATION

Up to 43,556,851 Shares

Common Stock

This prospectus supplement supplements information contained in the prospectus dated July 26, 2006 relating to the offer and sale by the selling shareholders identified in the prospectus of up to 43,556,851 shares of our common stock. This prospectus supplement includes our attached Annual Report on Form 10-K, which was filed with the U.S. Securities and Exchange Commission on March 16, 2009.

The information contained in such report is dated as of the date of such report. This prospectus supplement should be read in conjunction with the prospectus dated July 26, 2006, which is to be delivered with this prospectus supplement. This prospectus supplement is qualified by reference to the prospectus except to the extent that the information in this prospectus supplement updates and supersedes the information contained in the prospectus dated July 26, 2006, including any supplements or amendments thereto.

Investing in the shares involves risks and uncertainties. See Risk Factors beginning on page 10 of the prospectus dated July 26, 2006 and the risk factors included in our Annual Report on Form 10-KSB for the year ended December 30, 2006.

Neither the Securities and Exchange Commission nor any state securities commission has approved or disapproved of these securities or determined if this prospectus is truthful or complete. Any representation to the contrary is a criminal offense.

The date of this prospectus supplement is March 20, 2009.

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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 31, 2008

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

For the transition period from to

Commission file number: 000-05388

DEER VALLEY CORPORATION

(Exact name of Registrant as specified in its charter)

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Florida
(State of Incorporation)

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

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

33607
(Zip code)

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

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

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

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

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

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

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

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

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

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

The issuer's revenues for its most recent fiscal year were \$61,324,359. The aggregate market value of the voting and non-voting common equity held by non-affiliates as of March 11, 2009 was \$6,350,592¹. The number of shares outstanding of the Registrant's common stock as of March 11, 2009 was 12,616,183.

¹ Market value based upon sales occurring on January 29, 2009. Calculation does not account for common shares issuable upon conversion of convertible preferred stock.

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DEER VALLEY CORPORATION

2008 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 variations on these words or comparable terminology.

ITEM 1. DESCRIPTION OF BUSINESS

Unless otherwise indicated or the context otherwise requires, all references below in this filing to we, us, the Company, and Deer Valley are to Deer Valley Corporation, a Florida corporation, together with its wholly-owned subsidiary, Deer Valley Homebuilders, Inc. (DVH), an Alabama corporation formed in January 2004 and the Company s primary operating entity.

Business Development

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.

Contemporaneous with the completion of the Series A Preferred Offering and Share Exchange, 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 subsidiary Deer Valley Homebuilders, Inc. (DVH), designs and manufactures factory-built homes which are sold to a network of independent dealers, builders, developers and government agencies located primarily in the southeastern and south central regions of the United States. The Company does not maintain separate operating segments for these regions and does not separately report financial information by geographic sales area. Its principal manufacturing plant is located in Guin, Alabama, and the Company owns a separate idled manufacturing plant in Sulligent, Alabama.

In recent years, the HUD Code housing industry has suffered a downturn in sales as a result of a tightening of credit standards, restricted availability of retail and wholesale financing, excessive inventory levels and zoning restrictions in certain urban and coastal areas. This industry decline began in 1999, approximately five years before we successfully launched and began to rapidly grow our business in January, 2004. In spite of industry conditions the Company has excelled through efficient manufacturing at our production facilities, industry leading products, experienced and capable relations oriented sales and management teams, stringent cost controls, and attention to dealer support, customer satisfaction, and service efforts.

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The Company's executives are continuing to focus on four matters relating to the industry-wide slowdown. First, management is addressing the well-publicized slowdown in the housing industry by adjusting capacity with market demand. The Company will continue to monitor demand and may take additional steps to adjust capacity based on our views of and direction of the industry. Second, in recognition of an important trend in the housing market toward modular homes and as part of the Company's strategic plan, management will continue to increase the Company's involvement in the modular segment of the factory-built housing industry. The Company believes that establishing these alternative distribution channels will add stability and position the company for growth when market conditions improve. The Company has targeted the production of smaller units (less than 3,000 square feet) that are readily producible, in a cost efficient manner, using the Company's existing manufacturing capabilities. The Company sells these models to large tract developers, government agencies and individuals through independent dealers. Third, management is addressing the reduced availability of floor plan financing by facilitating dealer operations with alternative inventory financing for dealers that purchase our products. Fourth, the Company continues to focus on operating activities to improve manufacturing efficiencies, reduce overall costs and increase gross margins.

Beginning in the second quarter of calendar year 2007, state and federal agencies, and other government sponsored entities, began distributing Requests for Proposals (RFPs) for housing designed to test and evaluate future disaster recovery housing units for the Gulf Coast region. The Company has aggressively taken advantage of its Alabama location and reputation in the Gulf Coast area to become a significant participant in the permanent rebuilding of the Gulf Coast region and the production of prototypes for future disaster recovery housing units. As an immediate result of its efforts, in June 2007 the Company's plant in Guin, Alabama was selected by the State of Mississippi to produce two-bedroom and three-bedroom cottages as part of a program, the Mississippi Alternative Pilot Program, that was designed to test and evaluate future disaster housing units. The Company was awarded two contract extensions on the initial contract by the State of Mississippi prior to the end of 2007 and a third extension in the second quarter of 2008. The initial contract combined with these extensions resulted in a total of approximately \$23,400,000 in revenue from the State of Mississippi contract of which \$13,300,000 and 10,100,000 were recognized during 2008 and 2007, respectively. The Company cannot predict whether the State of Mississippi will provide any additional extensions of the initial contract beyond those that the Company has already received.

In April 2008, the Company was awarded a \$16.1 million contract to build more than 120 twin-town home units for first phase of a multi-phase 264-acre master-planned residential rental community called Savanna Trials in Ocean Springs, Mississippi by M&C Development LLC. Construction and delivery of the first homes in Phase I of the development began in the second quarter of 2008, and the Company received \$2.4 million in revenue during the year ended December 31, 2008 based on initial deliveries on the contract. Due to delays in the project the completion date has been extended until mid 2009 or later. The Company is unable to predict when project delays will be resolved or whether it will be awarded additional contracts for other development phases of the community.

On September 22, 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 order to address the continuing constriction of the retail housing market in the third quarter of 2008. The consolidation with the Guin, Alabama plant was contemporaneous with certain staff reductions necessary to align the Company's production capacity with estimated sales levels for the next several quarters. As the Sulligent, Alabama plant does not represent a separate operating segment of the Company and no plans exist to dispose of the plant, the Company has not separately accounted for the Sulligent Plant as a discontinued operation in its financial statements.

In late 2008, the Company received advisories from national financial service companies which provide floor plan financing for the majority of the Company's independent retail dealers of HUD-Code homes. Because of the worldwide volatility and disruption in the capital markets, these traditional lenders are suspending or modifying their retail dealer financing programs in an effort to reduce their asset based portfolios. The Company is aggressively working to assist our dealers in their efforts to rapidly establish alternative sources of financing. The Company has received information that indicates one or more new sources of inventory financing could be available by mid 2009. The Company anticipates it will participate in one or more programs for new sources of inventory financing. In the event that a significant number of dealers were to be unable to secure alternative sources of financing, and if the availability from traditional sources does not rapidly improve, then such developments could have a materially adverse effect on our future operating results.

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Manufacturing Operations

Prior to idling the Sulligent, Alabama plant, we produced all of our factory-built homes at two manufacturing facilities in Guin and Sulligent, Alabama. Since the Sulligent, Alabama plant was idled in September 2008, we produce all of our factory built homes at our plant in Guin, Alabama, which is functioning on a ten-hour shift, four-day work week. During the fourth quarter of 2008, the Company's average production rate was approximately 6 floors produced per day.

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

While our HUD Code and modular homes are constructed with many of the same components and building materials used in site-built homes, we utilize a cost-efficient assembly line manufacturing process which enables us to produce a quality home at a significantly lower cost per square foot than a traditional, site-built home. Our homes are built with residential features, including 1/2 inch drywall, thermally sealed double-paned windows from Capitol, enhanced insulation, oak cabinets, cultured marble vanities, and two inch by six inch exterior wall construction standards.

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

Backlog of Orders and Sales Policies

Substantially all production of our factory-built homes is initiated against specific orders. As of December 31, 2008, our total backlog of orders stood at 1.5 weeks based on our average production rate of 6 floors per day. Dealer orders are subject to cancellation prior to commencement of production, and we do not consider our backlog to be firm orders. Because we operate in an industry where order lead times are extremely short, we do not view backlog at any point in time to be indicative of the level of our future revenues.

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

Products

We currently manufacture and sell both single-section and multi-section models, with the substantial majority of our products being HUD Code homes. Eighty-two percent of the HUD Code homes we produced in 2008 consisted of multi-section units (excluding the cottages for the State of Mississippi). We offer over 45 different floor plans, ranging in size from approximately 840 to 2,580 square feet. Many of our homes are customized to homebuyers' specifications. Many features associated with site-built homes are included in factory-built homes, such as central heating, name-brand appliances, carpeting, cabinets, walk-in closets, wall coverings, and porches. Also, many of our independent dealers offer optional features including central air conditioning.

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carports, garages, and furniture packages. We believe that our willingness to offer factory trim-out services and customize floor plans and design features to match homebuyers' preferences is a principal factor which differentiates us from our competitors.

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

The Company continued to expand its product offerings with a new modular home line. The homes are currently offered in five states: Alabama, Mississippi, Louisiana, Arkansas and Tennessee. These modular homes include front load porch designs to accommodate the narrow lot lines typical in coastal areas. Our modular homes are constructed to withstand a 110 mile per hour wind load. In addition, we offer an optional 140 mile per hour wind load feature on our modular homes. The Company is seeking to expand into other states with new designs to fulfill the growing 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. Such variance in standards is not conducive to standardized factory construction of a quality home. Accordingly, we build our modular homes to the standards of the International Residential Code (IRC), which is generally more stringent than local building codes. The IRC has been adopted wholesale by several states and by selected localities in many others.

Our two and three-bedroom cottages which we contracted to manufacture for the State of Mississippi are designed and manufactured to meet the requirements of both the HUD Code and the International Residential Code. As a result, such cottages can either remain on an integrated steel frame and axle or be joined to a permanent foundation.

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

Deer Valley has traditionally focused on designing factory-built homes with features comparable to site-built homes. In addition to offering the consumer options specified in the preceding paragraph, Deer Valley generally offers extensive customization of floor plan designs and exterior elevations to meet specific customer preferences. The following table sets forth certain sales information for 2008 and 2007:

Floor Shipments	2008	2007
HUD-Code	1474	1801
Modular	159	44
MEMA Cottages	275	200
Total	1908	2045

Independent Dealer Network, Sales and Marketing

As of the date of this filing, we had approximately 70 participating independent dealers marketing our factory-built homes at around 95 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

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interest in, any of our independent dealers. We are not dependent on any single dealer, and in 2008, our largest dealer location accounted for approximately 5% of our sales including the State of Mississippi, and 6.5% excluding the State of Mississippi. The contracts with the State of Mississippi accounted for 21.3% of our sales.

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

During the fiscal year ended December 31, 2008, we estimate that the percentage of our revenues (excluding MEMA) by region was as follows:

Regions	Primary States	Percentage of Revenue by Region
East South Central	Alabama, Kentucky, Mississippi, Tennessee	45%
West South Central	Arkansas, Louisiana, Oklahoma, Texas	47%
South Atlantic	Florida, Georgia, West Virginia	1.5%
North Central	Illinois, Indiana, Missouri	6.5%

Our sales staff maintains and monitors our relationships with each independent retailer in an effort to maintain excellent relationships with our network of independent dealers. Approximately 92% of our sales were to dealers operating in the East South Central and West South Central regions. The East South Central and West South Central regions accounted for approximately 45% of nationwide HUD code homes shipped during 2008.

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 pursuant to SFAS 131. As a result, the Company does not separately report financial information, by geographic sales area or otherwise, for separate operating segments.

Continuing Operations***Factory-Built Homes Industry Trends***

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

The well-publicized slowdown in the housing industry has yet to stabilize, with new single-family housing starts down 59% in 2008 as compared to 2007, and HUD Code homes are not immune from this trend. In 2008 HUD Code shipments declined 14.5% as compared to 2007. However market share of HUD Code homes is growing. HUD Code shipments as a percentage of single-family housing starts increased to 11.6% in 2008 compared to 8.4% in 2007.

Due to the difficult economic, financing and credit conditions HUD Code home sales are expected to continue in a down cycle. The seasonal adjusted annual rate of HUD Code home shipments is now expected to fall below 60,000 homes shipped in 2009. Until there is an infusion of new and competitive finance resources into the manufactured housing market any meaningful expansion in the industry will be delayed.

Economic pressures during 2008 have caused some dealers in the Company's network to cease doing business. The Company typically replaces any non-operating dealers with other dealers in or around the area. However, this trend may continue in the near future presenting an ongoing risk to the Company.

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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 floor-plan 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. In the last quarter of 2008, the Company received advisories from national financial service companies which provide floor plan financing for the majority of the Company's independent retail dealers of HUD-Code homes. Because of the worldwide volatility and disruption in the capital markets, these traditional lenders are suspending or modifying their retail dealer financing programs in an effort to reduce their asset based portfolios. The Company is aggressively working to assist our dealers in their efforts to rapidly establish alternative sources of financing. In the event that a significant number of dealers were to be unable to secure alternative sources of financing, and if the availability from traditional sources does not rapidly improve, then such developments could have a materially adverse effect on our future operating results.

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

As of December 31, 2008, DVH's contingent repurchase liability under floor plan financing arrangements through independent dealers was approximately \$16,620,000. While homes repurchased by DVH under floor-plan 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 firms 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.

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The capital requirements for entry as a producer in the factory-built housing industry are relatively small in comparison to potential revenue. However, we believe that entry into the industry may be more difficult due to the repurchase requirements imposed by the floor plan 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 factory-provided trim-out and installation services, and provide efficient customer service differentiate us from most of our competitors in the factory-built housing industry. By focusing our manufacturing efforts exclusively on HUD Code homes and modular homes on a cost-effective basis and by relying upon our strong network of regional independent dealers within our geographical market, we have been able to minimize our administrative and marketing expenses while providing our customers with a competitively priced product that maximizes value for the purchase price paid for the home. In addition, we maintain close relationships with each of our independent dealers and carefully monitor our service responsibilities to the customers who purchase a factory-built home from us.

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

Regulation

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

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

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

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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 31, 2008, we had 308 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 and operating offices are located at 3111 W. Dr. MLK Blvd., Ste 100, Tampa, FL 33607, which were formerly located at 4218 W. Linbaugh Avenue, Tampa, FL 33634. The Company moved its offices to the new location in 2008. The telephone number at the Company's executive offices is (813) 885-5998. DVH's principal manufacturing plant and offices are located at 205 Carriage Street, Guin, Alabama 35563 (the "Guin Property"), and its telephone number is (205) 468-8400. DVH's principal manufacturing plant and company offices consist of a manufacturing plant with 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 seller of the Sulligent Property was Steven J. Logan, the father of DVH's President and General Manager, Joel Logan. The Sales Contract was approved by the disinterested members of DVH's Board of Directors and the Chief Executive Officer of the Company.

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.

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

During the fourth quarter of the fiscal year which ended on December 31, 2008, no matter was submitted to a vote of security holders.

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Table of Contents**PART II****ITEM 5. MARKET FOR COMMON EQUITY, RELATED STOCKHOLDER MATTERS, AND SMALL BUSINESS ISSUER REPURCHASES OF SECURITIES****Market Information**

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

	High	Low
2007 Quarter Ended		
December 31, 2007	\$ 1.15	\$.95
September 30, 2007	\$ 1.24	\$.96
June 30, 2007	\$ 1.40	\$ 1.10
March 31, 2007	\$ 2.00	\$ 1.20
2008 Quarter Ended		
December 31, 2008	\$ 1.28	\$.70
September 30, 2008	\$ 1.30	\$.90
June 30, 2008	\$ 1.05	\$.90
March 31, 2008	\$ 1.00	\$.77

Our common stock is covered by an SEC rule imposing additional sales practice requirements on broker-dealers who sell such securities to persons other than established customers and accredited investors, which are generally institutions with assets in excess of \$5,000,000, or individuals with net worth in excess of \$1,000,000 or annual income exceeding \$200,000, or \$300,000 jointly with a spouse. For transactions covered by the rule, the broker-dealer must make a special suitability determination for the purchaser and transaction prior to the sale. Consequently, the rule may affect the ability of broker-dealers to sell our securities, and also may affect the ability of purchasers of our stock to sell their shares in the secondary market. The rule may also cause fewer broker-dealers to be willing to make a market in our common stock, and it may affect the level of news coverage we receive.

Holders Of Common Stock

On March 11, 2009, there were 334 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, warrants and rights (a)	Weighted-average exercise price of outstanding options, warrants and rights (b)	Number of securities remaining available for future issuances under equity compensation plans (excluding securities reflected in column (a)) (c)
Equity compensation plans approved by security holders			
Equity compensation plans not approved by security holders	700,000	\$ 1.115	1,100,000 ⁽¹⁾
Total	700,000	\$ 1.115	1,100,000

(1) Under the terms of the 2007 Incentive Plan, there are only 300,000 shares remaining that may be issued as incentive stock options leaving 800,000 issuable shares that would not be the subject of an option or warrant.

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.

Pursuant to the 2007 Incentive Plan, each of the seven members of the Board of Directors was issued an option exercisable for 50,000 shares of the Company's common stock, at an exercise price of \$1.14. Such options were approved at a meeting of the Board of Directors in March 2007 and were effective as of July 1, 2007. In addition, under the 2007 Incentive Plan, each of the seven members of the Board of Directors was issued an option exercisable for 50,000 shares of the Company's common stock, at an exercise price of \$1.09. Such options were approved at a meeting of the Board of Directors on September 7, 2007 and were effective as of September 7, 2007.

The Company did not issue any incentive stock options during 2008.

Recent Sales of Unregistered Securities

Except as reported in previous filings, we did not sell any securities in transactions which were not registered under the Securities Act in the fiscal year ended December 31, 2008.

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

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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,

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intend, anticipate, estimate, may, variations of such words, and similar expressions identify forward-looking statements, but are not the exclusive means of identifying such statements, and their absence does not mean that the statement is not forward-looking. These forward-looking statements are subject to certain risks and uncertainties, including those discussed below. Our actual results, performance or achievements could differ materially from historical results as well as those expressed in, anticipated, or implied by these forward-looking statements. We do not undertake any obligation to revise these forward-looking statements to reflect any future events or circumstances.

Readers should not place undue reliance on these forward-looking statements, which are based on management's current expectations and projections about future events, are not guarantees of future performance, are subject to risks, uncertainties and assumptions (including those described below), and apply only as of the date of this filing. Our actual results, performance or achievements could differ materially from the results expressed in, or implied by, these forward-looking statements. Factors which could cause or contribute to such differences include, but are not limited to, the risks to be discussed in our next Annual Report on form 10-K 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 subsidiary Deer Valley Homebuilders, Inc. (DVH), designs and manufactures factory-built homes which are sold to a network of independent dealers, builders, developers and government agencies located primarily in the southeastern and south central regions of the United States. The Company does not maintain separate operating segments for these regions and does not separately report financial information by geographic sales area. Its principal manufacturing plant is located in Guin, Alabama, and the Company owns a separate idled manufacturing plant in Sulligent, Alabama.

In recent years, the HUD Code housing industry has suffered a downturn in sales as a result of a tightening of credit standards, restricted availability of retail and wholesale financing, excessive inventory levels and zoning restrictions in certain urban and coastal areas. This industry decline began in 1999, approximately five years before we successfully launched and began to rapidly grow our business in January, 2004. In spite of industry conditions the Company has excelled through efficient manufacturing at our production facilities, industry leading products, experienced and capable relations oriented sales and management teams, stringent cost controls, and attention to dealer support, customer satisfaction, and service efforts.

The Company's executives are continuing to focus on four matters relating to the industry-wide slowdown. First, management is addressing the well-publicized slowdown in the housing industry by adjusting capacity with market demand. The Company will continue to monitor demand and may take additional steps to adjust capacity based on our views of and direction of the industry. Second, in recognition of an important trend in the housing market toward modular homes and as part of the Company's strategic plan, management will continue to increase the Company's involvement in the modular segment of the factory-built housing industry. The Company believes that establishing these alternative distribution channels will add stability and position the company for growth when market conditions improve. The Company has targeted the production of smaller units (less than 3,000 square feet) that are readily producible, in a cost efficient manner, using the Company's existing manufacturing capabilities. The Company sells these models to large tract developers, government agencies and individuals through independent dealers. Third, management is addressing the reduced availability of floor plan financing by facilitating dealer operations with alternative inventory financing for dealers that purchase our products. Fourth, the Company continues to focus on operating activities to improve manufacturing efficiencies, reduce overall costs and increase gross margins.

Beginning in the second quarter of calendar year 2007, state and federal agencies, and other government sponsored entities, began distributing Requests for Proposals (RFPs) for housing designed to test and evaluate future disaster recovery housing units for the Gulf Coast region. The Company has aggressively taken advantage of its Alabama location and reputation in the Gulf Coast area to become a significant participant in the permanent rebuilding of the Gulf Coast region and the production of prototypes for future disaster recovery housing units. As

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an immediate result of its efforts, in June 2007 the Company's plant in Guin, Alabama was selected by the State of Mississippi to produce two-bedroom and three-bedroom cottages as part of a program, the Mississippi Alternative Pilot Program, that was designed to test and evaluate future disaster housing units. The Company was awarded two contract extensions on the initial contract by the State of Mississippi prior to the end of 2007 and a third extension in the second quarter of 2008. The initial contract combined with these extensions resulted in a total of approximately \$23,400,000 in revenue from the State of Mississippi contract of which \$13,300,000 and 10,100,000 were recognized during 2008 and 2007, respectively. The Company cannot predict whether the State of Mississippi will provide any additional extensions of the initial contract beyond those that the Company has already received.

In April 2008, the Company was awarded a \$16.1 million contract to build more than 120 twin-town home units for first phase of a multi-phase 264-acre master-planned residential rental community called Savanna Trials in Ocean Springs, Mississippi by M&C Development LLC. Construction and delivery of the first homes in Phase I of the development began in the second quarter of 2008, and the Company received \$2.4 million in revenue during the year ended December 31, 2008 based on initial deliveries on the contract. Due to delays in the project the completion date has been extended until mid 2009 or later. The Company is unable to predict when project delays will be resolved or whether it will be awarded additional contracts for other development phases of the community.

On September 22, 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 order to address the continuing constriction of the retail housing market in the third quarter of 2008. The consolidation with the Guin, Alabama plant was contemporaneous with certain staff reductions necessary to align the Company's production capacity with estimated sales levels for the next several quarters. As the Sulligent, Alabama plant does not represent a separate operating segment of the Company and no plans exist to dispose of the plant, the Company has not separately account for the Sulligent Plant as a discontinued operation in its financial statements.

In late 2008, the Company received advisories from national financial service companies which provide floor plan financing for the majority of the Company's independent retail dealers of HUD-Code homes. Because of the worldwide volatility and disruption in the capital markets, these traditional lenders are suspending or modifying their retail dealer financing programs in an effort to reduce their asset based portfolios. The Company is aggressively working to assist our dealers in their efforts to rapidly establish alternative sources of financing. The Company has received information that indicates one or more new sources of inventory financing could be available by mid 2009. The Company anticipates it will participate in one or more programs for new sources of inventory financing. In the event that a significant number of dealers were to be unable to secure alternative sources of financing, and if the availability from traditional sources does not rapidly improve, then such developments could have a materially adverse effect on our future operating results.

Results of Operations

The following discussion of our financial condition and results of operations should be read in conjunction with our financial statements, included herewith. This discussion should not be construed to imply that the results discussed herein will necessarily continue into the future, or that any conclusion reached herein will necessarily be indicative of actual operating results in the future. Such discussion represents only the best present assessment by our management. Information for the year ended December 31, 2008 and year ended December 31, 2007 is that of the Company on a consolidated basis with DVH.

Revenues. The Company had gross revenues of \$61,324,359 in fiscal year 2008, as compared to \$63,283,527 in fiscal year 2007. Revenue for 2008 was less than that of 2007 primarily due to the industry wide softness in demand for HUD Code housing units. This difference was partially offset by the Company's fulfillment of its contract with the State of Mississippi for the production of two-bedroom and three-bedroom cottages as part of its program that is designed to test and evaluate future disaster housing units. Home shipments were 1,140 in 2008 compared to 1,171 in 2007. Home shipments in 2008 and 2007 include 275 and 200, respectively, of homes shipped to the State of Mississippi.

Gross Profit. Gross profit was \$10,312,447 or 16.8% of total revenue for 2008, compared to \$10,325,152 or 16.3% of total revenue for 2007. This increase in gross profit as a percentage of total revenue is primarily due to improvements in manufacturing efficiencies gained through repetition of Mississippi cottages. The

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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 31, 2008 were \$6,822,139, compared to \$6,794,375 for the fiscal year 2007. Selling, general and administrative costs increased primarily due to introduction of new products and expansion of our modular efforts. 2007 selling, general and administrative expenses include non-cash compensation to members of the Board of Directors. During the 2007 fiscal year, the Company awarded to members of the board of directors, in the aggregate, 350,000 stock options with an exercise price of \$1.14 and 350,000 stock options with an exercise price of \$1.09. In connection with such awards, the Company recognized \$119,903 of expense related to issuances in the Consolidated Statement of Operations for the fiscal year ending December 31, 2007. The Company includes the following types of expenses in selling, general and administrative expense: sales salaries, sales commissions, bad debt expense, advertising, administrative overhead, administrative salaries and bonuses and legal and professional fees.

Net Income (Loss). The net income for the year ended December 31, 2008 was \$2,188,925, compared to \$2,445,685 for the year ended December 31, 2007. After accounting for the stock dividend payable to preferred stockholders and the deemed dividend to preferred stockholders on beneficial conversion features, the net income to common stockholders for the fiscal year 2008 was \$2,165,617, compared to a net income of \$2,022,645 for the fiscal year 2007. During a portion of 2008, and all of 2007, the Company accrued its semi-annual common stock dividends for shareholders holding shares of the Company's Series A Preferred Convertible Stock (the Series A Preferred Stock). Pursuant to the terms of the Series A Preferred Stock, those dividends accrued by the Company for 2008 represent the final dividends to be issued to such shareholders.

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 \$8,960,479 in cash and cash equivalents as of December 31, 2008, compared to \$4,778,334 in cash and cash equivalents as of December 31, 2007. The Company's cash and cash equivalents on-hand are higher than any other previously reported period. The Company's increase in cash is primarily attributable to net income of the Company and the collection of the receivables from the State of Mississippi. Should our costs and expenses prove to be greater than we currently anticipate, or should we change our current business plan in a manner which will increase or accelerate our anticipated costs or capital demand, such as through the acquisition of new products, our working capital could be depleted at an accelerated rate.

The net cash provided by operating activities for the fiscal year ended December 31, 2008 was \$6,444,598. The net cash used in operating activities for fiscal year ended December 31, 2007 was \$401,570. The increase of cash provided by operating activities for 2008, in comparison to the Company's prior fiscal year, is attributable primarily to net income of \$2,188,925, a decrease in accounts receivables of \$3,646,474 and a decrease in inventories of \$508,838. The Company's account receivables as of December 31, 2008 were \$1,451,536, as compared to \$5,098,010 as of December 31, 2007. The decrease in accounts receivable is primarily attributable collection of receivable due the company under its contract with the State of Mississippi and reduced rate of production associated with idling the Sulligent plant in September 2008. The decrease in inventories is primarily attributable to the reduced rate of production associated with idling the Sulligent plant in September 2008.

The net cash used in investing activities for the fiscal year ended December 31, 2008 was \$258,075, which reflects normal equipment additions. The net cash used in investing activities for the fiscal year ended December 31, 2007 was \$1,664,519, which primarily reflects additional purchase price paid to the previous owners under the earnout provisions and for normal equipment additions.

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The net cash used in financing activities for the fiscal year ended December 31, 2008 was \$2,004,378, which primarily relates to the repayment of the Company's borrowings under its line of credit to complete the State of Mississippi contract. The net cash used in financing activities for the fiscal year ended December 31, 2007 was \$586,729, which primarily relates to the Company's borrowings under its line of credit to complete the State of Mississippi contract and payments to the previous owners under the earnout provisions.

The Company is contingently liable under the terms of these 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 thereunder, please see Reserve for Repurchase Commitments below.

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 31, 2008, no amounts had been drawn on the above irrevocable letters of credit by the beneficiaries.

Critical Accounting Policies

Our discussion and analysis of our financial condition and results of operations are based upon our financial statements, which have been prepared in accordance with accounting principles generally accepted in the United States of America. The preparation of these consolidated financial statements requires us to make estimates and judgments which affect the reported amounts of assets, liabilities, revenues and expenses, and related disclosures of contingent assets and liabilities. For a description of those estimates, see Note 2, Summary of Significant Accounting Policies, contained in the explanatory notes to the Company's financial statements for the year ended December 31, 2008, 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.

Critical Accounting Estimates

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

Warranties

We provide our retail buyers with a one-year limited warranty covering defects in material or workmanship, including plumbing and electrical systems. We record a liability for estimated future warranty costs relating to homes sold, based upon our assessment of historical experience and industry trends. In making this estimate, we evaluate historical sales amounts, warranty costs related to homes sold and timing in which any work orders are completed. The Company has accrued a warranty liability reserve of \$2,220,000 on its balance sheet as of December 31, 2008 compared with a warranty liability reserve of \$2,130,000 on its balance sheet as of December 31, 2007. 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.

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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 \$694,886 as of December 31, 2008, as compared to \$695,975 as of December 31, 2007.

Reserve for Repurchase Commitments

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

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

- (i) the sales of our products are spread over a number of independent dealers,
- (ii) 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.

The maximum amount for which the Company is contingently liable under such agreements amounted to approximately \$16,620,000 at December 31, 2008, as compared to \$17,202,000 at December 31, 2007. As of December 31, 2008 and December 31, 2007, we had reserves of \$265,000 and \$185,000, respectively, established for future repurchase commitments, based upon our prior experience and evaluation of our independent dealers' financial conditions. 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 SFAS No. 144, Accounting for the Impairment or Disposal of Long-Lived Assets, 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.

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Goodwill

Goodwill is related to the acquisition of DeerValley Acquisitions Corp. and Deer Valley Homebuilders, Inc on January 18, 2006. We test for impairment of goodwill in accordance with SFAS No. 142, *Goodwill and Other Intangible Assets*. We evaluate the fair value versus their carrying value as of each fiscal year end or more frequently if events or changes in circumstances indicate that the carrying value may exceed the fair value. When estimating the fair value, we calculate the present value of future cash flows based on forecasted sales volumes and profit margins, current industry and economic conditions, historical results and inflation. The discount factors used in present value calculations are updated annually. We also use available market value information to evaluate fair value. The total fair values was reconciled to end of year total market capitalization.

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.

Recent Accounting Pronouncements

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

In December 2007, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards No. 141 (revised 2007), *Business Combinations*. This accounting principle requires the fundamental requirements of acquisition accounting (purchase accounting) be applied to all business combinations in which control is obtained regardless of consideration and for an acquirer to be identified for each business combination. Additionally, this accounting principle requires acquisition-related costs and restructuring costs at the date of acquisition to be expensed rather than allocated to the assets acquired and the liabilities assumed; minority interests, including goodwill, to be recorded at fair value at the acquisition date; recognition of the fair value of assets and liabilities arising from contractual contingencies and contingent consideration (payments conditioned on the outcome of future events) at the acquisition date; recognition of bargain purchase (acquisition-date fair value exceeds consideration plus any noncontrolling interest) as a gain; and recognition of changes in deferred taxes. This accounting principle will be adopted January 2009. The accounting requirements will be adopted prospectively. Earlier adoption is prohibited. Adoption is not expected to have an impact on consolidated financial position, results of operations or cash flows.

In December 2007, the FASB issued SFAS No. 141(R), Business Combinations (SFAS 141(R)), which establishes principles and requirements for how an acquirer recognizes and measures in its financial statements the identifiable assets acquired, the liabilities assumed, and any non-controlling interest in an acquiree, including the recognition and measurement of goodwill acquired in a business combination. SFAS 141R is effective as of the beginning of the first fiscal year beginning on or after December 15, 2008. Earlier adoption is prohibited.

In December 2007, the FASB issued SFAS No. 160, Non-controlling Interests in Consolidated Financial Statements Liabilities an Amendment of ARB No. 51. This statement amends ARB No. 51 to establish accounting and reporting standards for the Non-controlling interest in a subsidiary and for the deconsolidation of a subsidiary. SFAS 160 will change the classification and reporting for minority interest and non-controlling interests of variable interest entities. Following the effectiveness of SFAS 160, the minority interest and non-controlling interest of variable interest entities will be carried as a component of stockholders' equity. Accordingly, upon the effectiveness of this statement, we will begin to reflect non-controlling interest in our consolidated variable interest entities as a component of stockholders' equity. This statement is effective for fiscal years and interim periods within those fiscal years, beginning on or after December 15, 2008 and earlier adoption is prohibited. Since we do not currently have Variable Interest Entities consolidated in our financial statements, adoption of this standard is not expected to have a material effect.

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FASB Interpretation No 48, *Accounting for Uncertainty in Income Taxes – an interpretation of FASB Statement No. 109* (FIN 48), was issued in July 2006. This interpretation clarifies the accounting for uncertainty in income taxes recognized in an entity’s financial statements in accordance with SFAS No. 109, *Accounting for Income Taxes*. It prescribes a recognition threshold and measurement attribute for financial statement disclosure of tax positions taken, or expected to be taken, on a tax return. FASB Interpretation No 48 did not have any impact on our financial statements.

In September 2006, the SEC issued Staff Accounting Bulletin No. 108 (SAB No. 108), *Considering the Effects of Prior Year Misstatements When Quantifying Misstatements in Current Year Financial Statements*. SAB No. 108 provides guidance to registrants for assessing materiality. SAB No. 108 states that registrants should use both a balance sheet approach and income statement approach when quantifying and evaluating the materiality of a misstatement. SAB No. 108 also provides guidance on correcting errors under the dual approach as well as transition guidance for correcting previously immaterial errors that are now considered material. We adopted SAB No. 108 as of January 1, 2007 without any impact on our financial statements.

In September 2006, the FASB issued SFAS No. 157, *Fair Value Measurement* (SFAS 157), which defines fair value, establishes a framework for measuring fair value and expands disclosures about assets and liabilities measured at fair value. The Company adopted SFAS 157 in the first quarter of fiscal 2008.

In February 2007, the FASB issued SFAS No. 159, *The Fair Value Option for Financial Assets and Financial Liabilities*. SFAS No. 159 permits entities to choose to measure many financial instruments and certain other items at fair value that are not currently required to be measured at fair value. The objective is to improve financial reporting by providing entities with the opportunity to mitigate volatility in reported earnings caused by measuring related assets and liabilities differently without having to apply complex hedge accounting provisions. SFAS No. 159 also establishes presentation and disclosure requirements designed to facilitate comparisons between entities that choose different measurement attributes for similar types of assets and liabilities. SFAS No. 159 is effective for fiscal years beginning after November 15, 2007. The adoption of this statement did not have a material effect on the Company’s future financial position or results of operations.

In May 2008, the FASB issued SFAS No. 162, *The Hierarchy of Generally Accepted Accounting Principles* (SFAS 162). SFAS 162 identifies the sources of accounting principles and the framework for selecting the principles used in the preparation of financial statements of nongovernmental entities that are presented in conformity with generally accepted accounting principles (the GAAP hierarchy). SFAS 162 will become effective 60 days following the SEC’s approval of the Public Company Accounting Oversight Board amendments to AU Section 411, *The Meaning of Present Fairly in Conformity With Generally Accepted Accounting Principles*. The Company does not expect the adoption of SFAS 162 will have a material effect on its financial position, results of operations or cash flows.

In June 2008, the FASB issued Emerging Issues Task Force (EITF) 03-6-1, *Determining Whether Instruments Granted in Share-Based Payment Transactions are Participating Securities* which provides that unvested share-based payment awards that contain nonforfeitable rights to dividends or dividend equivalents (whether paid or unpaid) are participating securities and should be included in the computation of earnings per share pursuant to the two-class method. EITF 03-6-1 is effective for financial statements issued for fiscal years beginning after December 15, 2008, and interim periods within those years. Upon adoption, a company is required to retrospectively adjust its earnings per share data including any amounts related to interim periods, summaries of earnings and selected financial data. The Company is assessing the impact of adopting EITF 03-6-1, but does not expect the impact to be material to the Company’s financial condition or results of operations.

In June 2008, the Emerging Issues Task Force issued EITF Consensus No. 07-05 *Determining Whether an Instrument (or Embedded Feature) Is Indexed to an Entity’s Own Stock*, which supersedes the definition in EITF 06-01 for periods beginning after December 15, 2008 (our fiscal year ending September 30, 2010). The objective of this Issue is to provide guidance for determining whether an equity-linked financial instrument (or embedded feature) is indexed to an entity’s own stock and it applies to any freestanding financial instrument or embedded feature that has

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all the characteristics of a derivative in of Statement 133, for purposes of determining whether that instrument or embedded feature qualifies for the first part of the scope exception in paragraph 11(a) of Statement 133 (the Paragraph 11(a) Exemption). This Issue also applies to any freestanding financial instrument that is potentially settled in an entity's own stock, regardless of whether the instrument has all the characteristics of a derivative in Statement 133, for purposes of determining whether the instrument is within the scope of Issue 00-19. We currently have warrants that embody terms and conditions that require the reset of their strike prices upon our sale of shares or equity-indexed financial instruments at amounts less than the conversion prices. These features will no longer be treated as equity under the EITF once it becomes effective. Rather, such instruments will require classification as liabilities and measurement at fair value. Early adoption is precluded. Accordingly, this standard will be adopted in our quarterly period ended March 31, 2009.

Off-Balance Sheet Arrangements

None

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ITEM 8. FINANCIAL STATEMENTS

Deer Valley Corporation & Subsidiary

Consolidated Financial Statements

For the Years Ended December 31, 2008 and 2007.

Contents:

<u>Report of Independent Registered Public Accounting Firm-KBL, LLP</u>	F-1
<u>Consolidated Balance Sheet as of December 31, 2008 and 2007</u>	F-2
<u>Consolidated Statements of Operations for the Years Ended December 31, 2008 and 2007</u>	F-3
<u>Consolidated Statements of Stockholders' Equity for the Years Ended December 31, 2008 and 2007</u>	F-4
<u>Consolidated Statements of Cash Flows for the Years Ended December 31, 2008 and 2007</u>	F-8
<u>Notes to Consolidated Financial Statements</u>	F-9

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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

The Board of Directors and Stockholders

Deer Valley Corporation

Tampa, Florida

We have audited the accompanying consolidated balance sheets of Deer Valley Corporation and Subsidiary (the Company) as of December 31, 2008 and 2007, and the related consolidated statements of operations, stockholders' equity, and cash flows for the years then ended. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Deer Valley Corporation and Subsidiary at December 31, 2008 and 2007, and the results of their operations and their cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

KBL, LLP
Tampa, Florida
March 2, 2009

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

	December 31, 2008	December 31, 2007
ASSETS		
Current Assets:		
Cash	\$ 8,960,479	\$ 4,778,334
Accounts receivable	1,451,536	5,098,010
Inventory	1,439,908	1,948,746
Deferred tax asset	951,827	905,915
Prepaid expenses and other current assets	99,500	146,269
Total Current Assets	12,903,250	12,877,274
Fixed Assets:		
Property, plant and equipment, net	3,051,214	3,079,025
Other Assets:		
Goodwill	7,256,917	7,256,917
Other assets	76,673	148,625
Total Other Assets:	7,333,590	7,405,542
Total Assets	\$ 23,288,054	\$ 23,361,841

LIABILITIES AND STOCKHOLDERS EQUITY

Current Liabilities:		
Current maturities on long term debt	\$ 81,009	\$ 81,331
Notes payable		1,916,000
Accounts payable	610,443	1,099,852
Accrued expenses	2,340,867	2,469,869
Accrued warranties	2,220,000	2,130,000
Income tax payable	90,279	84,611
Accrued preferred dividends		201,802
Total Current Liabilities	5,342,598	7,983,465
Long Term Liabilities:		
Long-term debt, net of current maturities	1,719,424	1,807,479
Deferred tax liability	711,942	501,831
Put liability	569,844	681,200
Total Long Term Liabilities	3,001,210	2,990,510
Total Liabilities	8,343,808	10,973,975
Stockholders Equity:		
Series A Preferred stock, \$0.01 par value, 750,000 shares authorized, 548,550 and 629,775 shares issued and outstanding, respectively.	5,485,495	6,297,745
	224	224

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Series C Preferred stock, \$0.01 par value, 26,750 shares authorized, 22,463 and 22,463 shares issued and outstanding, respectively.

Series E Preferred stock, \$0.01 par value, 1,000,000 authorized, 1,000,000 and 1,000,000 shares issued and outstanding, respectively.	10,000	10,000
Common stock, \$0.001 par value, 100,000,000 shares authorized, 12,472,182 and 11,121,629 shares issued and outstanding, respectively.	12,473	11,121
Additional paid-in capital	37,399,377	36,221,024
Common stock payable-Earnout Agreement	(2,000,000)	(2,000,000)
Accumulated deficit	(25,963,323)	(28,152,248)

Total Stockholders Equity	14,944,246	12,387,866
Total Liabilities and Stockholders Equity	\$ 23,288,054	\$ 23,361,841

See notes to consolidated financial statements

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

	For the years ended December 31,	
	2008	2007
REVENUE	\$ 61,324,359	\$ 63,283,527
COST OF REVENUE	51,011,912	52,958,375
GROSS PROFIT	10,312,447	10,325,152
OPERATING EXPENSES:		
Depreciation and Amortization	112,569	40,583
Selling, general and administrative	6,822,139	6,794,375
TOTAL OPERATING EXPENSES	6,934,708	6,834,958
OPERATING INCOME	3,377,739	3,490,194
OTHER INCOME (EXPENSES)		
Derivative income (expense)	(54,298)	
Interest income	143,989	222,486
Interest expense	(155,664)	(171,362)
TOTAL OTHER INCOME/(EXPENSES)	(65,973)	51,124
INCOME BEFORE INCOME TAXES	3,311,766	3,541,318
INCOME TAX EXPENSE	(1,122,841)	(1,095,633)
NET INCOME	\$ 2,188,925	\$ 2,445,685
Dividends to preferred stockholders	(23,308)	(423,040)
Net Income Available to Common Shareholders	\$ 2,165,617	\$ 2,022,645
Net Income/(Loss) Per Share (Basic)	\$ 0.18	\$ 0.23
Net Income/(Loss) Per Share (Fully Diluted)	\$ 0.09	\$ 0.11
Weighted Average Common Shares Outstanding	11,988,966	8,710,567
Weighted Average Common and Common Equivalent Shares Outstanding	23,739,101	22,268,602
	<i>See notes to consolidated financial statements</i>	

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Deer Valley Corporation & Subsidiary
Consolidated Statements of Stockholders' Equity
For the Years Ended December 31, 2008 and 2007

	Preferred A		Preferred B	
	Shares	Amount	Shares	Amount
Balance December 31, 2006	657,525	\$ 6,575,245.00		\$
Conversion of Series A Preferred	(27,750)	(277,500)		
Conversion of Series C Preferred				
Exchange of Series E Preferred for Common Stock				
Common Stock dividend				
Exercise of warrants				
Issuance of Stock Options to Board of Directors				
Common Stock issuance related to amended Earnout Agreement				
Accrued Dividends				
Net Income				
Balance December 31, 2007	629,775	\$ 6,297,745		\$
Cumulative effect of change in accounting method				
Conversion of Series A Preferred	(81,225)	(812,250)		
Common Stock dividend				
Issuance of common stock dividend to Series A Preferred				
Accrued Dividends				
Net Income				
Balance December 31, 2008	548,550	\$ 5,485,495		\$

See notes to consolidated financial statements

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Deer Valley Corporation & Subsidiary
Consolidated Statements of Stockholders' Equity
For the Years Ended December 31, 2008 and 2007

	Preferred C		Preferred D	
	Shares	Amount	Shares	Amount
Balance December 31, 2006	26,750	\$ 267.00		\$
Conversion of Series A Preferred				
Conversion of Series C Preferred	(4,287)	(43)		
Exchange of Series E Preferred for Common Stock				
Common Stock dividend				
Exercise of warrants				
Issuance of Stock Options to Board of Directors				
Common Stock issuance related to amended Earnout Agreement				
Accrued Dividends				
Net Income				
Balance December 31, 2007	22,463	\$ 224		\$
Cumulative effect of change in accounting method				
Conversion of Series A Preferred				
Common Stock dividend				
Issuance of common stock dividend to Series A Preferred				
Accrued Dividends				
Net Income				
Balance December 31, 2008	22,463	\$ 224		\$

See notes to consolidated financial statements

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Deer Valley Corporation & Subsidiary
Consolidated Statements of Stockholders' Equity
For the Years Ended December 31, 2008 and 2007

	Series E		Common	
	Shares	Amount	Shares	Amount
Balance December 31, 2006	750,000	\$ 7,500.00	8,186,572	\$ 8,186
Conversion of Series A Preferred			370,000	370
Conversion of Series C Preferred			428,700	429
Exchange of Series E Preferred for Common Stock	250,000	2,500	(250,000)	(250)
Common Stock dividend			361,084	361
Exercise of warrants			25,273	25
Issuance of Stock Options to Board of Directors				
Common Stock issuance related to amended Earnout Agreement			2,000,000	2,000
Accrued Dividends				
Net Income				
Balance December 31, 2007	1,000,000	\$ 10,000	11,121,629	\$ 11,121
Cumulative effect of change in accounting method				
Conversion of Series A Preferred			1,083,016	1,084
Common Stock dividend				
Issuance of common stock dividend to Series A Preferred			267,537	268
Accrued Dividends				
Net Income				
Balance December 31, 2008	1,000,000	\$ 10,000	12,472,182	\$ 12,473

See notes to consolidated financial statements

Table of Contents**Deer Valley Corporation & Subsidiary****Consolidated Statements of Stockholders' Equity****For the Years Ended December 31, 2008 and 2007**

	Additional Paid in Capital	Common Stock Payable-Earnout	Accumulated Deficit	Total
Balance December 31, 2006	\$ 34,456,598	\$	\$ (30,597,931)	\$ 10,449,865
Conversion of Series A Preferred	277,130			
Conversion of Series C Preferred	(386)			
Exchange of Series E Preferred for Common Stock	(2,250)			
Common Stock dividend	438,385			438,746
Exercise of warrants	37,884			37,910
Issuance of Stock Options to Board of Directors	119,903			119,903
Common Stock issuance related to amended Earnout Agreement	1,316,800	(2,000,000)		(681,200)
Accrued Dividends	(423,040)			(423,040)
Net Income			2,445,685	2,445,685
Balance December 31, 2007	\$ 36,221,024	\$ (2,000,000.00)	\$ (28,152,248)	\$ 12,387,866
Cumulative effect of change in accounting method	165,654			165,654
Conversion of Series A Preferred	811,166			(0)
Common Stock dividend	(23,308)			(23,308)
Issuance of common stock dividend to Series A Preferred	224,841			225,109
Accrued Dividends				
Net Income			2,188,925	2,188,925
Balance December 31, 2008	\$ 37,399,377	\$ (2,000,000)	\$ (25,963,323)	\$ 14,944,246

See notes to consolidated financial statements

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

	For the years ended December 31,	
	2008	2007
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income (loss)	\$ 2,188,925	\$ 2,445,685
Adjustments to reconcile net income (loss) to net cash provided for/used in operating activities:		
Depreciation and amortization	353,500	277,102
Derivative income(expense)	54,298	
Stock based compensation		119,903
Bad debt expense		65,870
Changes in assets and liabilities:		
(Increase)/decrease in receivables	3,646,473	(2,988,882)
(Increase)/decrease in inventories	508,838	(651,103)
(Increase)/decrease in deferred tax asset	(46,219)	(163,062)
(Increase)/decrease in prepayments and other	51,416	(54,007)
Increase/(decrease) in accounts payable	(489,410)	319,829
Increase/(decrease) in income tax payable	5,668	(222,819)
Increase/(decrease) in estimated services and warranties	90,000	130,000
Increase/(decrease) in accrued expenses	(129,002)	(181,918)
Increase/(decrease) in deferred tax liability	210,111	501,832
CASH FLOW PROVIDED FOR/USED IN OPERATING ACTIVITIES	\$ 6,444,598	\$ (401,570)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchases of equipment	(258,075)	(129,069)
Additional purchase price paid under earnout agreement		(1,535,450)
CASH FLOW USED IN INVESTING ACTIVITIES	\$ (258,075)	\$ (1,664,519)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Repayment of long-term debt	(88,378)	
Proceeds (repayment) of notes payable, net	(1,916,000)	1,839,911
Accrual of earnout		
Payment of earnout		(2,464,550)
Proceeds from the exercise of warrants		37,910
CASH FLOW PROVIDED BY FINANCING ACTIVITIES	\$ (2,004,378)	\$ (586,729)
NET INCREASE (DECREASE) IN CASH	\$ 4,182,145	\$ (2,652,818)
CASH, Beginning	\$ 4,778,334	\$ 7,431,152
CASH, Ending	\$ 8,960,479	\$ 4,778,334
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION:		
Cash paid during the period for:		
Interest	\$ 170,197	\$ 135,000
Taxes	\$ 700,000	\$ 1,165,000

SUPPLEMENTAL DISCLOSURE OF NON CASH INVESTING AND FINANCING ACTIVITIES:

Dividends on preferred stock	\$ 225,109	\$ 438,385
Conversion of preferred stock for common stock-net	\$ 812,250	\$ 275,043
Put liability	\$ 165,654	\$ 681,200
Common stock issued under earnout agreement	\$	\$ 2,000,000
Common stock unearned under earnout agreement	\$	\$ (2,000,000)

See notes to consolidated financial statements

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Deer Valley Corporation & Subsidiary

Notes to Consolidated Financial Statements

For the Years Ended December 31, 2008 and 2007

1. NATURE OF OPERATIONS AND BASIS OF PRESENTATION

Nature of Operations Deer Valley Corporation (The Company), through its wholly-owned subsidiary, Deer Valley Homebuilders, Inc. (DVH), an Alabama corporation with its business offices located at 205 Carriage Street, P.O. Box 310, Guin, Alabama 35563, is engaged in the production, sale and marketing of factory-built homes in the southeastern and south central U.S. housing market. 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 relies upon a team of regional sales directors and independent dealers to market the factory-built homes in retail locations.

In the second quarter of calendar year 2007, state and federal agencies, and other government sponsored entities, began distributing Requests for Proposals (RFPs) for housing designed to test and evaluate future disaster recovery housing units for the Gulf Coast region. The Company has sought to take advantage of its Alabama location to become a significant participant in the permanent rebuilding of the Gulf Coast region and the production of prototypes for future disaster recovery housing units.

In addition, 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 to large tract developers, government agencies and independent dealers. Modular homes are typically built in a factory in sections and transported to a site to be joined together on a permanent foundation. Unlike homes constructed in accordance with the Federal Manufactured Home Construction and Safety Standards (HUD Code homes), modular homes generally do not have integrated steel frames and axles.

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Reclassifications Certain reclassifications in prior period amounts have been made to conform to the current period presentation.

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.

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.

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

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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.

Concentration of Sales to Certain Customers During 2008 and 2007, the Company had sales to one customer of approximately 21% and 15%, respectively. These sales were not made through the Company's network of distributors but were made under a contract awarded to the Company that may or may not continue in the future. See Management's Discussion and Analysis of Results of Operations and Financial Condition of this Form 10K.

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, as defined in Financial Accounting Standard No. 107 Disclosures about Fair Value of Financial Instruments (Statement 107), 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.

Cash Equivalents The Company considers all highly liquid investments with original maturities of three months or less to be cash equivalents. The Company considers its investment in Variable Rate Demand Bonds (VRDBs) as highly liquid investments. The VRDBs can be redeemed with 7 days notice and are guaranteed by a Letter of Credit from Fifth Third Bank. At December 31, 2008, the Company owned \$4,605,428 of VRDBs.

The Company maintains its cash balances in two different financial institutions. The balances are insured by the Federal Deposit Insurance Corporation up to \$250,000 or in the case of non-interest bearing checking accounts, the insurance is unlimited for a specified period of time. At December 31, 2008, Company has \$4,252,153 of deposits, of which \$2,312,394 are insured by the Federal Deposit Insurance Corporation.

Accounts Receivable Accounts receivable represent balances due from dealers. Credit risk associated with balances due from dealers is evaluated by management relative to financial condition and past payment experience. As a result of management's reviews reserves for uncollectible amounts have been recorded in the accompanying financial statements. For the years ended December 31, 2008 and 2007, reserves for uncollectible accounts are \$15,000 and \$80,870, respectively.

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

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.

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

Impairment of Long-Lived Assets In accordance with SFAS No. 144, Accounting for the Impairment or Disposal of Long-Lived Assets, 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.

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 The Company utilizes the liability method of accounting for income taxes as set forth in SFAS 109, Accounting for Income Taxes. Under the liability method, deferred taxes are determined based on the difference between the financial statement and tax basis of assets and liabilities using enacted tax rates in effect in the years in which the differences are expected to reverse.

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.

Advertising Costs Advertising costs are charged to operations when incurred and are included in operating expenses. Advertising costs for the periods ending December 31, 2008 and 2007 were \$112,089 and \$112,491, respectively.

Stock Based Compensation In December 2004, the FASB issued SFAS No.123 (revised 2004), Share-Based Payment. SFAS 123(R) will provide investors and other users of financial statements with more complete and neutral financial information by requiring that the compensation cost relating to share-based payment transactions be recognized in financial statements. That cost will be measured based on the fair value of the equity or liability instruments issued. SFAS 123(R) covers a wide range of share-based compensation arrangements including share options, restricted share plans, performance-based awards, share appreciation rights, and employee share purchase plans. SFAS 123(R) replaces FASB Statement No. 123, Accounting for Stock-Based Compensation, and supersedes APB Opinion No. 25, Accounting for Stock Issued to Employees. SFAS 123, as originally issued in 1995, established as preferable a fair-value-based method of accounting for share-based payment transactions with employees. However, that statement permitted entities the option of continuing to apply the guidance in Opinion 25, as long as the footnotes to financial statements disclosed what net income would have been had the preferable fair-value-based method been used. Public entities (other than those filing as small business issuers) were required to apply SFAS 123(R) as of the first interim or annual reporting period that begins after June 15, 2005. For public entities that file as small business issuers SFAS 123(R) is applicable as of the beginning of the first interim or annual reporting period that begins after December 15, 2005.

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Prior to January 1, 2006, the Company accounted for Stock Options and Stock Based Compensation under the recognition and measurement provisions of APB Opinion No. 25, *Accounting for Stock Issued to Employees*, and related Interpretations, as permitted by FASB Statement No. 123, *Accounting for Stock-Based Compensation*. Effective January 1, 2006, the Company adopted the fair value recognition provisions of SFAS No. 123(R), *Share-Based Payment*, using the modified-prospective-transition method. Under that transition method, compensation cost for all share-based payments granted prior to, but not yet vested as of January 1, 2006 are based on (a) the grant date fair value estimated in accordance with the original provisions of SFAS No. 123, and (b) compensation cost for all share-based payments granted subsequent to January 1, 2006 are based on the grant-date fair value estimated in accordance with the provisions of SFAS No. 123(R). Results for prior periods have not been restated.

2007 Long Term Incentive Plan

On July 1, 2007 the Company established a Long Term Incentive (the 2007 Incentive Plan) plan for the purposes of advancing the interests of the Company and our shareholders by providing incentives to certain of our employees and other key individuals who perform services for us, including those who contribute significantly to the strategic and long-term performance objectives and growth of the Company. The 2007 Incentive Plan is administered by a committee (the Committee) appointed by the Board of Directors. Currently, the Committee is comprised of all members of the Board of Directors acting as a group. The Committee has the power to interpret the 2007 Incentive Plan and to prescribe rules, regulations and procedures in connection with the operations of the 2007 Incentive Plan. The Committee may delegate administrative responsibilities under the 2007 Incentive Plan to any one or more of its members or other persons, except as may otherwise be required under applicable law or listing standards for an exchange on which the Company's common stock may be listed. The 2007 Incentive Plan provides for the granting of several types of awards, including stock options, performance grants and other awards deemed by the Committee to be consistent with the purposes of the 2007 Incentive Plan. Awards may be granted alone, or in conjunction with one or more other awards, as determined by the Committee.

The 2007 Incentive Plan was effective as of July 1, 2007, and was approved by the Company's board of directors. The Company's shareholders have not voted on approval of the 2007 Incentive Plan. A maximum of one million eight hundred thousand (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 one million (1,000,000) shares of common stock may be issued as incentive stock options. Common stock issued under the 2007 Incentive Plan may be either newly issued shares, treasury shares, reacquired shares or any combination thereof. If common stock issued as restricted stock, restricted stock units or otherwise subject to repurchase or forfeiture rights is reacquired by us pursuant to such rights, or if any award is cancelled, terminates, or expires unexercised, the common stock which would otherwise have been issuable pursuant to such awards will be available for issuance under new awards. All awards under the 2007 Incentive Plan shall be granted within 10 years of the date the plan was adopted.

The Committee has exclusive discretion to select to whom awards will be granted; to determine the type, size, terms and conditions of each award; to modify or waive, within certain limits, the terms and conditions of any award; to determine the time when awards will be granted; to establish performance objectives; to prescribe the form of documents representing awards under the 2007 Incentive Plan; and to make all other determinations which it deems necessary, advisable or desirable in the interpretation and administration of the 2007 Incentive Plan. At the discretion of the Committee, awards may be made under the 2007 Incentive Plan in assumption of, or in substitution for, outstanding awards previously granted by the Company, any predecessor or a company acquired by the Company or with which it combines. The Committee has the authority to administer and interpret the 2007 Incentive Plan, and its decisions are final, conclusive and binding. We anticipate that all of our employees and directors will be eligible to participate in the 2007 Incentive Plan.

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On July 1, 2007 pursuant to the Long Term Incentive Plan the Company awarded members of the board of directors 350,000 stock options with an exercise price of \$1.14 and a term of 10 years. Additionally, on September 7, 2007 the Company awarded members of the board of directors 350,000 stock options with an exercise price of \$1.09 and a term of 10 years. All of the options issued were fully vested on the grant date. The Company has recognized \$119,903 of expense related to issuances in the Consolidated Statement of Operations for the year ended December 31, 2007.

Determining Fair-Value

Share Based Compensation

The Company uses the guidance set forth in SFAS 123R *Share Based Payment* and Staff Accounting Bulletin 107 to measure its share based payments. This guidance considers the historical volatility over a period generally commensurate with the expected or contractual term of the share option.

The Company uses a trinomial lattice model granted to determine the fair value of stock options and employee stock purchase plan shares. The determination of the fair value of share-based payment awards on the date of grant using an option-valuation model is affected by the Company's stock price as well as assumptions regarding a number of complex variables. These variables include the Company's expected stock price volatility over the term of the awards, projected employee stock option exercise behavior, expected risk-free interest rate and expected dividends.

The Company estimates the expected term and volatility of options granted based on values derived from its industry peer group. In estimating our expected volatility and term, we have applied the guidance in Question 6 of Topic D of Staff Accounting Bulletin 107 and established a peer group consisting of five companies with similar characteristics to our Company and used a blended average of historical volatilities of these peers over historical periods commensurate with the expected term of each option. As a result, the expected term was generated using the trinomial lattice model. The model uses the contractual term of ten years and then arrives at the expected term based upon the assumptions used in valuing the instrument. Our decision to use these measures was based upon the lack of availability of actively traded options in the Company's own common stock and the Company's assessment that the peer group measure of volatility is more representative of future stock price trends than the Company's historical volatility. The Company bases the risk-free interest rate for option valuation on Constant Maturity Rates provided by the U.S. Treasury with remaining terms similar to the expected term of the options. The Company does not anticipate paying any cash dividends in the foreseeable future and therefore uses an expected dividend yield of zero in the option valuation model. In addition, SFAS No. 123(R) requires forfeitures of share-based awards to be estimated at the time of grant and revised, if necessary, in subsequent periods if actual forfeitures differ from those estimates. As this is the Company's initial issuance and no historical data exists to estimate pre-vesting option forfeitures the Company has recorded stock-based compensation expense for the all the awards vested. The Company uses the straight-line attribution as its expensing method of the value of share-based compensation for options and awards.

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Under SFAS No. 123(R) Deer Valley uses a trinomial lattice model to estimate the fair value of the Company's option awards. Share based compensation expense amounted to \$0 and \$119,903 in the years ended December 31, 2008 and 2007, respectively. Our model includes the required assumptions pursuant to SFAS 123R. No options were granted during the year ended December 31, 2008. The key assumptions used in the model during the year ended December 31, 2007 are provided below:

Assumptions	December 31, 2007	
	9/7/07 Grant	7/1/07 Grant
Exercise Price	\$ 1.09	\$ 1.14
Expected Term - Years	10	10
Current Price Undlying Shares	\$ 1.01	\$ 1.12
Risk-free interest rate	4.92%	4.03%
Expected volatility of stock	42.3%	43.90%
Expected Dividends	None	None

In addition to the minimum level of assumptions, we have incorporated into our model the impact of the post vesting exit rate of 50%

The following table summarizes the activity related to all Company stock options and warrants for the year ended December 31, 2008 and 2007:

	Warrants	Stock Options	Exercise Price Per Share		Weighted Average Exercise Price Per Share	
			Warrants	Options	Warrants	Options
Outstanding at December 31, 2006	22,506,977		\$ 0.75-3.00		\$ 1.64	
Granted	250,000	700,000	\$ 2.25	\$ 1.09-\$1.14	\$ 2.25	\$ 1.12
Exercised	(25,273)		\$ 1.50		\$ 1.50	
Cancelled or expired						
Outstanding at December 31, 2007	22,731,704	700,000	\$ 0.75-3.00		\$ 1.64	
Granted			\$		\$	\$
Exercised			\$		\$	
Cancelled or expired						
Outstanding at December 31, 2008	22,731,704	700,000	\$ 0.75-3.00		\$ 1.64	\$ 1.12
Outstanding and exercisable at December 31, 2008	22,731,704	700,000	\$ 0.75-3.00		\$ 1.64	\$ 1.12

The warrants expire at various dates ranging from January 2011 through November 2016. The stock options expire at various dates ranging from July 2017 to September 2017.

Earning (Loss) Per Share The Company uses SFAS No. 128, *Earnings Per Share* for calculating the basic and diluted loss per share. Basic income/(loss) per share is computed by dividing net income/(loss) and net income/(loss) attributable to common shareholders by the weighted average number of common shares outstanding. Diluted income/(loss) per share is computed similar to basic loss per share except that the denominator is increased to include the number of additional common shares that would have been outstanding if the potential shares had been issued and if the additional shares were dilutive. Common equivalent shares are excluded from the computation of net loss per share if they would be anti-dilutive.

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	For the years ended December 31,	
	2008	2007
Net income/(loss) available to common shareholders	\$ 2,165,617	\$ 2,022,645
Weighted average shares outstanding:		
Basic	11,988,966	8,710,567
Diluted	23,739,101	22,268,602
Income/Loss per share:		
Basic	\$ 0.18	\$ 0.23
Diluted*	\$ 0.09	\$ 0.11

The Company's dilutive common stock equivalent shares as of December 31, 2008 and 2007 include all of the Convertible Preferred shares and any incremental shares, as defined by SFAS No. 128, *Earnings Per Share*, associated with the Company's outstanding warrants and stock options.

Common Stock Equivalents as of

	Exercise Price	December 31,	
		2008	2007
Securities			
<i>Preferred:</i>			
Series A Preferred		7,313,977	8,396,993
Series C Preferred		2,246,300	2,246,300
Series E Preferred		1,000,000	1,000,000
Total		10,560,277	11,643,293
<i>Warrants:</i>			
Class A Warrants	\$ 1.50	10,369,351	10,369,351
Class B Warrants	\$ 2.25	4,970,824	4,970,824
Class C Warrants	\$ 0.75	2,000,000	2,000,000
Class D Warrants	\$ 0.75	2,000,000	2,000,000
Class E Warrants	\$ 3.00	880,544	880,544
Class F Warrants	\$ 2.25	1,000,000	1,000,000
Class BD-2 Warrants	\$ 1.50	919,162	919,162
Class BD-3 Warrants	\$ 2.25	459,581	459,581
Class BD-4 Warrants	\$ 1.50	66,121	66,121
Class BD-5 Warrants	\$ 3.00	66,121	66,121
Total		22,731,704	22,731,704
<i>Stock Options:</i>			
7/1/07 Issuance	\$ 1.14	350,000	350,000
9/7/07 Issuance	\$ 1.09	350,000	350,000
Total		700,000	700,000
Total common stock equivalents		33,991,981	35,074,997

Recent Accounting Pronouncements

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

In December 2007, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards No. 141 (revised 2007), *Business Combinations*. This accounting principle requires the fundamental requirements of acquisition accounting (purchase accounting) be applied to all business combinations in which control is obtained regardless of consideration and for an acquirer to be identified for each business

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combination. Additionally, this accounting principle requires acquisition-related costs and restructuring costs at the date of acquisition to be expensed rather than allocated to the assets acquired and the liabilities assumed; minority interests, including goodwill, to be recorded at fair value at the acquisition date; recognition of the fair value of assets and liabilities arising from contractual contingencies and contingent consideration (payments conditioned on the outcome of future events) at the acquisition date; recognition of bargain purchase (acquisition-date fair value exceeds consideration plus any noncontrolling interest) as a gain; and recognition of changes in deferred taxes. This accounting principle will be adopted January 2009. The accounting requirements will be adopted prospectively. Earlier adoption is prohibited. Adoption is not expected to have an impact on consolidated financial position, results of operations or cash flows.

In December 2007, the FASB issued SFAS No. 141(R), Business Combinations (SFAS 141(R)), which establishes principles and requirements for how an acquirer recognizes and measures in its financial statements the identifiable assets acquired, the liabilities assumed, and any non-controlling interest in an acquiree, including the recognition and measurement of goodwill acquired in a business combination. SFAS 141R is effective as of the beginning of the first fiscal year beginning on or after December 15, 2008. Earlier adoption is prohibited.

In December 2007, the FASB issued SFAS No. 160, Non-controlling Interests in Consolidated Financial Statements Liabilities an Amendment of ARB No. 51. This statement amends ARB No. 51 to establish accounting and reporting standards for the Non-controlling interest in a subsidiary and for the deconsolidation of a subsidiary. SFAS 160 will change the classification and reporting for minority interest and non-controlling interests of variable interest entities. Following the effectiveness of SFAS 160, the minority interest and non-controlling interest of variable interest entities will be carried as a component of stockholders' equity. Accordingly, upon the effectiveness of this statement, we will begin to reflect non-controlling interest in our consolidated variable interest entities as a component of stockholders' equity. This statement is effective for fiscal years and interim periods within those fiscal years, beginning on or after December 15, 2008 and earlier adoption is prohibited. Since we do not currently have Variable Interest Entities consolidated in our financial statements, adoption of this standard is not expected to have a material effect.

FASB Interpretation No 48, *Accounting for Uncertainty in Income Taxes an interpretation of FASB Statement No. 109* (FIN 48), was issued in July 2006. This interpretation clarifies the accounting for uncertainty in income taxes recognized in an entity's financial statements in accordance with SFAS No. 109, *Accounting for Income Taxes*. It prescribes a recognition threshold and measurement attribute for financial statement disclosure of tax positions taken, or expected to be taken, on a tax return. FASB Interpretation No 48 did not have any impact on our financial statements.

In September 2006, the SEC issued Staff Accounting Bulletin No. 108 (SAB No. 108), *Considering the Effects of Prior Year Misstatements When Quantifying Misstatements in Current Year Financial Statements*. SAB No. 108 provides guidance to registrants for assessing materiality. SAB No. 108 states that registrants should use both a balance sheet approach and income statement approach when quantifying and evaluating the materiality of a misstatement. SAB No. 108 also provides guidance on correcting errors under the dual approach as well as transition guidance for correcting previously immaterial errors that are now considered material. We adopted SAB No. 108 as of January 1, 2007 without any impact on our financial statements.

In September 2006, the FASB issued SFAS No. 157, *Fair Value Measurement* (SFAS 157), which defines fair value, establishes a framework for measuring fair value and expands disclosures about assets and liabilities measured at fair value. The Company adopted SFAS 157 in the first quarter of fiscal 2008.

In February 2007, the FASB issued SFAS No. 159, *The Fair Value Option for Financial Assets and Financial Liabilities*. SFAS No. 159 permits entities to choose to measure many financial instruments and certain other items at fair value that are not currently required to be measured at fair value. The objective is to improve financial reporting by providing entities with the opportunity to mitigate volatility in reported earnings caused by measuring related assets and liabilities differently without having to apply complex hedge accounting

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provisions. SFAS No. 159 also establishes presentation and disclosure requirements designed to facilitate comparisons between entities that choose different measurement attributes for similar types of assets and liabilities. SFAS No. 159 is effective for fiscal years beginning after November 15, 2007. The adoption of this statement did not have a material effect on the Company's future financial position or results of operations.

In May 2008, the FASB issued SFAS No. 162, The Hierarchy of Generally Accepted Accounting Principles (SFAS 162). SFAS 162 identifies the sources of accounting principles and the framework for selecting the principles used in the preparation of financial statements of nongovernmental entities that are presented in conformity with generally accepted accounting principles (the GAAP hierarchy). SFAS 162 will become effective 60 days following the SEC's approval of the Public Company Accounting Oversight Board amendments to AU Section 411, The Meaning of Present Fairly in Conformity With Generally Accepted Accounting Principles. The Company does not expect the adoption of SFAS 162 will have a material effect on its financial position, results of operations or cash flows.

In June 2008, the FASB issued Emerging Issues Task Force (EITF) 03-6-1, *Determining Whether Instruments Granted in Share-Based Payment Transactions are Participating Securities* which provides that unvested share-based payment awards that contain nonforfeitable rights to dividends or dividend equivalents (whether paid or unpaid) are participating securities and should be included in the computation of earnings per share pursuant to the two-class method. EITF 03-6-1 is effective for financial statements issued for fiscal years beginning after December 15, 2008, and interim periods within those years. Upon adoption, a company is required to retrospectively adjust its earnings per share data including any amounts related to interim periods, summaries of earnings and selected financial data. The Company is assessing the impact of adopting EITF 03-6-1, but does not expect the impact to be material to the Company's financial condition or results of operations.

In June 2008, the Emerging Issues Task Force issued EITF Consensus No. 07-05 Determining Whether an Instrument (or Embedded Feature) Is Indexed to an Entity's Own Stock, which supersedes the definition in EITF 06-01 for periods beginning after December 15, 2008 (our fiscal year ending September 30, 2010). The objective of this Issue is to provide guidance for determining whether an equity-linked financial instrument (or embedded feature) is indexed to an entity's own stock and it applies to any freestanding financial instrument or embedded feature that has all the characteristics of a derivative in of Statement 133, for purposes of determining whether that instrument or embedded feature qualifies for the first part of the scope exception in paragraph 11(a) of Statement 133 (the Paragraph 11(a) Exemption). This Issue also applies to any freestanding financial instrument that is potentially settled in an entity's own stock, regardless of whether the instrument has all the characteristics of a derivative in Statement 133, for purposes of determining whether the instrument is within the scope of Issue 00-19. We currently have warrants that embody terms and conditions that require the reset of their strike prices upon our sale of shares or equity-indexed financial instruments at amounts less than the conversion prices. These features will no longer be treated as equity under the EITF once it becomes effective. Rather, such instruments will require classification as liabilities and measurement at fair value. Early adoption is precluded. Accordingly, this standard will be adopted in our quarterly period ended March 31, 2009.

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Inventory consisted of the following components:

	December 31,	
	2008	2007
Raw Materials	905,568	1,191,376
Work-in-Process	196,500	460,029
Finished Goods	337,840	297,341
Total Inventory	\$ 1,439,908	\$ 1,948,746

NOTE 4 PROPERTY, PLANT, AND EQUIPMENT

Property, Plant and Equipment consisted of the following:

Category	December 31,	
	2008	2007
Land and improvements	423,244	381,961
Buildings	1,919,554	1,914,200
Machinery and equipment	1,228,376	1,060,934
Furniture and fixtures	210,889	166,893
	3,782,063	3,523,988
Accumulated depreciation	(730,849)	(444,963)
Total Property, Plant, and Equipment	\$ 3,051,214	\$ 3,079,025

Depreciation expense amounted to \$285,886 and \$257,314 for the years ended December 31, 2008 and 2007, respectively.

NOTE 5 GOODWILL

As a result of the acquisition of DeerValley Acquisitions Corp. and Deer Valley Homebuilders, Inc., on January 18, 2006, goodwill is reflected on the consolidated balance sheets. A valuation was performed by the Company and it was determined that the estimated fair value of the goodwill in the accounts exceeded its book value by \$3,148,177. In addition, the Company has paid an additional \$4,000,000 in connection with its earnout agreement with selling shareholders. See Note 8 Long-term Debt Earnout Agreement for information on this agreement. There is no assurance that the value of the acquired entities will not decrease in the future due to changing business conditions.

Total Goodwill as of December 31, 2006	\$ 5,721,413
Earnout for 2007	1,535,504
Total Goodwill as of December 31, 2007	\$ 7,256,917
Earnout for 2008	
Total Goodwill as of December 31, 2008	\$ 7,256,917

Table of Contents**NOTE 6 ACCRUED EXPENSES**

Accrued expenses consisted of the following:

Category	December 31,	
	2008	2007
Accrued dealer incentive program	694,886	695,975
Accrued third party billings	702,983	776,061
Accrued compensation	301,535	734,157
Accrued insurance	124,128	141,288
Accrued interest	80,424	106,172
Accrued repurchase commitment	265,000	185,000
Other	171,911	(168,785)
Total Accrued Expenses	\$ 2,340,867	\$ 2,469,868

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 estimated warranty costs are accrued at the time of the sale to the dealer following industry standards and historical warranty cost incurred. Periodic adjustments to the estimated warranty accrual are made as events occur which indicate changes are necessary. As of December 31, 2008 and 2007, the Company has provided a liability of \$2,220,000 and \$2,130,000, 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,	
	2007	2007
Balance at beginning of period	\$ 2,130,000	\$ 2,000,000
Warranty charges	4,799,453	5,485,300
Warranty payments	(4,709,453)	(5,355,300)
Balance at end of period	\$ 2,220,000	\$ 2,130,000

NOTE 8 LONG-TERM DEBT***Loans and Letter of Credit***

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

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On April 11, 2007, Deer Valley Corporation entered into a new Loan and Security Agreement providing for a revolving line of credit in an amount not to exceed Two Million Five Hundred Thousand and No/100 Dollars (\$2,500,000) (the DV Loan Agreement) evidenced by a revolving credit note and secured by accounts receivable, inventory, equipment and all other tangible and intangible personal property of Deer Valley Corporation and DVH. The purpose of the DV Loan Agreement is to provide a standby source of working capital, letters of credit required by the terms of certain repurchase agreements and performance bonds entered into in the normal course of the Company's business, and to provide financing for potential acquisition(s) of new manufacturing facilities or subsidiaries. The DV Loan Agreement has a one year term and has a variable interest rate at 2.60% above LIBOR. Upon issuance of a letter of credit, Deer Valley Corporation is charged a letter of credit fee equal to 1.00% of the face amount of the letter of credit. The DV Loan Agreement provides for conditions to meet prior to each advance, including financial ratios. See consolidation of credit facility in note below.

In addition to the above, on April 11, 2007, DVH renewed its existing Loan and Security Agreement providing for a revolving line of credit in an amount not to exceed Two Million Five Hundred Thousand and No/100 Dollars (\$2,500,000) (the DVH Loan agreement) evidenced by a revolving credit note and secured by accounts receivable, inventory, equipment and all other tangible and intangible personal property of DVH and Deer Valley Corporation. The purpose of the DVH Loan is to provide standby working capital and letters of credit required by the terms of certain repurchase agreements and performance bonds entered into in the normal course of DVH's business. The DVH Loan Agreement has a one year term and has a variable interest rate at 2.60% above LIBOR. Upon issuance of a letter of credit, DVH is charged a letter of credit fee equal to 1.00% of the face amount of the letter of credit. The DVH Loan provides for conditions to meet prior to each advance, including financial ratios. See consolidation of credit facility in note below.

On August 10, 2007, Deer Valley Homebuilders, Inc. (DVH) entered into a Revolving Bridge Loan and Security Agreement with Fifth Third Bank, providing for a line of credit in an amount not to exceed Five Million and No/100 Dollars (\$5,000,000), evidenced by a revolving credit note and secured by accounts receivable, inventory, equipment and all other tangible and intangible personal property of DVH. The purpose of the new facility is to provide a standby source of working capital for fulfillment of one or more contracts with the State of Mississippi to construct housing units under the Mississippi Alternative Pilot Program. This facility has a six month term and has a variable interest rate at 2.50% above LIBOR. The Loan and Security Agreement permits acceleration upon certain payment and covenant defaults. See consolidation of credit facility in note below.

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

The amount available under the revolving line of credit is equal to the lesser of \$7,500,000 or an amount based on defined percentages of accounts receivable and inventories reduced by any outstanding letters of credit. At December 31, 2008, \$1,410,000 was available under the revolving line of credit after deducting letters of credit of \$375,000.

In addition to the revolving line of credit described in the preceding paragraph, DVH, during its normal course of business, is required to issue irrevocable standby letters of credit in the favor of independent third party beneficiaries to cover obligations under insurance policies. As of December 31, 2008, no amounts had been drawn on the above irrevocable letters of credit by the beneficiaries.

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Long-term debt of the Company was as follows:

	December 31,	
	2008	2007
Earnout payable see Earnout Agreement below	\$	\$
Note payable to Fifth Third Bank, payable in monthly installments of \$10,000 including interest at Libor plus 2.25%, maturing on June 1, 2011, secured by all assets of the Company.	1,800,432	1,888,810
Total	1,800,432	1,888,810
Less: Current portion of long-term debt	(81,009)	(81,331)
Total long-term debt, net of current portion	\$ 1,719,423	\$ 1,807,479

Total interest costs for the years ended December 31, 2008 and 2007, amounted to \$155,664 and \$171,362, respectively, as reflected on the face of the accompanying statement of income.

At December 31, 2008, principal repayment requirements on long-term debt were as follows:

For year ended December 31,	Amount
2009	81,009
2010	95,336
2011	1,543,078
Total repayments on long-term debt	1,719,423

Earnout Agreement

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

On April 12, 2007 the Company made a payment of \$1,232,275 pursuant to the Earnout Agreement. The payment represented the current portion due under the Earnout Agreement.

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

In exchange for the elimination of future performance based cash accruals that were expected to total an additional \$2 million over the next 12 to 36 months, the Company issued to the Founders two million shares of Deer Valley's common stock. Through December 31, 2007, the Company has paid \$4,000,000 to the Founders, under its Earnout Agreement, including \$2.75 million in December of 2007. At December 31, 2008, the Company Founders have vested rights amounting to \$1,738,010 of the remaining \$2,000,000 under the

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Amended Earnout Agreement subject to completing requirements of the Founders employment agreement. The common stock will be held in escrow until January 18, 2011 pending completion of the employment agreement requirements. The final number of shares released to recipients may be reduced in accordance with vesting requirements if the original earnout criteria are not met. For those shares that are ultimately released, if the open market price of the shares at the time of the release should be less than \$1.00/share, the Company has agreed to either issue additional shares or pay a cash amount equal to the difference between \$1.00 and the share price (i.e. make whole).

The Company accounted for the right to be made whole as a put liability. The Company determines the fair value of the put liability with a commercially available software product that utilizes a proven Monte Carlo valuation methodology. The Monte Carlo model was utilized to incorporate more complex variables than closed-form models such as the Black-Scholes option valuation model. Based on this analysis, the value of the put liability at December 31, 2008 and 2007 was determined to be approximately \$569,844 and \$681,200. The methodology for determining the Put Liability was changed and the cumulative effect of the change in accounting method reduced the Put Liability to \$515,546. This adjustment reduced the Put Liability and increased additional paid in capital by \$165,654. The Company recognized derivative expense of \$54,298 and \$ 0 in the years ended December 31, 2008 and 2007, respectively.

For the year ended December 31, 2008 and 2007, Deer Valley Homebuilders, Inc. had a pre-tax profit in the amount of \$4,085,005 and \$4,461,915, of which \$3,085,005 and \$3,461,915 was above the Company's earnout threshold of \$1,000,000. The Company accrued 50%, or \$1,542,503 and \$1,730,958, of the amount in excess of earnout threshold. The maximum remaining potential accrual for common stock issued to shareholders under the Earnout Agreement is \$261,990.

The table below details the calculation of the Earnout liability, payments which have been made pursuant to the Earnout agreement, and the maximum potential earnout which can still be earned.

	December 31, 2008	December 31, 2007	December 31, 2006	Fourth Quarter 2005	Cumulative Total
DVH Pretax Profit	\$ 4,085,005	\$ 4,461,915	\$ 4,936,287	\$ 1,242,814	\$ 14,726,021
Pre-tax Profit Limitation amount	(1,000,000)	(1,000,000)	(1,000,000)	(250,000)	(3,250,000)
Eligible amount	\$ 3,085,005	\$ 3,461,915	\$ 3,936,287	\$ 992,814	\$ 11,476,021
Earnout Percentage	50%	50%	50%	50%	50%
Current amount payable	\$ 1,542,503	\$ 1,730,958	\$ 1,968,144	\$ 496,407	\$ 5,738,011
Total Accrued Earnout-Beginning	\$ 1,738,011	\$ 4,195,508	\$ 2,464,551	\$ 496,407	\$ 5,738,011
Cash payments		(4,000,000)			(4,000,000)
Stock payments					
Total Accrued Earnout-Ending	\$ 1,738,011	\$ 195,508	\$ 2,464,551	\$ 496,407	\$ 1,738,011
Maximum Potential Earnout-Beginning	\$ 1,804,493	\$ 3,535,450	\$ 5,503,593	\$ 6,000,000	\$ 6,000,000
Current Earnout	(1,542,503)	(1,730,957)	(1,968,144)	(496,407)	(5,738,011)
Maximum Potential Earnout-Ending	\$ 261,990	\$ 1,804,493	\$ 3,535,450	\$ 5,503,593	\$ 261,990

9. EQUITY TRANSACTIONS

Series A Convertible Preferred Stock During the years ended December 31, 2008 and 2007, certain of the Company's shareholders converted 81,225 and 27,750 shares of Series A Preferred stock, stated value \$812,250 and \$277,500, into 1,083,016 and 370,000 shares of the Company's common stock.

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Series C Convertible Preferred Stock During the year ended December 31, 2007, certain of the Company's shareholders converted 4,287 shares of Series C Preferred stock into 428,700 shares of the Company's common stock.

Series E Convertible Preferred exchange On July 23, 2007, in exchange for 250,000 shares of outstanding registered common stock, the Company issued 250,000 shares of Series E Convertible Preferred Stock and a warrant exercisable for 250,000 shares of common stock with an exercise price of \$2.25 per share. Subject to certain conditions, each share of Series E Convertible Preferred Stock is convertible into 1 share of common stock. The securities were offered to a single institutional shareholder of the Company, and the transaction was exempt under Section 3(a)(9) of the Securities Act, as amended. Since we reacquired our own common stock in the exchange, we recorded this as a treasury stock transaction represented by the fair value of the instruments exchanged. The warrants issued as part of the exchange were valued using Black Shoals Merton valuation method using a market price of \$1.20, an expected term of five years, volatility of 44.44%, a risk free rate of 4.71% and no dividends. The valuation included the dilutive effect of the Company's common stock equivalents. There was no impact on the Company's balance sheet or statement of operations related to this exchange in the year ended December 31, 2007.

Common Stock Dividends During the year ended December 31, 2008 and 2007, the Company issued 267,537 and 361,084 shares of the Company's common stock to Series A Preferred shareholders as payment for \$225,109 and \$438,385 of dividends.

Exercise of Warrants During the year ended December 31, 2007, certain of the Company's shareholders exercised 25,273 of Class A warrants into 25,273 shares of the Company's common stock.

Stock Options On July 1, 2007 pursuant to the Long Term Incentive Plan the Company awarded members of the board of directors 350,000 stock options with an exercise price of \$1.14 and a term of 10 years. Additionally, on September 7, 2007 the Company awarded members of the board of directors 350,000 stock options with an exercise price of \$1.09 and a term of 10 years. All of the options issued were fully vested on the grant date. The Company has recognized \$119,903 of expense related to issuances in the Consolidated Statement of Operations for the year ended December 31, 2007.

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

In exchange for the elimination of future performance based cash accruals that were expected to total an additional \$2 million over the next 12 to 36 months, the Company issued to the Founders two million shares of Deer Valley's common stock. Through December 31, 2007, the Company has paid \$4,000,000 to the Founders, under its Earnout Agreement, including \$2.75 million in December of 2007. At December 31, 2008, the Company Founders have vested rights amounting to \$1,738,010 of the remaining \$2,000,000 under the Amended Earnout Agreement subject to completing requirements of the Founders employment agreement. The common stock will be held in escrow until January 18, 2001 pending completion of the employment agreement requirements. The final number of shares released to recipients may be reduced in accordance with vesting requirements if the original earnout criteria are not met. For those shares that are ultimately released, if the open market price of the shares at the time of the release should be less than \$1.00/share, the Company has agreed to either issue additional shares or pay a cash amount equal to the difference between \$1.00 and the share price (i.e. make whole).

NOTE 10 INCOME TAXES

The Internal Revenue Code limits the future availability of net operating loss carryforwards that arose prior to certain cumulative changes in a corporation's ownership. Due to the ownership change in January 2006 and

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prior years, the pre-change net operating loss carryforwards are limited by IRC Section 382 in their annual utilization. If the corporation fails to meet certain business continuity requirements, the carryforwards may be eliminated entirely. As of December 31, 2008, The Company does not believe any of the \$19,000,000 pre change federal net operating loss carryforwards will be realized. The income tax provision (benefit) consists of the following:

Income Taxes:

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

	2008	2007
Current taxes	896,863	951,978
Deferred taxes	225,978	143,655
Provision for income taxes	1,122,841	1,095,633

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

	2008		2007	
	Amount	Impact on Rate	Amount	Impact on Rate
Income tax at federal rate	1,126,000	34.00%	1,204,048	34.00%
State tax, net of Federal effect	139,955	4.23%	140,590	3.97%
Permanent Differences:				
Basis adjustment for energy credit	121,379	3.67%	60,498	1.71%
Meals & Entertainment	32,638	0.99%	36,143	1.02%
Officers Life Insurance	3,183	0.10%	3,294	0.09%
Exempt interest income		0.00%	(13,699)	-0.39%
Domestic Production Deduction	(68,424)	-2.07%	(52,923)	-1.49%
Total Permanent Differences	88,776	2.69%	33,313	0.94%
Total Tax Credits	(400,131)	-12.08%	(282,040)	-7.03%
True Up to Tax Return Deferred Assets	168,241	5.08%	-278	-0.01%
Total Provision	1,122,841	33.92%	1,095,633	31.87%

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:

	2008	2007
Current Deferred Tax Assets:		
Warranty Reserve	848,617	808,761
Repurchase Reserve	101,299	70,245
Allowance for Doubtful Accounts	1,911	26,909
Total Current Deferred Tax Asset	951,827	905,915
Non-Current Deferred Tax Assets:		
Share based compensation	45,834	45,527
Goodwill		
Accelerated Depreciation		
Rounding		
Total Non-Current Deferred Tax Assets	45,834	45,527
Non-Current Deferred Tax Liability:		
Accelerated Depreciation	(180,117)	(95,197)
Goodwill	(531,825)	(406,634)
Total Non-Current Deferred Tax Liability	(711,942)	(501,831)
Total Deferred Tax Assets (Net)	285,719	449,611

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The estimated Tax Credit for the State of Alabama for December 31, 2008 and 2007 of 83,131 and 124,040, is estimated based on the annual capital credit available for qualifying projects within the state of Alabama and is determined by multiplying the total actual project costs by 5% and is limited to Alabama income tax liability attributable to income generated by or arising out of the qualifying project. Any remainder of unused capital credit available cannot be carried forward or back.

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

Reserve for Repurchase Commitments

Deer Valley Homebuilders, Inc. (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 \$16,620,000 at December 31, 2008. As of December 31, 2008 the Company had reserved \$265,000 for future repurchase losses, based on prior experience and an evaluation of dealers financial conditions. DVH to date has not experienced significant losses under these agreements, and management does not expect any future losses to have a material effect on the accompanying financial statements.

Earnout Agreement

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

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

In exchange for the elimination of future performance based cash accruals that were expected to total an additional \$2 million over the next 12 to 36 months, the Company issued to the Founders two million shares of Deer Valley s common stock. Through December 31, 2007, the Company has paid \$4,000,000 to the Founders, under its Earnout Agreement, including \$2.75 million in December of 2007. At December 31, 2008, the Company Founders have vested rights amounting to \$1,738,010 of the remaining \$2,000,000 under the Amended Earnout Agreement subject to completing requirements of the Founders employment agreement. The common stock will be held in escrow until January 18, 2011 if pending completion of the employment agreement requirements. The final number of shares released to recipients may be reduced in accordance with vesting requirements if the original earnout criteria are not met. For those shares that are ultimately released, if the open market price of the shares at the time of the release should be less than \$1.00/share, the Company has agreed to either issue additional shares or pay a cash amount equal to the difference between \$1.00 and the share price (i.e. make whole).

The Company accounted for the right to be made whole as a put liability. The Company determines the fair value of the put liability with a commercially available software product that utilizes a proven Monte Carlo

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valuation methodology. The Monte Carlo model was utilized to incorporate more complex variables than closed-form models such as the Black-Scholes option valuation model. Based on this analysis, the value of the put liability at December 31, 2008 and 2007 was determined to be approximately \$569,844 and \$681,200. The methodology for determining the Put Liability was changed and the cumulative effect of the change in accounting method related reduced the Put Liability to \$515,546. This adjustment reduced the Put Liability and increased additional paid in capital by \$165,654. The Company recognized derivative expense of \$54,298 and \$ 0 in the years ended December 31, 2008 and 2007, respectively.

On January 1, 2008 the Company adopted SFAS No. 157, Fair Value Measurements, for our financial assets and financial liabilities. SFAS 157 defines fair value, provides guidance for measuring fair value and requires certain disclosures. SFAS 157 discusses valuation techniques such as the market approach (comparable market prices), the income approach (present value of future income or cash flow), and the cost approach (cost to replace the service capacity of an asset or replacement cost). The statement utilizes a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value into three broad levels. The following is a brief description of those three levels:

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

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

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

The following table summarizes the level 3 inputs used to measure the put liability at fair value:

	December 31, 2008	December 31, 2007
Settlement guaranteed value	\$ 2,000,000.00	\$ 2,000,000.00
Indexed shares	2,000,000.00	2,000,000.00
Expected volatility	57.18%-75.40%	43.75-49.54%
Effective strike price	\$ 1.00	\$ 1.00
Trading Market Price	\$ 1.20	\$ 1.00
Expected dividends		
Expected term in years	1-3 years	1-3 years

As a result of the fair value adjustments the Company has recognized expense for the years ended December 31, 2008 and 2007 of \$54,298 and \$0, respectively.

Dividends Payable

A holder of Series A 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 therefore, 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 Preferred Stock). The Company was required to pay this dividend for a period of two years from the date of issuance, January 18, 2006, of the Series A. Dividends to these preferred shareholders amount to \$23,308 and \$423,040 in the years ended December 31, 2008 and 2007, respectively. This dividend requirement expired during the year ended December 31, 2008

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In connection with the Capital Stock Purchase Agreement, DVA entered into the Earnout Agreement, pursuant to which, additional payments may be paid to the former owners of Deer Valley Homebuilders, Inc., as an earnout, based upon the net income before taxes of DVH during the five (5) years following January 18, 2006, up to a maximum of \$6,000,000. During the term of the Earnout Agreement, 50% of the pre-tax profit exceeding \$1,000,000 per year will be accrued and become distributable to the former owners of DVH, the Founders, who consist of Joel Stephen Logan, II, the President and General Manager of DVH, Charles L. Murphree, Jr., the Vice President and Regional Sales Director of DVH, and John Steven Lawler, Director of Finance of DVH. Messrs. Logan, Murphree, and Lawler are all directors of Deer Valley Corporation and of DVH. The business purpose of executing the Earnout Agreement was to set the purchase price of DVH by an objective standard, given that the owners of DVH, DVA, and the Company could not agree on an outright purchase price. On November 19, 2007, the Company entered into the Earnout Amendment to the Earnout Agreement with the Founders, now the core operating management for the Company's wholly owned subsidiary, DVH, to generally eliminate the Company's obligations under the Earnout Agreement in exchange for an issuance of two million shares of Deer Valley's common stock to the Founders and release of funds accrued through December 31, 2007. A discussion of the terms of the Earnout Amendment can be found at *Note 8-Long-Term Debt- Earnout Agreement*.

In early November 2006, a shareholder approached the Company about exchanging registered shares of the Company's common stock for shares of the Company's preferred stock and out of the money warrants. On November 16, 2006, the Company entered into a Share Exchange Agreement with that holder of the Company's common stock, par value \$0.001 (the Common Stock) whereby the shareholder agreed to exchange 750,000 shares of Common Stock for 750,000 shares of the Company's Series E Convertible Preferred Stock (the Series E Preferred Stock) and Series F Warrants (the Series F Warrants). On July 23, 2007, in exchange for another 250,000 shares of outstanding registered common stock, the Company issued an additional 250,000 shares of Series E Preferred Stock and Series F Warrants. The Series E Preferred Stock is convertible into the Company's Common Stock at the option of the holder any time after the date of issuance on a one-for-one basis. The conversion rights of the holder of Series E Preferred Stock are limited so that the holder cannot convert any Series E Preferred Stock if, after such conversion, the number of shares of Common Stock beneficially owned by the holder and its affiliates, will exceed 4.99% of the outstanding shares of Common Stock. The Series F Warrants entitle the holder to purchase 750,000 shares of the Company's Common Stock at an exercise price of two dollars and twenty five cents (\$2.25) per share. The Series F Warrants are exercisable, in whole or in part, at any time from the date of grant and expire on the fifth anniversary of the grant date. Similar to the Series E Preferred Stock, the exercise rights of the Series F Warrants are limited so that the holder is not entitled to exercise the warrants if, after such exercise, the number of shares of common stock beneficially owned by the holder and its affiliates, will exceed 4.99% of the outstanding shares of common stock. The Series E Preferred Stock and the Series F Warrants were issued pursuant to the exemption from registration found in Section 3(a)(9) of the Securities Act of 1933. As a result of the Share Exchange Agreement, the 1,050,000 shares of registered Common Stock tendered by the shareholder to the Company were returned to the pool of authorized but unissued shares of the Company's Common Stock.

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The following is a summary of the Company's unaudited quarterly results of operations for the periods ended December 31, 2008 and 2007.

	For the three month periods ended December 31,	
	2008 (unaudited)	2007 (unaudited)
REVENUE	\$ 10,020,195	\$ 17,479,679
COST OF REVENUE	8,555,445	14,135,257
GROSS PROFIT	1,464,750	3,344,422
OPERATING EXPENSES:		
Depreciation	11,880	
Selling, general and administrative	1,306,078	1,678,839
TOTAL OPERATING EXPENSES	1,317,958	1,678,839
OPERATING INCOME	146,792	1,665,583
OTHER INCOME (EXPENSES)		
Other income	1,600	
Interest income	68,037	53,369
Interest expense	(37,153)	(49,221)
TOTAL OTHER INCOME/(EXPENSES)	32,484	4,148
INCOME BEFORE INCOME TAXES	179,276	1,669,731
INCOME TAX EXPENSE	(117,397)	(516,615)
NET INCOME	\$ 61,879	\$ 1,153,116
Dividends to preferred stockholders		(112,224)
Deemed dividend to preferred stockholders on beneficial conversion feature		
Net Income Available to Common Shareholders	\$ 61,879	\$ 1,040,892
Net Income/(Loss) Per Share (Basic)	\$ 0.01	\$ 0.11
Net Income/(Loss) Per Share (Fully Diluted)	\$ 0.00	\$ 0.05
Weighted Average Common Shares Outstanding	11,988,966	9,363,511
Weighted Average Common and Common Equivalent Shares Outstanding	23,739,101	22,285,940

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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 31, 2008. Based upon such evaluation, the Chief Executive Officer and Chief Financial Officer has concluded that, as of the end of such period, the Company's disclosure controls and procedures were not effective as required under Rules 13a-15(e) and 15d-15(e) under the Exchange Act.

Management's Report on Internal Control Over Financial Reporting

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

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

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

* We have not achieved an optimal level of segregation of duties relative to key financial reporting functions.

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

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

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

Remediation Efforts to Address Deficiencies in Internal Control Over Financial Reporting

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

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

*Assessing the current duties of existing personnel and consultants, assigning additional duties to existing personnel and consultants, and, in a cost effective manner, potentially hiring additional personnel to assist with the preparation of the Company's financial statements to allow for proper segregation of duties, as well as additional resources for control documentation.

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

*Assessing the current duties of the existing officers of Deer Valley Corporation and, in a cost effective manner, possibly promote or hire additional personnel to diversify duties and responsibilities of such executive officers.

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

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

Changes in Internal Control Over Financial Reporting

On January 27, 2009, the Board of Directors of Deer Valley Corporation appointed John Steven Lawler to serve as its Chief Financial Officer and Executive Vice President. Prior to such appointment, Mr. Lawler was a member of the Board of Directors and Assistant Secretary of Deer Valley Corporation, and a member of the Board of Directors, Secretary, and Director of Finance of Deer Valley Homebuilders, a wholly-owned subsidiary of Deer Valley Corporation. Mr. Lawler will continue to serve in each of these positions.

Except for the appointment of Mr. Lawler on January 27, 2009, no change in the Company's internal control over financial reporting occurred during the quarter ended December 31, 2008, that materially affected, or is reasonably likely to materially affect, the Company's internal control over financial reporting.

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None.

PART III**ITEM 10. DIRECTORS AND EXECUTIVE OFFICERS OF THE REGISTRANT****Directors and Executive Officers**

As of March 13, 2009, 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	69	President and Chief Executive Officer of the Deer Valley	January 18, 2006 to Present
		Class II Director of Deer Valley Corporation	January 18, 2006 to Present (term expires at next meeting of shareholders)
Joel Stephen Logan, II	40	President and General Manager of DVH	September 22, 2006 to Present
		Class II Director of Deer Valley Corporation	September 22, 2006 to Present (term expires at next meeting of shareholders)
		Member of the Board of Directors of DVH	September 22, 2006 to Present (term expires at next meeting of shareholders)
Charles L. Murphree, Jr.	47	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)
John Steven Lawler	40	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
Hans Beyer	43	Class II Director of Deer Valley Corporation	July 27, 2006 to Present (term expires at next meeting of shareholders)
John Giordano	51	Class III Director of Deer Valley Corporation	July 27, 2006 to Present (term expires at next meeting of shareholders)
Dale Phillips	61	Class I Director of Deer Valley Corporation	July 27, 2006 to Present (term expires in 2009)

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Duties, Responsibilities And Experience

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

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

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

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

Hans Beyer, Director of Deer Valley Corporation. Since February of 2005, Mr. Beyer has served as a partner for Saxon Gilmore Carraway Gibbons Lash & Wilcox, P.A. At Saxon Gilmore Carraway Gibbons Lash & Wilcox, P.A., he oversees and manages complex legal matters. From September 2005 until December 31, 2006, Mr. Beyer served as the Senior Vice President of Mirabilis Ventures, Inc. At Mirabilis Ventures, Inc., he oversaw private equity investments. In addition, Mr. Beyer is President and Founder for Daedalus Consulting, Inc. In connection with his position at Daedalus Consulting, Inc., Mr. Beyer provides consulting advice on business matters. From 2003 to February 2005, Mr. Beyer was a partner at Buchanan Ingersoll, P.C. Prior to 2002, Mr. Beyer was the founder and President of the Law Firm of Hans Christian Beyer, P.A. Mr. Beyer holds a B.A. from the University of Michigan and a J.D. from the University of Michigan Law School.

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

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Dale Phillips, Director of Deer Valley Corporation. For the past five years, Mr. Phillips has served as a director and Vice President of Finance for RE Purcell Construction Co., Inc., a paving and utility contractor. He is also a director and Vice President for Dalmari, Inc. Mr. Phillips holds an A.S. (1968) in Business Management from Champlain College and a B.A. (1971) in Accounting from Castleton State College.

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

Section 16(a) Beneficial Ownership Reporting Compliance

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

Section 16(a) Beneficial Ownership Reporting Compliance

Name of Filer	Title	# of Late Reports	# of Transactions not timely reported	# of Failure to File
Hans Beyer	Director	1	2	0
Vicis Capital Master Fund	10% Beneficial Owner	5	147	0

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 small business issuer's board of directors.

Audit Committee

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

Audit Committee Financial Expert

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

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

The following table sets forth information regarding the compensation earned by our Chief Executive Officer and each of our most highly compensated executive officers whose total compensation exceeded \$100,000 for the fiscal year ended December 31, 2008 with respect to services rendered by such persons.

SUMMARY COMPENSATION TABLE

Name and Principal Position	Year	Salary	Bonus	Option Awards	Non-Equity Incentive Plan Compensation	All Other Compensation	Total
Charles G. Masters ⁽¹⁾	2008	\$ 150,000		\$			\$ 150,000
	2007	\$ 150,000		\$ 17,129 ⁽¹³⁾			\$ 167,129
Joel Stephen Logan, II ⁽²⁾	2008	\$ 53,000	\$ 450	\$	\$ 335,814 ⁽⁵⁾	\$ 5,459 ⁽¹¹⁾	\$ 394,723
	2007	\$ 52,000	\$ 450	\$ 17,129 ⁽¹³⁾	\$ 363,433 ⁽⁶⁾	\$ 10,205 ⁽¹¹⁾	\$ 443,217
Charles L. Murphree, Jr. ⁽³⁾	2008	\$ 53,000	\$ 450	\$	\$ 169,761 ⁽⁷⁾	\$ 5,459 ⁽¹¹⁾	\$ 228,670
	2007	\$ 52,000	\$ 450	\$ 17,129 ⁽¹³⁾	\$ 183,599 ⁽⁸⁾	\$ 10,205 ⁽¹¹⁾	\$ 263,383
John Steven Lawler ⁽⁴⁾	2008	\$ 53,000	\$ 450	\$	\$ 162,889 ⁽⁹⁾	\$ 1,000 ⁽¹²⁾	\$ 217,339
	2007	\$ 52,000	\$ 450	\$ 17,129 ⁽¹³⁾	\$ 176,123 ⁽¹⁰⁾	\$ 6,000 ⁽¹²⁾	\$ 251,702

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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 2008 and 2007.

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- (2) Mr. Logan is a Director of the Company and President and General Manager of Deer Valley Homebuilders, Inc., a material operating subsidiary of the Company acquired on January 18, 2006. Mr. Logan's executive compensation above includes historical compensation paid by Deer Valley Homebuilders, Inc. prior to its acquisition by the Company. Mr. Logan's bonus of \$450 is an anniversary bonus paid to each employee of Deer Valley Homebuilders, Inc. upon the anniversary of his or her employment.
- (3) Mr. Murphree is Director of the Company and Vice President and Regional Sales Director of Deer Valley Homebuilders, Inc, a material operating subsidiary of the Company acquired on January 18, 2006. Mr. Murphree's executive compensation above includes historical compensation paid by Deer Valley Homebuilders, Inc. prior to its acquisition by the Company. Mr. Murphree's bonus of \$450 is an anniversary bonus paid to each employee of Deer Valley Homebuilders, Inc. upon the anniversary of his or her employment.
- (4) Mr. Lawler is Director, Chief Financial Officer and Executive Vice President of the Company and Chief Financial Officer of Deer Valley Homebuilders, Inc, a material operating subsidiary of the Company acquired on January 18, 2006. Mr. Lawler's executive compensation above includes historical compensation paid by Deer Valley Homebuilders, Inc. prior to its acquisition by the Company. Mr. Lawler's bonus of \$450 is an anniversary bonus paid to each employee of Deer Valley Homebuilders, Inc. upon the anniversary of his or her employment.
- (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 2008, including a hitch bonus of \$4,740 and profit-sharing of \$39,801 accrued but unpaid in 2008. In 2008, Mr. Logan was paid \$118,500 as a hitch bonus, which includes \$8,460 accrued but unpaid in 2007, and \$297,407 in profit-sharing, which includes \$116,174 accrued but unpaid in 2007.
- (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 2007, including a hitch bonus of \$8,460 and profit-sharing of \$116,174 accrued but unpaid in 2007. In 2007 Mr. Logan was paid \$122,400 as a hitch bonus, which includes \$7,740 accrued but unpaid in 2006, and \$215,517 in profit-sharing, which includes \$91,378 accrued but unpaid in 2006.
- (7) Non-equity incentive plan compensation consisted of hitch bonuses and profit-sharing arrangements described in Employment Agreements with Named Executive Officers below. Amount reflects accruals in fiscal year 2008, including a hitch bonus of \$2,833 and profit-sharing of \$19,117 accrued but unpaid in 2008. In 2008, Mr. Murphree was paid \$66,195 as a hitch bonus, which includes \$5,433 accrued but unpaid in 2007, and \$142,850 in profit-sharing, which includes \$55,801 accrued but unpaid in 2007.
- (8) Non-equity incentive plan compensation consisted of hitch bonuses and profit-sharing arrangements described in Employment Agreements with Named Executive Officers below. Amount reflects accruals in fiscal year 2007, including a hitch bonus of \$5,433 and profit-sharing of \$55,801 accrued but unpaid in 2007. In 2007, Mr. Murphree was paid \$68,294 as a hitch bonus, which includes \$5,556 accrued but unpaid in 2006, and \$103,519 in profit-sharing, which includes \$43,892 accrued but unpaid in 2006.
- (9) Non-equity incentive plan compensation consisted of hitch bonuses and profit-sharing arrangements described in Employment Agreements with Named Executive Officers below. Amount reflects accruals in fiscal year 2008, including a hitch bonus of \$2,765 and profit-sharing of \$17,275 accrued but unpaid in 2008. In 2008, Mr. Lawler was paid \$69,125 as a hitch bonus, which includes \$4,935 accrued but unpaid in 2007, and \$129,082 in profit-sharing, which includes \$50,423 accrued but unpaid in 2007.
- (10) Non-equity incentive plan compensation consisted of hitch bonuses and profit-sharing arrangements described in Employment Agreements with Named Executive Officers below. Amount reflects accruals in fiscal year 2007, including a hitch bonus of \$4,935 and profit-sharing of \$50,423 accrued but unpaid in 2007. In 2007, Mr. Lawler was paid \$71,400 as a hitch bonus, which includes \$4,515 accrued but unpaid in 2006, and \$93,541 in profit-sharing, which includes \$39,661 accrued but unpaid in 2006.

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- (11) Amount relates to health insurance premiums and director fees in the respective fiscal year.
- (12) Amount relates to director fees in the respective fiscal year.
- (13) For information concerning the valuation of the option awards, reference is made to the section *Determining fair Value* under Section 2 of the Notes to Consolidated Financial Statements for the years ended December 31, 2008 and 2007.

For a discussion of option awards that were made for the fiscal year ending December 31, 2007, please see the discussion of the 2007 Incentive Plan in *Securities Authorized For Issuance Under Equity Compensation Plans* under Item 5.

Employment Agreements with Named Executive Officers

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

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

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

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

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

Table of Contents**Outstanding Equity Awards**

The following table sets forth information concerning unexercised options, stock that has not vested and equity incentive plan awards for our Chief Executive Officer and each of our most highly compensated executive officers whose total compensation exceeded \$100,000 for the fiscal year ended December 31, 2008 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 Awards: Market or Payout Value of Unearned Shares That Have Not Vested
	Number of Exercisable Securities Underlying Unexercised Options	Number of Unexercisable Securities Underlying Unexercised Options	Equity Incentive Plan Awards: Number of Securities Underlying Unexercised Unearned Options	Number of Shares of Stock That Have Not Vested	Market Value of Shares of Stock That Have Not Vested	Equity Incentive Plan Awards: Number of Unearned Shares That Have Not Vested	
Charles G. Masters	50,000			\$ 1.14	7/1/2017		
	50,000			\$ 1.09	9/7/2017		
Joel Stephen Logan, II	50,000			\$ 1.14	7/1/2017		
	50,000			\$ 1.09	9/7/2017		
Charles L. Murphree, Jr.	50,000			\$ 1.14	7/1/2017		
	50,000			\$ 1.09	9/7/2017		
John Steven Lawler	50,000			\$ 1.14	7/1/2017		
	50,000			\$ 1.09	9/7/2017		

Compensation of Directors

The Company did not compensate any of the directors who are not included in the Summary Compensation Table or the Outstanding Equity Awards at Fiscal Year-End table above for the fiscal year ended December 31, 2008 with respect to services rendered.

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 11, 2009 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.

Table of Contents**SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT⁽¹⁾**

Title of Class	Name and Address of Beneficial Owner	Amount and Nature of Beneficial Ownership	Percent of Class⁽²⁾
Common Stock;	Charles G. Masters,	311,194 ⁽⁶⁾	2.46%
Common Stock issuable upon conversion of derivative securities	Member of the Board of Directors of Deer Valley Corporation, Chief Executive Officer and President of the Deer Valley Corporation ⁽³⁾		
Common Stock;	Joel Stephen Logan, II,	1,266,967	10.04%
Common Stock issuable upon conversion of derivative securities	Member of the Board of Directors of Deer Valley Corporation and of DVH, President and General Manager of DVH ⁽⁴⁾	Direct Ownership ⁽⁷⁾	
Common Stock;	Charles L. Murphree, Jr.,	835,427	6.62%
Common Stock issuable upon conversion of derivative securities	Member of the Board of Directors of Deer Valley Corporation and of DVH, Vice President and Regional Sales Director of DVH ⁽⁴⁾	Direct Ownership ⁽⁸⁾	
Common Stock;	John Steven Lawler,	574,098	4.55%
Common Stock issuable upon conversion of derivative securities	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 ⁽⁴⁾	Direct Ownership ⁽⁹⁾	
Common Stock;	Vicis Capital Master Fund ⁽⁵⁾	6,840,082	54.22%
Common Stock issuable upon conversion of derivative securities		Direct Ownership ⁽¹⁰⁾	
Common Stock;	Hans Beyer,	449,577 ⁽¹¹⁾	3.56%
Common Stock issuable upon conversion of derivative securities	Member of the Board of Directors of Deer Valley Corporation ⁽³⁾		
Common Stock issuable upon conversion of derivative securities	John Giordano	100,000	*
	Member of the Board of Directors of Deer Valley Corporation ⁽³⁾	Direct Ownership ⁽¹²⁾	
Common Stock issuable upon conversion of derivative securities	Dale Phillips	144,188 ⁽¹³⁾	1.14%
	Member of the Board of Directors of Deer Valley Corporation ⁽³⁾		
Common Stock and derivative securities convertible into Common Stock	All executive officers and directors as a group (7 persons)	3,681,451	29.18%

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- * Less than 1%.
- (1) All of the Company's Series B and D Convertible Preferred Stock automatically converted to common stock on July 24, 2006 and so does not appear here. Holders of more than 5% of our outstanding Series A Convertible Preferred Stock, Series C Convertible Preferred Stock, and Series E Convertible Preferred Stock are not included above because (1) such holders vote on an as-converted basis with common shareholders on all matters save those involving a material alteration to the rights of holders of Series A, C, or E Convertible Preferred Stock and (2) holders of Series A, C, and E Convertible Preferred Stock are contractually restricted from converting such stock or exercising warrants such that they would own or vote more than 4.99% of the Company's common stock. Therefore, it is the Company's view that ownership of more than 5% of such preferred stock is immaterial for purposes of determining voting control of the Company.

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- (2) Applicable percentage of ownership is based on 12,616,183 shares of common stock being issued and outstanding as of March 11, 2009. Calculations do not include outstanding convertible preferred stock, warrants, options, or other rights issued by the Company, unless the reporting person is the beneficial owner of the convertible preferred stock, 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 of January 20, 2009 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) Unless otherwise indicated, the mailing address of the shareholder is 3111 W. Dr. MLK Blvd., Ste 100, Tampa, FL 33607.
- (4) Unless otherwise indicated, the mailing address of the shareholder is 205 Carriage St., Guin, Alabama 35563.
- (5) Unless otherwise indicated, the mailing address of the shareholder is 126 East 56th Street, New York, New York 10022.
- (6) Consists of (a) 14,498 common shares directly owned by Charles G. Masters, (b) 35,242 common shares owned by Charles Masters spouse, (c) 33,334 common shares issuable upon exercise of the Company's Series A Common Stock Purchase Warrant owned by Charles Masters spouse, (d) 2,024 common shares issuable upon exercise of another of the Company's Series A Common Stock Purchase Warrants owned by Charles Masters spouse, (e) 16,667 common shares issuable upon exercise of the Company's Series B Common Stock Purchase Warrant owned by Charles Masters spouse, (f) 109,419 common shares issuable upon exercise of the Company's Series BD Common Stock Purchase Warrants directly owned by Charles G. Masters, and (g) director common stock purchase options exercisable for 100,000 shares directly owned by Charles G. Masters. 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. In 2001, Mr. Charles G. Masters was appointed as a co-trustee of a Florida revocable trust (the Trust). In 2006, while acting in his capacity as co-trustee, Mr. Masters used a portion of the Trust's assets in the acquisition of 300,000 shares of Deer Valley Corporation common stock. On March 10, 2009, Mr. Masters sold 1,800,000 shares of Deer Valley common stock to Vicis Capital Master Fund (Vicis), including those shares purchased with Trust assets. From the proceeds of the sale to Vicis, the Trust received the full original purchase price for the 300,000 shares, plus a return.
- (7) Consists of (a) 216,528 common shares, (b) 638,298 common shares being held in escrow pursuant to the Earnout Amendment; (c) 200,000 common shares issuable upon exercise of the Company's Series A Common Stock Purchase Warrant, (d) 12,141 common shares issuable upon exercise of another of the Company's Series A Common Stock Purchase Warrants, (e) 100,000 common shares issuable upon exercise of the Company's Series B Common Stock Purchase Warrant, and (f) director common stock purchase options exercisable for 100,000 shares.
- (8) Consists of (a) 144,353 common shares, (b) 382,979 common shares being held in escrow pursuant to the Earnout Amendment, (c) 133,334 common shares issuable upon exercise of the Company's Series A Common Stock Purchase Warrant, (d) 8,094 common shares issuable upon exercise of another of the Company's Series A Common Stock Purchase Warrants, (e) 66,667 common shares issuable upon exercise of the Company's Series B Common Stock Purchase Warrant, and (f) director common stock purchase options exercisable for 100,000 shares.
- (9) Consists of (a) 72,178 common shares, (b) 297,872 common shares being held in escrow pursuant to the Earnout Amendment, (c) 66,667 common shares issuable upon exercise of the Company's Series A

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- Common Stock Purchase Warrant, (d) 4,047 common shares issuable upon exercise of another of the Company's Series A Common Stock Purchase Warrants, (e) 33,334 common shares issuable upon exercise of the Company's Series B Common Stock Purchase Warrant, and (f) director common stock purchase options exercisable for 100,000 shares.
- (10) Consists of (a) 6,840,082 common shares, (b) 600,000 common shares issuable upon exercise of 492,500 shares of the Company's Series A Preferred stock, (c) 364,178 common shares issuable upon exercise of the Company's Series A Common Stock Purchase Warrant, (d) 3,283,334 common shares issuable upon exercise of the Company's Series B Common Stock Purchase Warrant, (e) 6,556,668 common shares issuable upon exercise of another Series B Common Stock Purchase Warrant, (f) 2,246,300 common shares issuable upon conversion of 22,463 shares of the Company's Series C Preferred Stock, (g) 2,000,000 shares of common stock which are issuable upon exercise of a Series C Common Stock Purchase Warrant, (h) 1,000,000 shares issuable upon exercise of 1,000,000 shares of the Company's Series E Preferred Stock, (j) 2,000,000 shares of common stock which are issuable upon exercise of a Series D Common Stock Purchase Warrant, (k) 250,000 shares of common stock which are issuable upon exercise of another Series F Common Stock Purchase Warrant, (l) 750,000 shares of common stock which are issuable upon exercise of another Series F Common Stock Purchase Warrant, and (m) 632,524 shares of common stock which are issuable upon exercise of Series BD Common Stock Purchase Warrants. The conversion rights of Series A Preferred Stock, Series C Preferred Stock, and Series E Preferred Stock issued are limited in the certificate of designations, preferences and rights of such stock, and the exercise rights in the warrants issued to Vicis Capital Master Fund are limited, so, in each instance, the holder is not entitled to convert any Series A Preferred Stock, Series C Preferred Stock, or Series E Preferred Stock, or exercise any warrants, to the extent that, after such conversion, the sum of the number of shares of common stock beneficially owned by such holder and its affiliates, will result in beneficial ownership of more than 4.99% of the outstanding shares of common stock. As a result, the inclusion of Series A Preferred Stock, Series C Preferred Stock, and Series E Preferred Stock or the warrants in this Filing shall not be deemed an admission of beneficial ownership of all of registered securities under Section 16 or for any other purpose. In addition, as a result of such conversion caps, Vicis Capital Master Fund's ownership on the table has been reported as 4.99%.
- (11) Consists of (a) 1104 common shares directly owned by Mr. Beyer, (b) 13,333 common shares issuable upon exercise of the Company's Series A Preferred stock directly owned by Mr. Beyer, (c) 13,333 common shares issuable upon exercise of the Company's Series A Common Stock Purchase Warrant directly owned by Mr. Beyer, (d) 810 common shares issuable upon exercise of another of the Company's Series A Common Stock Purchase Warrant directly owned by Mr. Beyer, (e) 6,667 common shares issuable upon exercise of the Company's Series B Common Stock Purchase Warrant directly owned by Mr. Beyer, (f) 232,642 shares of common stock owned indirectly through Daedalus Consulting, Inc., (g) 37,500 common shares indirectly owned by nature of Mr. Beyer's indirect ownership of Apogee Financial Investments, Inc., (h) 44,188 common shares issuable upon exercise of the Company's BD Common Stock Purchase Warrants indirectly owned by nature of Mr. Beyer's indirect ownership of Apogee Financial Investments, Inc., and (i) director common stock purchase options exercisable for 100,000 shares. Mr. Beyer disclaims beneficial ownership of securities owned by Daedalus Consulting, Inc. and Apogee Financial Investments, Inc., 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 or for any other purpose.
- (12) Consists of director common stock purchase options exercisable for 100,000 shares.
- (13) Consists of (a) director common stock purchase options directly owned by Mr. Phillips exercisable for 100,000 shares, and (b) 44,188 common shares issuable upon exercise of the Company's BD Common Stock Purchase Warrants indirectly owned by nature of Mr. Phillips' indirect ownership of Apogee Financial Investments, Inc. Mr. Phillips disclaims beneficial ownership of securities owned by Apogee Financial Investments, Inc., 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 or for any other purpose.

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Change in Control and Acquisition

There are no existing agreements which may provide for a change in control of the Company.

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

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

In connection with that certain Capital Stock Purchase Agreement, DVA entered into the Earnout Agreement, pursuant to which, additional payments may be paid to the former owners of Deer Valley Homebuilders, Inc., as an earnout, based upon the net income before taxes of DVH during the five (5) years following January 18, 2006, up to a maximum of \$6,000,000. During the term of the Earnout Agreement, 50% of the pre-tax profit exceeding \$1,000,000 per year will be accrued and become distributable to the former owners of DVH, the Founders, who consist of Joel Stephen Logan, II, the President and General Manager of DVH, Charles L. Murphree, Jr., the Vice President and Regional Sales Director of DVH, and John Steven Lawler, Director of Finance of DVH. Messrs. Logan, Murphree, and Lawler are all directors of Deer Valley Corporation and of DVH. The business purpose of executing the Earnout Agreement was to set the purchase price of DVH by an objective standard, given that the owners of DVH, DVA, and the Company could not agree on an outright purchase price. On November 19, 2007, the Company entered into the Earnout Amendment to the Earnout Agreement with the Founders, now the core operating management for the Company's wholly owned subsidiary, DVH, to generally eliminate the Company's obligations under the Earnout Agreement in exchange for an issuance of two million shares of Deer Valley's common stock to the Founders and release of funds accrued through December 31, 2007. A discussion of the terms of the Earnout Amendment can be found at *Earnout Agreement* under Note 8 of the Notes to Consolidated Financial Statements for the years ended December 31, 2008 and 2007.

John N. Giordano, a director of the Company, is also a shareholder of Bush Ross, P.A., the Company's outside general legal counsel. The Company paid less than \$120,000 for legal services during the fiscal year ending December 31, 2008.

Corporate Governance Director Independence

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

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

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

Audit Fees

The aggregate fees billed by KBL for professional services rendered for the audit of the Company's financial statements for the fiscal year ended December 31, 2008 and for the review of the financial statements included in the

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Company's Form 10-QSB for the periods ended April 1, July 1, and September 30, 2008, were approximately \$42,500. The aggregate fees billed by KBL for professional services rendered for the audit of the Company's financial statements for the fiscal year ended December 31, 2008 were \$135,000.

On July 16, 2007, the Company notified Herman, Lagor, Hopkins & Meeks, PA (HLHM) of its dismissal, effective as of July 16, 2007, as the Company's independent registered public accounting firm. The aggregate fees billed by HLHM for professional services rendered prior to its dismissal for the review of the financial statements included in the Company's Form 10-QSB for the period ended March 31, 2007 were approximately \$12,500.

Effective July 16, 2007, the Company engaged KBL, LLP (KBL), a public accounting firm which is registered with, and governed by the rules of, the Public Company Accounting Oversight Board, as its new independent registered public accountant to audit the Company's financial statements for the remainder of the year ended December 31, 2007. The aggregate fees billed by KBL for professional services rendered for the audit of the Company's financial statements for the fiscal year ended December 31, 2007 were approximately \$106,000 and for the review of the financial statements included in the Company's Form 10-QSB for the periods June 30, 2007 and September 30, 2007, were approximately \$22,500.

Audit-Related Fees

Audit-related fees consist of services for consultations to assist in response to comments from the Securities and Exchange Commission.

The aggregate fees billed by KBL for services reasonably related to the performance of the audit or review of our financial statements outside of those fees disclosed under "Audit Fees" above for the fiscal year ended December 31, 2008 were approximately \$32,500. There were no fees billed for services reasonably related to the performance of the audit or review of our financial statements outside of those fees disclosed under "Audit Fees" above for the fiscal year ended December 31, 2007.

Tax Fees

During the fiscal year ended December 31, 2008, the aggregate fees billed by KBL for tax compliance and tax advice were approximately \$31,000. During the fiscal year ended December 31, 2007, KBL did not render any tax compliance or tax advice services that were billed to the Company. During the fiscal year ended December 31, 2007, the aggregate fees billed by HLHM for tax compliance and tax advice were approximately \$31,000. During the fiscal year ended December 31, 2008, HLHM did not render any tax compliance or tax advice services that were billed to the Company.

All Other Fees

There were no other fees billed by our principal accountants other than those disclosed above for the last two fiscal years.

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Exhibit No.	Description
3.01	Articles of Incorporation of Deer Valley Corporation (1)
3.02	Bylaws of Deer Valley Corporation (1)
4.01	Certificate of Designation, Rights, and Preferences of Series A Convertible Preferred Stock (1)
4.02	Certificate of Designation, Rights, and Preferences of Series B Convertible Preferred Stock (1)
4.03	Certificate of Designation, Rights, and Preferences of Series C Convertible Preferred Stock (1)
4.04	Certificate of Designation, Rights, and Preferences of Series D Convertible Preferred Stock (1)
4.05	Certificate of Designation, Rights, and Preferences of Series E Convertible Preferred Stock (2)
10.01	Securities Purchase and Share Exchange Agreement dated January 18, 2006, by and among the Company, Richard A. Fisher, Kevin J. High, certain purchasers of the Company's Series A Convertible Preferred Stock, DeerValley Acquisitions Corp., and certain other persons a party thereto (3)
10.02	Investor Rights Agreement, by and among the Company, each of the purchasers of the Company's Series A Convertible Preferred Stock, and certain other persons a party thereto (3)
10.03	Earnout Agreement (3)
10.04	Form of Series A Common Stock Purchase Warrant (3)
10.05	Form of Series B Common Stock Purchase Warrant (3)
10.06	Form of Series C Common Stock Purchase Warrant (4)
10.07	Form of Series D Common Stock Purchase Warrant (4)
10.08	Form of Series E Common Stock Purchase Warrant (4)
10.09	Form of Series F Common Stock Purchase Warrant (2)
10.10	Form of Series BD-1 Common Stock Purchase Warrant (4)
10.11	Form of Series BD-2 Common Stock Purchase Warrant (4)
10.12	Form of Series BD-3 Common Stock Purchase Warrant (4)
10.13	Form of Series BD-4 Common Stock Purchase Warrant (4)
10.14	Form of Series BD-5 Common Stock Purchase Warrant (4)
10.15	Interest Bearing Non-Convertible Installment Promissory Note (3)
10.16	Placement Agent Agreement between Cytation Corporation and Midtown Partners, LLC (3)
10.17	Debt Exchange Agreement between Vicis Capital Master Fund and Cytation Corporation (4)
10.18	Revolving Credit and Security Agreement (5)
10.19	Revolving Credit Note (5)
10.20	Continuing Guaranty of Cytation Corporation (5)
10.21	Continuing Guaranty of Deer Valley Acquisitions Corp (5)
10.22	Agreement and Plan of Merger between Cytation Corp., a Delaware corporation, and Deer Valley Corporation, a Florida corporation (1)
10.23	Sales Contract for Sulligent Property (6)
10.24	Form of Loan Agreement (7)
10.25	Form of Commercial Promissory Note (7)

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10.26	Form of Mortgage, Assignment of Leases and Rents, Security Agreement and Fixture Filing (7)
10.27	Form of Guaranty of Loan, Cytation Corp. (7)
10.28	Form of Guaranty of Loan, DeerValley Acquisitions Corp. (7)
10.29	Form of Share Exchange Agreement. (2)
10.30	Form of Guaranty of Deer Valley Corporation (8)
10.31	Form of Guaranty of Deer Valley Corporation (8)
10.32	Amendment to Loan Agreement (9)
10.33	Form of Renewal Revolving Credit Note (9)
10.34	Revolving Credit Loan and Security Agreement (9)
10.35	Form of Revolving Credit Note (9)
10.36	Continuing Guaranty of Deer Valley Homebuilders, Inc. (9)
10.37	Continuing Guaranty of Deer Valley Corporation (9)
10.38	Form of Series F Warrant (10)

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10.39	Revolving Bridge Loan and Security Agreement (10)
10.40	Revolving Bridge Note (10)
10.41	Continuing Guaranty of Deer Valley Corporation (10)
10.42	Deer Valley Corporation 2007 Long Term Incentive Plan effective July 1, 2007 (11)
10.43	Form of Stock Option Agreement (11)
10.44	Employment Agreement with Charles G. Masters (11)
10.45	Amendment to Earnout Agreement (12)
10.46	Escrow Agreement (12)
10.47	Second Amendment to Loan Agreement (13)
10.48	Renewal and Consolidation Revolving Credit Note (13)
10.49	Continuing Guaranty of Deer Valley Corporation (13)
21.01	List of Subsidiaries of the Company. (2)
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 13, 2009. (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 13, 2009. (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 13, 2009. (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 13, 2009. (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 Registration Statement on Form SB-2 filed with the SEC on April 19, 2006 and incorporated herein by reference.
(5)	Previously filed as an exhibit to the Form 8-K filed with the SEC on April 18, 2006 and incorporated herein by reference.
(6)	Previously filed as an exhibit to the Form 8-K filed with the SEC on April 24, 2006 and incorporated herein by reference.
(7)	Previously filed as an exhibit to the Form 8-K filed with the SEC on June 1, 2006 and incorporated herein by reference.
(8)	Previously filed as an exhibit to the Form 10-KSB, filed with the SEC on April 11, 2007 and incorporated herein by reference.
(9)	Previously filed as an exhibit to the Form 8-K filed with the SEC on April 16, 2007 and incorporated herein by reference.
(10)	Previously filed as an exhibit to the Form 10-QSB, filed with the SEC on August 14, 2007 and incorporated herein by reference.
(11)	Previously filed as an exhibit to the Form 10-QSB, filed with the SEC on November 6, 2007 and incorporated herein by reference.

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- (12) Previously filed as an exhibit to the Form 8-K filed with the SEC on November 21, 2007 and incorporated herein by reference.
- (13) Previously filed as an exhibit to the Form 8-K filed with the SEC on May 13, 2008 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 13, 2009

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 13, 2009.

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

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Exhibit 31.01

CERTIFICATION PURSUANT TO
SECTION 302 OF
THE SARBANES-OXLEY ACT OF 2002

I, Charles G. Masters, certify that:

- (1) I have reviewed this annual report on Form 10-K of Deer Valley Corporation;
- (2) Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
- (3) Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the small business issuer as of, and for, the periods presented in this report;
- (4) The small business issuer's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the small business issuer and have:
 - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the small business issuer, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted account principles;
 - (c) Evaluated the effectiveness of the small business issuer's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - (d) Disclosed in this report any change in the small business issuer's internal control over financial reporting that occurred during the small business issuer's most recent fiscal quarter (the small business issuer's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the small business issuer's internal control over financial reporting; and
- (5) The small business issuer's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the smaller reporting company's auditors and the audit committee of smaller reporting company's board of directors

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(or persons performing the equivalent functions):

- (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the small business issuer's ability to record, process, summarize and report financial information; and
- (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the small business issuer's internal control over financial reporting.

/s/ Charles G. Masters
Charles G. Masters
President, Chief Executive Officer
Dated: March 13, 2009

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Exhibit 31.02

CERTIFICATION PURSUANT TO
SECTION 302 OF
THE SARBANES-OXLEY ACT OF 2002

I, John S. Lawler, certify that:

- (1) I have reviewed this annual report on Form 10-K of Deer Valley Corporation;
- (2) Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
- (3) Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the smaller reporting company as of, and for, the periods presented in this report;
- (4) The smaller reporting company's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the smaller reporting company and have:
 - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the smaller reporting company, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted account principles;
 - (c) Evaluated the effectiveness of the smaller reporting company's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - (d) Disclosed in this report any change in the smaller reporting company's internal control over financial reporting that occurred during the smaller reporting company's most recent fiscal quarter (the smaller reporting company's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the smaller reporting company's internal control over financial reporting; and
- (5) The smaller reporting company's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the smaller reporting company's auditors and the audit committee of smaller reporting company's board of

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directors (or persons performing the equivalent functions):

- (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the smaller reporting company's ability to record, process, summarize and report financial information; and
- (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the smaller reporting company's internal control over financial reporting.

/s/ John S. Lawler
John Steven Lawler
Chief Financial Officer
Dated: March 13, 2009

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Exhibit 32.01

DEER VALLEY CORPORATION

CERTIFICATION PURSUANT TO

18 U.S.C. SECTION 1350

AS ADOPTED PURSUANT TO

SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

WRITTEN STATEMENT OF THE CHIEF EXECUTIVE OFFICER

Solely for the purposes of complying with 18 U.S.C. §1350, as adopted pursuant to §906 of the Sarbanes-Oxley Act of 2002, I, Charles G. Masters, the undersigned President and Chief Executive Officer of Deer Valley Corporation (the Company), hereby certify, based on my knowledge, that the Annual Report on Form 10-K of the Company for the year ended December 31, 2008 (the Report) as filed with the Securities and Exchange Commission on the date hereof:

1. Fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
2. That the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

/s/ Charles G. Masters
Charles G. Masters
President and Chief Executive Officer
March 13, 2009

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Exhibit 32.02

DEER VALLEY CORPORATION

CERTIFICATION PURSUANT TO

18 U.S.C. SECTION 1350

AS ADOPTED PURSUANT TO

SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

WRITTEN STATEMENT OF THE CHIEF FINANCIAL OFFICER

Solely for the purposes of complying with 18 U.S.C. §1350, as adopted pursuant to §906 of the Sarbanes-Oxley Act of 2002, I, John Steven Lawler, the undersigned Chief Financial Officer of Deer Valley Corporation (the Company), hereby certify, based on my knowledge, that the Annual Report on Form 10-K of the Company for the year ended December 31, 2008 (the Report) as filed with the Securities and Exchange Commission on the date hereof:

1. Fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
2. That the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

/s/ John S. Lawler
John Steven Lawler
Chief Financial Officer
March 13, 2009