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CYTATION CORP
Form 10QSB/A
July 21, 2006

SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-QSB/A

(Mark One)

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

FOR THE QUARTERLY PERIOD ENDED APRIL 1, 2006

OR

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

For the transition period from to _____

Commission file number 114800

CYTATION CORPORATION
(EXACT NAME OF REGISTRANT AS SPECIFIED IN ITS CHARTER)

DELAWARE
(State or other jurisdiction of
incorporation or organization)

16-0961436
(I.R.S. employer
identification no.)

4902 EISENHOWER BLVD., SUITE 185, TAMPA, FL
(Address of principal executive offices)

33634
(Zip code)

Registrant's telephone number, including area code: (813) 885-5998

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

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

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

The Registrant had 1,000,000 shares of Common Stock, par value \$.001 per share, outstanding as of April 1, 2006.

AMENDMENT NO. 1 TO THE QUARTERLY REPORT ON FORM 10-QSB
FOR THE QUARTER ENDED APRIL 1, 2006

EXPLANATORY NOTE

Cytation Corp. ("Cytation" or the "Company") is filing this amendment to Form 10-QSB (the "Amendment") for the fiscal quarter ended April 1, 2006, as filed

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with the Securities and Exchange Commission on May 22, 2006 (the "Original Filing"). The purpose of filing this Amendment is to bring the Financial Statements and Management's Discussion and Analysis of Financial Condition included herein into conformity with the corresponding sections of the Company's Definitive Information Statement on Schedule 14C, filed with the Securities and Exchange Commission on June 27, 2006. This Amendment does not update any disclosures to reflect developments since the date of the Original Filing.

In accordance with Rule 12b-15 of the Securities Exchange Act of 1934, we are required to include in this Amendment each Item, as amended, in its entirety.

Pursuant to Rule 12b-15 of the Securities Exchange Act of 1934, as a result of this Amendment, the certifications filed pursuant to the Sarbanes-Oxley Act of 2002, included as exhibits to the Original Filing, have been amended, restated, re-executed and re-filed as of the date of this Amendment and are included as Exhibits 31.1, 31.2, 32.1 and 32.2 hereto.

As such, we have filed the following exhibits herewith:

31.1 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.

31.2 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.

32.1 Certification of Chief Executive Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

32.2 Certification of Acting Chief Financial Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

Except as described above, no other changes have been made to the Original Filing and this Form 10-QSB/A does not amend, update or change any other items or disclosures in the Original Filing.

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Unless otherwise indicated or the context otherwise requires, all references below in this filing to "we," "us" and the "Company" are to Cytation Corporation, a Delaware corporation, together with its wholly-owned subsidiaries, Deer Valley Acquisitions Corp., a Florida corporation, and Deer Valley Homebuilders, Inc., an Alabama corporation. Specific discussions or comments relating to Cytation Corporation will reference the "Company," those relating to Deer Valley Acquisitions Corp. will reference "DVA", and those relating to Deer Valley Homebuilders, Inc. will be referred to as "Deer Valley."

PART I FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

Cytation Corporation
Consolidated Balance Sheet

	ASSETS	
	(UNAUDITED)	(AUDITED)
	April 1, 2006	December 2005
	-----	-----
CURRENT ASSETS:		
Cash	\$ 3,402,694	\$
Certificates of Deposit	152,833	
Accounts receivable	2,814,314	
Notes receivable, other	11,652	
Inventory	2,476,341	
Prepaid expenses and other current assets	121,195	
	-----	-----
Total Current Assets	8,979,029	
PROPERTY AND EQUIPMENT, NET	\$ 1,821,237	\$
GOODWILL	4,108,401	
	-----	-----
TOTAL ASSETS	\$ 14,908,667	\$
	=====	=====

LIABILITIES AND STOCKHOLDERS' EQUITY (DEFICIT)

CURRENT LIABILITIES:		
Current Maturities of Long Term Debt	\$ 41,895	\$
Accounts payable and Accrued Expenses	2,835,127	48,
Accounts Payable Under Dealer Incentive Programs	395,094	
Estimated Warranties	860,000	
Compensation and Related Accruals	614,336	
Accrued Shareholder Distributions	775,000	
Other Accruals	339,787	
Income Tax Payable	261,173	
Accrued Preferred Dividends	113,086	
Notes payable and Accrued Interest	-	5,
	-----	-----
Total Current Liabilities	6,235,498	53,
LONG TERM LIABILITIES:		

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Accrued earnout on purchase of Deer Valley Homebuilders, Inc.	496,407	
Long-Term Debt, Net of Current Maturities	1,424,009	85,
COMMITMENTS AND CONTINGENCIES	-	
STOCKHOLDERS' EQUITY (DEFICIT):		
Series A Preferred stock, \$0.01 par value, 750,000 shares authorized, 745,626 shares issued and outstanding	1,491,243	
Series B Preferred stock, \$0.01 par value, 49,451 shares authorized, 49,451 shares issued and outstanding	495	
Series C Preferred stock, \$0.01 par value, 26,750 shares authorized, 26,750 shares issued and outstanding	267	
Common stock, \$0.001 par value, 2,000,000 shares authorized, 1,000,000 and 982,622 shares issued and outstanding, respectively	1,000	
Additional paid-in capital	39,314,238	32,723,
Accumulated deficit	(34,054,490)	(32,863,
TOTAL STOCKHOLDERS' EQUITY (DEFICIT)	6,752,753	(138,
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY (DEFICIT)	\$ 14,908,667	\$

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Cytation Corporation
Consolidated Statements of Operations
For The Three Months Ended April 1, 2006 and March 31, 2005
(Unaudited)

	2006	2005
REVENUE	\$12,913,079	\$ -
COST OF REVENUE	10,895,389	1,182
GROSS PROFIT	2,017,690	(1,182)
OPERATING EXPENSES:		
Depreciation	36,065	512
Selling, general and administrative	1,249,327	28,810
TOTAL OPERATING EXPENSES	1,285,392	29,322
OPERATING INCOME/(LOSS)	732,298	(30,504)
OTHER INCOME (EXPENSES)		
Loss on termination of ARE agreement	-	(5,000)
Interest expense, net	(13,867)	(1,889)
Other Income	6,243	-
TOTAL OTHER EXPENSES	(7,624)	(6,889)
INCOME/(LOSS) BEFORE INCOME TAXES	724,674	(37,393)
INCOME TAX EXPENSE	261,173	-

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NET INCOME (LOSS)	463,501	(37,393)
Dividends to preferred stockholders	113,086	-
Deemed dividend to preferred stockholders on Beneficial conversion feature	1,491,243	-
NET INCOME (LOSS) AVAILABLE TO COMMON STOCKHOLDERS	(1,140,828)	(37,393)
Net Income/(Loss) Per Share (Basic)	(1.14)	(0.04)
Net Income/(Loss) Per Share (Fully Diluted)	(1.14)	(0.04)
Weighted Average Common Shares Outstanding	1,000,000	873,996
Weighted Average Common and Common Equivalent Shares Outstanding	1,000,000	873,996

* Reflects 2 for 1 stock split

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Cytation Corporation
Consolidated Statements of Cash Flows
For The Three Months Ended April 1, 2006 and March 31, 2005
(Unaudited)

	2006	2005
	-----	-----
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income (loss)	463,502	
Adjustments to reconcile net income (loss) to net cash provided for/used in operating activities:		
Depreciation	36,065	
Accrued interest on note payable	0	
Loss on termination of ARE Agreement	0	
Changes in assets and liabilities:		
Increase in certificate of deposit	(1,415)	
Increase in receivables	(673,910)	
Increase in other receivables	(4,152)	
Increase in inventories	(1,360,783)	
Increase in prepayments and other assets	(68,775)	
Increase in accounts payable	954,070	
Increase in accounts payable under dealer incentives	54,662	
Increase in estimated warranties	110,000	
Increase in accrued compensation and related expenses	200,397	
Increase in other accrued expenses	20,455	
Increase in income taxes payable	261,173	
CASH FLOW USED IN OPERATING ACTIVITIES	(8,711)	
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchases of equipment	(245,771)	
Purchase of business, net of cash acquired	(2,777,116)	
CASH FLOW USED IN INVESTING ACTIVITIES	(3,022,887)	
CASH FLOWS FROM FINANCING ACTIVITIES:		
Proceeds from issuance of preferred stock	6,541,014	
Proceeds from issuance of common stock	18	
Payment of stockholder distributions	(150,000)	
Proceeds from long-term debt	43,039	

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CASH FLOW PROVIDED BY FINANCING ACTIVITIES	6,434,071
NET INCREASE (DECREASE) IN CASH	3,402,473
CASH, Beginning	221
CASH, Ending	3,402,694
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION:	
Cash paid during the quarter for:	
Interest	13,867
Taxes	0
SUPPLEMENTAL DISCLOSURE OF NON CASH INVESTING AND FINANCING ACTIVITIES:	
Additional purchase price accrued under earnout provision	496,407
Accrual of dividends on preferred stock	113,086
Deemed dividend on beneficial conversion feature	1,491,243

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CYTATION CORP.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

1. Basis of Presentation

The accompanying unaudited consolidated financial statements for the three months ended April 1, 2006 and March 31, 2005 have been prepared in accordance with accounting principles generally accepted in the United States of America for interim financial information and pursuant to the rules and regulations of the Securities and Exchange Commission for Form 10-Q. Accordingly, they do not include all the information and footnotes required by accounting principles generally accepted in the United States of America for complete financial statements.

The unaudited financial information included in this report includes all adjustments which are, in the opinion of management, necessary to reflect a fair statement of the results for the interim periods. The operations for the three months ended April 1, 2006 are not necessarily indicative of the results of the full fiscal year.

The condensed consolidated financial statements included in this report should be read in conjunction with the financial statements and notes thereto included in the Registrant's December 31, 2005 Annual Report on Form 10-K and subsequent filings on form 8-K and Pre 14C.

2. 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. Inventories at April 1, 2006 and December 31, 2005 are summarized as follows:

April 1,	December 31,
2006	2005

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(Unaudited)			
Raw materials	\$ 1,261,382	\$	0
Work-in-process	402,285		0
Finished homes	812,674		0

	\$ 2,476,341	\$	0

3. Accounting for Stock Based Compensation

At April 1, 2006, the Company had not yet created a stock incentive plan which authorizes the issuance of options to purchase common stock. 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. No stock-based employee compensation cost was recognized in the Statement of Operations for the three months ended March 31, 2005. 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, based on 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, 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.

As a result of adopting SFAS No.123(R) on January 1, 2006, this statement did not have any effect on the Company's net income and earning per share for the quarter ended April 1, 2006 since no options were granted.

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Stock Options and Warrants:

The following table summarizes the activity related to all Company stock options and warrants for the three months ended April 1, 2006 and the year ended December 31, 2005:

	Warrants	Stock Options	Exercise Price per Share Warrants	Exercise Price per Share Options	Weighted Ave Exercise Price per Share Warrants	Opt

Outstanding at January 1, 2005	-	-	-	-	-	-
Granted	-	-	-	-	-	-
Exercised	-	-	-	-	-	-
Canceled or expired	-	-	-	-	-	-

Outstanding at December 31, 2005	-	-	-	-	-	-
Granted	21,210,368	-	\$0.75-2.25	-	\$1.52	-
Exercised	-	-	-	-	-	-
Canceled or expired	-	-	-	-	-	-

Outstanding at April 1, 2006	21,210,368	-	\$0.75-2.25	-	\$1.52	-

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Exercisable at April 1, 2006	=====			
	21,210,368	-	\$0.75-2.25	-
				\$1.52

The warrants expire at various dates ranging from January 2011 through March 2013.

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CYTATION CORP.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

4. Earnings Per Share

	Three Months Ended	
	April 1, 2006	March 31, 2005

Net income available to common shareholders	\$(1,140,828)	\$(37,393)

Weighted average shares outstanding:		
Basic	1,000,000	873,996
Earnings per share:		
Basic	\$ (1.14)	\$ (0.04)

Diluted*	\$ (1.14)	\$ (0.04)

* Diluted weighted average per share outstanding for three months ended April 1, 2006 does not include the effect of dilutive Series A, B, and C Preferred Stock and Series A, B, C, D, BD-1, BD-2, and BD-3 Warrants because to do so would have been antidilutive (see detailed list of antidiluted shares below). Accordingly, basic and diluted net loss per share for this period is the same.

SECURITIES	COMMON STOCK EQUIVALENT

PREFERRED:	
Series A Preferred	9,941,620
Series B Preferred	4,945,100
Series C Preferred	2,675,000
WARRANTS:	
Class A Warrants	9,941,639
Class B Warrants	4,970,824
Class C Warrants	2,000,000
Class D Warrants	2,000,000
Class BD-1 Warrants	919,162
Class BD-2 Warrants	919,162
Class BD-3 Warrants	459,581

Total antidilutive shares	38,772,088
	=====

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5. 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 April 1, 2006, the Company has provided a liability of \$860,000 for estimated warranty costs relating to homes sold, based upon management's assessment of historical experience factors and current industry trends.

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

	April 1, 2006	December 31, 2005	

	(Unaudited)		
Balance at Beginning of Period	\$ 750,000	\$ 0	
Warranty Charges	744,712	0	
Warranty Payments	(634,712)	0	
	-----	----	
Balance at End of Period	\$ 860,000	0	
	=====		

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6. Critical Accounting Policies and Estimates

The Company applies judgment and estimates, which may have a material effect in the eventual outcome of assets, liabilities, revenues and expenses, for accounts receivable, inventory and goodwill. The following explains the basis and the procedure for each asset account where judgment and estimates are applied.

REVENUE RECOGNITION

The Company recognizes revenues for manufactured homes sold to independent dealers when all of the following conditions have been met:

- an order for the home has been received from the dealer,
- an agreement with respect to payment terms (usually in the form of a written or verbal approval for payment has been received from the dealer's flooring institution),
- the home has been shipped, and
- risk of loss has passed to the independent dealer.

ADVERTISING COSTS

Advertising costs are charged to operations when incurred and are included in operating expenses. Advertising costs for the quarters ended April 1, 2006 and 2005 were, \$24,445 and \$0, respectively.

GOODWILL

As a result of the acquisition of DeerValley Acquisitions Corp. and Deer Valley

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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 3,611,994. With the accrual for the Earnout Agreement an additional \$496,407 has been booked to goodwill bringing total goodwill as of April 1, 2006 to \$4,108,401. There is no assurance that the value of the acquired entities will not decrease in the future due to changing business conditions.

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.

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CYTATION CORP.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

7. Recent Accounting Pronouncements

In May 2005, the FASB issued SFAS No. 154, Accounting Changes and Error Corrections, ("FAS 154"). FAS 154 replaces APB No. 20, "Accounting Changes", and FAS 3, "Reporting Changes in Interim Financial Statements". FAS 154 changes the accounting for, and reporting of, a change in accounting principle. FAS 154 requires retrospective application to the prior period's financial statements of voluntary changes in accounting principle and changes required by new accounting standards when the standard does not include specific transition provisions, unless it is impractical to do so. FAS 154 is effective for accounting changes and corrections of errors in fiscal years beginning after December 15, 2005. Currently, the Company is not aware of any financial impact that the adoption of this Statement will have on its consolidated financial statements.

8. Commitments and Contingent Liabilities

LITIGATION

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

EARNOUT AGREEMENT

On January 18, 2006, the Company's wholly-owned subsidiary, DeerValley Acquisitions Corp., entered into an Earnout Agreement (the "Earnout Agreement"), between Deer Valley Homebuilders, Inc., Deer Valley 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. For the Fourth quarter of 2005, such pre-tax profit shall be reduced to \$250,000. During the first quarter the Company has not achieved \$1,000,000 in pre-tax profit so the Company has not accrued any earnout attributable to the Quarter ending April 1, 2006. The

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Company had pre-tax profit in the Fourth quarter of 2005 in the amount of \$1,242,814 which \$992,814 was above the Company's earnout threshold of \$250,000. The Company accrued 50% of the amount in excess of earnout threshold in the amount of \$496,407. The maximum remaining potential accrual under the Earnout Agreement is \$5,503,593.

9. Capital Stock Purchase Agreement and Issuance of Equity

Pursuant to the Capital Stock Purchase Agreement dated November 1, 2005, as amended (the "Capital Stock Purchase Agreement"), DeerValley Acquisitions Corp., a wholly owned subsidiary of the Company, acquired, immediately after completion of the Series A Financing and the Share Exchange, one hundred percent (100%) of the issued and outstanding capital stock of Deer Valley Homebuilders, Inc. Upon completion of the acquisition of the capital stock of Deer Valley Homebuilders, Inc., Deer Valley Homebuilders, Inc. became an indirect wholly owned subsidiary of the Company.

In order to effectuate the Capital Stock Purchase Agreement, Cytation Corporation completed a series of transactions exempt from the registration requirements of the Securities Act of 1933, as amended, pursuant to Section 4(2) of the Act for transactions not involving a public offering and Rule 506 promulgated by the United States Securities and Exchange Commission under the Securities Act of 1933, as amended. As of the date of these financials, the Company has closed on a private placement of approximately 745,622 shares of Series A Preferred Stock. Pursuant to the Securities Purchase and Share Exchange Agreement, dated as of January 18, 2006, the Company (a) issued and sold to the Purchasers, and the Purchasers purchased from the Company, (a) Series A Preferred Stock, (b) Series A Common Stock Purchase Warrants, and (c) Series B Common Stock Purchase Warrants. Also on January 18, 2006, the Company completed a share exchange pursuant to which the Company acquired 100% of the issued and outstanding capital stock of Deer Valley Acquisitions, Corp. Pursuant to the Share Exchange Agreement, in exchange for 100% of the issued and outstanding common stock of Deer Valley Acquisitions, Corp., the Company issued the following securities to the shareholders of Deer Valley Acquisitions, Corp.: (a) Series B Preferred Stock, (b) Series C Preferred Stock, and (c) Series C Common Stock Purchase Warrants.

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CYTATION CORP.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

In connection with the Securities Purchase and Share Exchange Agreement, on January 18, 2006, the Company issued to the Lender an Interest Bearing Non-Convertible Installment Promissory Note ("the Note"), in the original principal amount of One Million Five Hundred Thousand and No/100 Dollars (\$1,500,000), together with interest accruing thereon at an annual rate of twelve percent (12%) per annum. The business purpose of executing the Note was to fund the acquisition of Deer Valley Homebuilders, Inc. On March 17, 2006 the Lender decided to convert its \$1,500,000 promissory note that was issued in January 2006.

Pursuant to the terms of the Debt Exchange Agreement, the Company issued the Lender its Series A Convertible Preferred Stock, Series A Warrants, and Series B Warrants to the investor, in exchange for the retirement of its obligations to repay such promissory note.

In January 2006, the Company issued 17,338 to Sequence Advisors Corporation, an affiliate of two former directors.

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On January 18, 2006, DeerValley Acquisitions, Corp., a wholly-owned subsidiary of Cytation Corporation, acquired 100% of the issued and outstanding capital stock of Deer Valley Homebuilders, Inc. The results of Deer Valley Homebuilders, Inc. will be included in consolidated financial statements for periods after January 18, 2006. Deer Valley Homebuilders, Inc. is an Alabama corporation with its business offices located at 205 Carriage Street, P.O. Box 310, Guin, Alabama 35563 and is engaged in the production, sale and marketing of manufactured homes in the southeastern and south central U.S. housing market. Cytation Corporation purchased Deer Valley Homebuilders, Inc. to serve as its primary operating company and to gain entry into the manufactured home market. Deer Valley Homebuilders, Inc. comprises substantially all of Cytation Corporation's operations.

The aggregate purchase price for Deer Valley Homebuilders, Inc. was \$6,000,000, including \$5,500,000 cash and \$500,000 of Cytation Corporation's Series A Convertible Preferred Stock, Series A Common Stock Purchase Warrants, and Series B Common Stock Purchase Warrants. In addition, an Earnout Agreement was entered into, 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. The Company is accounting for the \$6,000,000 earnout as contingent consideration in accordance with paragraphs 25 through 28 of SFAS 141. Because the amount, if any, of contingent consideration was not determinable at the acquisition date, no amount for the contingency will be recorded in the Company's financial statements until the contingency is resolved, or the consideration is issued or becomes issuable.

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CYTATION CORP. NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)

The Company considered the effect of EITF 95-8 and based on its analysis the contingent consideration of a minimum of \$0 and a maximum of \$6,000,000 over the next five years is nothing more than a way for the Company to defer payments of purchase price so the Company did not have to pay Deer Valley Homebuilders Inc.'s shareholders all money up front. Since Deer Valley Homebuilders, Inc. had pre-tax profit in 2005 in excess of \$3,000,000 it was easy for the Company to conclude that Deer Valley Homebuilder's business was worth in excess of \$6,000,000 or approximately two times pre-tax profits. The sellers were interested in receiving all \$12 million upfront however, the Company was unwilling to give it to them up front due to the fact that Deer Valley Homebuilder's Inc. had only been in business less than two years and it would be too dilutive to the shareholders to raise all monies upfront, so the Company and previous shareholders of Deer Valley Homebuilders, Inc. agreed to the price adjustment target account ("PATA"). So long as Deer Valley Homebuilder's continues to have pre-tax profits in excess of one million dollars over the next five years the shareholder's pursuant to their interest sold will be given a pro-rata portion of the maximum \$6,000,000 PATA. Therefore, based on this analysis the Company will account for all of the PATA, when earned, by recording it as additional consideration for the acquisition of Deer Valley Homebuilders, Inc. and will not record it as a period expense related to compensation. It is also noted that the Company will account for this on an ongoing basis and book any accrued liability in connection with the PATA as incurred.

The value of the Series A Convertible Preferred Stock, Series A Common Stock Purchase Warrants, and Series B Common Stock Purchase Warrants were determined in a private offering also completed on January 18, 2006.

In connection with the Series A Convertible Preferred Stock offering the Company Calculated the effect of EITF 00-27 and EITF 98-5 and determined on a relative

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fair value basis that of the \$7,456,215 raised \$5,699,186 was attributable to the beneficial conversion feature of the warrants and \$1,787,029 was attributable to the beneficial conversion feature of the preferred stock. As such, the Company adjusted its balance sheet to reflect an increase of \$5,699,186 to additional paid-in capital and \$1,787,029 to preferred stock. The Company also noted that of the \$1,787,029 booked to preferred that 100% was allocated to the beneficial conversion feature and was recorded as a reduction to preferred stock and an increase to additional paid-in capital. During the period, \$1,491,243 was amortized from the date of issuance through the earliest conversion date allowed pursuant to the stated rights of the preferred currently contemplated as a year from issuance. Conversion can also occur anytime after the SEC declares the registration statement effective. When the SEC declares the registration statement effective all remaining un-amortized beneficial conversion feature (as of April 1, 2006 \$5,964,972) shall be considered a deemed dividend to preferred stockholders during that period.

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

CAUTIONARY NOTICE REGARDING FORWARD LOOKING STATEMENTS

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

Readers should not place undue reliance on these forward-looking statements, which are based on management's current expectations and projections about future events, are not guarantees of future performance, are subject to risks, uncertainties and assumptions (including those described below), and apply only as of the date of this filing. Our actual results, performance or achievements could differ materially from the results expressed in, or implied by, these forward-looking statements. Factors which could cause or contribute to such differences include, but are not limited to, the risks to be discussed in our Annual Report on form 10-KSB 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

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During the period commencing with the fourth quarter of 2002 and ending in December 2004, the Company engaged in the business of providing consulting and related services to private companies which wished to become reporting companies under the Securities Exchange Act of 1934, but which lacked the financial resources for an initial public offering ("IPO") and which did not wish to become a reporting company via a reverse merger. Cytation discontinued these operations in the first quarter of 2005 and was a shell company (as defined in Rule 12b-2 of the Exchange Act) from the first quarter of 2005 through January 18, 2006.

At the end of 2005, Cytation had nominal operations. The Company had revenues of \$59,114 in fiscal year 2005, as compared to \$240,368 in fiscal year 2004. The Company had a net loss of \$173,605 in fiscal year 2005, as compared to a net loss of \$696,689 in fiscal year 2004. The differences in the foregoing figures are the result of Cytation's discontinuation of operations and costs related to identification of an acquisition candidate in contemplation of a reverse merger, which did not occur.

On January 18, 2006, the Company acquired an operating subsidiary, Deer Valley Homebuilders, Inc. ("Deer Valley"). Deer Valley is a wholly-owned subsidiary of Deer Valley Acquisitions Corp. ("DVA"), which is a wholly-owned

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subsidiary of the Company. Deer Valley was formed in January, 2004. Deer Valley manufactures and designs manufactured homes which are sold to a network of independent dealers located primarily in the southeastern and south central regions of the United States. Deer Valley maintains its business offices in Guin, Alabama and operates manufacturing facilities in Guin, Alabama and in Sulligent, Alabama.

As a result of the acquisition of Deer Valley on January 18, 2006, Cytation had gross revenues for the first quarter of 2006 of \$12,913,079 and has significant assets. Because Cytation discontinued its prior operations in the first quarter of 2005 and was a shell company (as defined in Rule 12b-2 of the Exchange Act) from the first quarter of 2005 through January 18, 2006 and because Cytation now has significant revenues from a subsidiary operating in an entirely different industry, management does not believe that it is informative or useful to compare the results of operations for the quarter ended April 1, 2006 to the quarter ended March 31, 2005. As a result, the remainder of this discussion relates only to the quarter ended April 1, 2006. In conjunction with this discussion it is imperative that investors read the footnotes to the financial statements attached to this filing.

When evaluating the Company's financial condition and operating performance, the most important matters on which the company's executives are currently focused are increasing daily production at Deer Valley's manufacturing facilities and evaluating other growth opportunities. Management is currently evaluating additional plant sites and new product offerings to sustain the company's rapid growth rate. The key performance indicators management examines are (1) the Deer Valley's production rate, in "floors" produced per day, (2) the cost of sales, (3) product gross margins, and (4) the size of the Deer Valley's sales backlog.

Management feels that the following areas present significant opportunities or risks for the Company:

- 1) Securities Compliance

Deer Valley has been operated as a private company which is not subject to federal securities laws and, therefore, may lack the internal or financial

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control infrastructure and procedures necessary for public companies to comply with the provisions of the Securities Exchange Act and Sarbanes-Oxley regulations. Deer Valley, DVA, and the Company are coordinating with legal counsel and auditors to put in place proper financial controls and procedures to insure full compliance with and disclosure under all relevant securities laws. Of course, there can be no guarantee that there will be no significant deficiencies or material weaknesses in the quality of Deer Valley's financial controls. The greatest challenge Management foresees in implementing proper controls and procedures is that the cost to Deer Valley of such compliance could be substantial and could have a material adverse effect on our results of operations.

2) Downturn in the Manufactured Housing Industry

In recent years, the manufactured housing industry experienced a prolonged and significant downturn as consumer lenders began to tighten underwriting standards and curtail credit availability in response to higher than anticipated rates of loan defaults and significant losses upon the repossession and resale of homes securing defaulted loans. According to the Manufactured Housing Institute, domestic shipments of manufactured homes peaked in calendar year 1998 with the shipment of 372,843 homes, before declining to a total of 130,802 manufactured homes in calendar year 2004. The manufactured housing industry's share of new single-family housing starts also increased to 24% in calendar year 1997 before declining to 7.5% of all new single-family housing starts in calendar year 2004. Other causes of the downturn include a reduced number of consumer lenders in the traditional chattel (home-only) lending sector and higher interest rates on home-only loans. These factors have resulted in declining wholesale shipments, excess manufacturing and retail locations, and surplus inventory.

Despite the industry decline, which commenced in calendar year 1999, Deer Valley has been able to successfully launch its business through an efficient manufacturing and production facility, flexible product designs, an experienced and capable sales team, stringent cost controls, and attention to dealer relations, customer satisfaction and service efforts. Additionally, Deer Valley's affiliated dealers often endeavor to distinguish Deer Valley by selling our manufactured homes as part of a land-home package which may be financed by a conventional mortgage. Finally, Deer Valley focuses on the multi-section sector of the manufactured housing market, which Management feels offers the greatest potential for growth, because multi-section homes often have an appearance similar to more traditional site-built homes but are competitively priced when compared to a site-built home.

3) Rising Interest Rates and Residual Effects of Hurricane Katrina

Two important factors could affect Deer Valley's sales: the residual effects of Hurricane Katrina and rising interest rates. Interest rates have a marked effect upon the manufactured housing market. Management feels that

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rising interest rates will drive buyers from traditional "site built" homes toward the upper end of the manufactured housing market, where our products are positioned. However, additional increases in interest rates could eventually adversely affect buyers of Deer Valley products and could cause dealers to reduce inventories because of "Floor-Plan" expenses.

Hurricane Katrina created a huge need for the rapid replacement of houses in the Gulf Coast Region. The lure of lucrative "FEMA" contracts caused suppliers to disrupt or delay normal shipments to their dealers. This created a rush by dealers to establish new relationships or increase orders with Deer

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Valley, which did not interrupt its service in this way. However, because FEMA has ceased ordering manufactured homes for persons displaced by Katrina, Deer Valley will face increased competition in our market segment as other producers return to the commercial supply market.

4) Increased Competition from Other Producers

Recently, large producers of single section homes have focused on either entering the multi-section home market or expanding their presence in that market. Accordingly, Deer Valley will likely face increased competition in our market segment.

5) "Floor Plan" Credit Available to Manufactured Home Dealers

Reduced availability of floor plan financing for manufactured home dealers could negatively impact Deer Valley's business. A major floor plan financier for manufactured housing was recently purchased. If this financier or its acquirer were to discontinue floor plan financing programs for manufactured home dealers, approximately one-third of the floor plan financing available to manufactured home dealers would disappear. An occurrence of this type could have a material, adverse impact upon Deer Valley's business, since dealers would have additional difficulty in procuring funds to inventory homes based on floor plan financing.

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. Historical financial information presented for the quarter ended April 1, 2006 is that of the Company on a consolidated basis with Deer Valley Homebuilders, Inc. and Deer Valley Acquisitions Corp., which reflects the Company's acquisition of Deer Valley Homebuilders, Inc. on January 18, 2006.

HISTORICAL RESULTS - QUARTER ENDED APRIL 1, 2006

REVENUES. Overall gross revenue for the quarter ended April 1, 2006 was \$12,913,079. Deer Valley's second plant in Sulligent Alabama (the "Sulligent Plant") began operations on or about March 1, 2006. Revenues for the quarter ended April 1, 2006 reflect a full quarter of operations at Deer Valley's original plant in Guin, Alabama and approximately one month of operations at the Sulligent Plant. The full impact of the Sulligent Plant on revenues and earnings will likely not be realized until the second quarter of 2006.

SELLING, GENERAL, AND ADMINISTRATIVE EXPENSES. General and administrative expenses consisted of payroll and related expenses for executive, accounting, and administrative personnel, professional fees, and other general corporate expenses. Selling, general, and administrative expenses for the quarter ended April 1, 2006 were \$1,249,327. These general and administrative costs have increased at our operating subsidiary, Deer Valley, primarily due to increased production, sales, and operating expenses. At Deer Valley, the production direct cost of goods has remained generally in the same ratio to sales, with increased quantity discounts being offset by a rise in material cost. In addition, profit margins for this quarter were reduced by one-time start-up costs of approximately \$250,000 associated with the opening of the Sulligent Plant.

NET INCOME (LOSS). The net income for the quarter ended April 1, 2006 was \$463,501. After accounting for the dividend payable to preferred shareholders

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and the deemed dividend to preferred shareholders on beneficial conversion features, the net loss for the quarter ended April 1, 2006 was \$1,140,828. Increased production and sales of Deer Valley's operations have bolstered net income.

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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. As of April 1, 2006, the Company had approximately \$3,555,528 in cash and cash equivalents. Because of the current profits generated by operations and lack of significant capital demand under our current business plan, our cash reserves are expected to continue to grow each month. Should our costs and expenses prove to be greater than we currently anticipate, or should we change our current business plan in a manner which will increase or accelerate our anticipated costs or capital demand, such as through the acquisition of new products, our working capital could be depleted at an accelerated rate.

The company spends its cash to fund increases in production capacity at its operating subsidiary, Deer Valley, for special legal, accounting, and audit services necessary to meet SEC reporting requirements, and to pay expenses. To the extent that it becomes necessary to raise additional cash in the future as our current cash and working capital resources are depleted, we will seek to raise it through the public or private sale of debt or equity securities, the procurement of advances on contracts or licenses, funding from joint-venture or strategic partners, debt financing or short-term loans, or a combination of the foregoing. We also may seek to satisfy indebtedness without any cash outlay through the private issuance of debt or equity securities.

The net cash used in operating activities as of April 1, 2006 \$8,711. The net cash used in investing activities as of April 1, 2006 was \$3,022,887, which primarily reflects the amount related to the purchase of Deer Valley, which was \$6,375,000, net of cash acquired in the purchase, as well as purchases of equipment. The net cash provided by financing activities as of April 1, 2006 was \$6,434,071, the majority of which resulted from the issuance of preferred stock.

Deer Valley is contingently liable under the terms of repurchase agreements with financial institutions providing inventory financing for retailers of Deer Valley'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 Deer Valley 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 Deer Valley is contingently liable under such agreements amounted to \$12,272,510 at April 1, 2006. As of April 1, 2006, the company had a reserve of \$60,000 for future repurchase losses, based on prior experience and an evaluation of dealers' financial conditions. Deer Valley 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.

FINANCING

Deer Valley had a fixed-rate revolving line of credit with State Bank and Trust of Guin, Alabama. Under this line of credit entered into on March 3,

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2004, the Company could make loan draws for business purposes up to a maximum amount of \$500,528 in the aggregate. The line of credit matured on March 25, 2005 and was not renewed.

On April 12, 2006, Deer Valley entered into a 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 (\$2,500,000.00) (the "Loan") evidenced by a revolving credit note (the "Note") and secured by accounts receivable, inventory, equipment and all other tangible and intangible personal property of Deer Valley, DVA, and Cytation. The purpose of the Loan is to provide working capital, to provide Letter of Credit support, to replace Deer Valley's existing revolving line of credit with State Bank and Trust, and to provide interim financing for the acquisition of the real property on which Deer Valley operates a plant in Sulligent, Alabama. The Loan 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 is charged a letter of credit fee equal 1.00% of the face amount of the letter of credit. The Loan provides for conditions to meet prior to each advance, including financial ratios.

In addition to the revolving line of credit described in the preceding paragraph, Deer Valley, during its normal course of business, is required to issue irrevocable standby letters of credit in the favor of independent third party beneficiaries to cover obligations under repurchase agreements.

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As of April 1, 2006, the following letters of credit were issued and in force:

Letter of Credit No. 98 issued through State Bank & Trust in the amount of \$400,000 to the favor of beneficiary Bombardier Capital expired on January 27, 2006 and was replaced with letter of credit to GE Commercial on January 27, 2006 and expiring January 27, 2007. The beneficiary was changed from Bombardier Capital to GE, due to GE's buyout of Bombardier's manufactured housing floor plan division. Personally guaranteed by Joel Logan, President and General Manager of Deer Valley.

Letter of Credit No. 93 issued through State Bank & Trust in the amount of \$100,000 to the favor of beneficiary 21st Mortgage Corporation, issued May 3, 2005 and expiring May 3, 2006, pending renewal. Personally guaranteed by the three largest former shareholders of Deer Valley.

Letter of Credit No. 97 issued through State Bank & Trust in the amount of \$150,000 to the favor of Textron Financial Corporation, issued August 29, 2005 and expiring August 29, 2006, pending renewal.

All of the Letters of Credit above are required under the terms of the Repurchase Agreements described below in the section entitled "Critical Accounting Estimates." As of April 1, 2006, no amounts had been drawn on the above irrevocable letters of credit by the beneficiaries.

Deer Valley is also obligated under a Promissory Note payable to State Bank & Trust of Guin, Alabama (the "B&T Note") having a principal balance of \$1,465,904. The B&T Note is payable in monthly installments of \$10,000 (which includes interest at 5.00%) and matures on November 11, 2008. The B&T Note is secured by all assets of the Company and is personally guaranteed by two major stockholders of the Company.

Management does not believe that current debt commitments will make it difficult to secure additional debt or equity financing, since the company has no significant debt other than long-term mortgages, trade payables, and the

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earnout agreement referenced in "Off-Balance Sheet Arrangements" below.

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 that 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 5, Critical Accounting Policies and Estimates, contained in the explanatory notes to the Company's financial statements for the quarter ended April 1, 2006, contained in this filing. On an ongoing basis, we evaluate our estimates, including those related to reserves, deferred tax assets and valuation allowance, 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. We had a reserve for estimated warranties of \$860,000 as of April 1, 2006. 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

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set aside will continue to be adequate. A large number of warranty claims which exceed our current warranty expense levels could have a material adverse affect upon our results of operations.

VOLUME INCENTIVES PAYABLE

We have relied upon volume incentive payments to our independent dealers who retail our products. These volume incentive payments are accounted for as a reduction to gross sales, and are estimated and accrued when sales of our manufactured 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

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rates. We had a reserve for volume incentives payable of \$137,779 as of April 1, 2006.

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 manufactured 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 \$12,272,510 at April 1, 2006. As of April 1, 2006, we had a reserve of \$60,000 established for future repurchase commitments, based upon our prior experience and evaluation of our independent dealers' financial conditions. This represents an increase from the reserve amount of \$35,000, due to a substantial increase in Deer Valley's sales compared to the first quarter of 2005. 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.

REVENUE RECOGNITION

Revenue for Deer Valley's products sold to independent dealers is 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

In December 2004, the FASB issued SFAS No.153, "Exchanges of Nonmonetary Assets, an amendment of APB Opinion No. 29, Accounting for Nonmonetary Transactions." The amendments made by Statement 153 are based on the principle that exchanges of nonmonetary assets should be measured based on the fair value of the assets exchanged. Further, the amendments eliminate the narrow exception for nonmonetary exchanges of similar productive assets and replace it with a broader exception for exchanges of nonmonetary assets that do not have commercial substance. Previously, Opinion 29 required that the accounting for an exchange of a productive asset for a similar productive asset or an equivalent

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interest in the same or similar productive asset should be based on the recorded amount of the asset relinquished. Opinion 29 provided an exception to its basic

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measurement principle (fair value) for exchanges of similar productive assets. The FASB believes that exception required that some nonmonetary exchanges, although commercially substantive, be recorded on a carryover basis. By focusing the exception on exchanges which lack commercial substance, the FASB believes this statement produces financial reporting which more faithfully represents the economics of the transactions. SFAS 153 is effective for nonmonetary asset exchanges occurring in fiscal periods beginning after June 15, 2005. Earlier application is permitted for nonmonetary asset exchanges occurring in fiscal periods beginning after the date of issuance. The provisions of SFAS 153 shall be applied prospectively. The Company has evaluated the impact of the adoption of SFAS 153, and does not believe the impact will be significant to the company's overall results of operations or financial position.

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) will be required to apply SFAS 123(R) as of the first interim or annual reporting period which begins after June 15, 2005. For public entities filing as small business issuers, SFAS 123(R) is applicable as of the beginning of the first interim or annual reporting period beginning after December 15, 2005.

As of April 1, 2006, the Company had not yet created a stock incentive plan which authorizes the issuance of options to purchase common stock. Effective January 1, 2006, the Company adopted the fair value recognition provisions of SFAS No. 123(R), 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 the grant date fair value estimated in accordance with the original provisions of SFAS No. 123 and on the compensation cost for all share-based payments granted subsequent to January 1, 2006, 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. Adopting SFAS No.123(R) on January 1, 2006 did not have any effect on the Company's net income and earning per share for the quarter ended April 1, 2006 since no options were granted.

In December 2004, the Financial Accounting Standards Board issued two FASB Staff Positions-FSP FAS 109-1, Application of FASB Statement 109 "Accounting for Income Taxes" to the Tax Deduction on Qualified Production Activities Provided by the American Jobs Creation Act of 2004, and FSP FAS 109-2 Accounting and Disclosure Guidance for the Foreign Earnings Repatriation Provision within the American Jobs Creation Act of 2004. Neither of these affected the Company as it does not participate in the related activities.

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PROPERTY

The Company's executive and operating offices are located at 4902 Eisenhower Blvd., Suite 185, Tampa, FL 33634. The telephone number at the Company's executive offices is (813) 885-5998. Deer Valley's principal manufacturing plant and offices are located at 205 Carriage Street, Guin, Alabama 35563, and its telephone number is (205) 468-8400. Deer Valley's principal manufacturing plant and company offices consists 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. Deer Valley owns the buildings and 25.5 acres underlying these facilities.

Due to increased sales, Management believed that the Company needed to obtain a small satellite production facility near to its facility in Guin, Alabama, in 2006. On January 25 2006, the Company approved Deer Valley Homebuilders, Inc. entering into a Sales Contract with Steve J. Logan to purchase real property located at 7668 Highway 278 in Sulligent, Alabama (the "Sulligent Property").

SUBSEQUENT EVENT

On April 18, 2006, Deer Valley purchased the Sulligent Property from Steve J. Logan. The Sulligent Property consists of a 65,992 square foot manufacturing plant located on approximately 13 acres of land. The purchase price for the Sulligent Property was \$725,000, paid in cash at closing. Deer Valley obtained the funds for the purchase price of the Sulligent Property from its revolving

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line of credit described above under the heading "Financing." Prior to acquiring the Sulligent Property, Deer Valley's plant on the Sulligent Property operated, beginning on February 20, 2006, under a short-term lease.

Deer Valley does not invest in real estate or real estate mortgages except for those necessary to support the company's normal business purposes.

WEBSITE

Deer Valley maintains a website at www.deervalleyhb.com. The information contained on Deer Valley's website is not a part of this filing, nor is it incorporated by reference into this filing.

OFF-BALANCE SHEET ARRANGEMENTS

In connection with the purchase of Deer Valley Homebuilders on January 18, 2006, 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. The business purpose of executing the Earnout Agreement was to set the purchase price of Deer Valley Homebuilders, Inc. by an objective standard, given that the owners of DVH and the Company could not agree on an outright purchase price

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 Deer Valley. For the fourth quarter of 2005, such pre-tax profit target was reduced to a quarterly figure of \$250,000. During the quarter ended April 1, 2006 Deer Valley has not achieved \$1,000,000 in pre-tax profit, so the Company has not accrued any earnout attributable to the quarter ending

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April 1, 2006. Deer Valley had pre-tax profit in the fourth quarter of 2005 in the amount of \$1,242,814, of which \$992,814 was above the quarterly earnout threshold of \$250,000. Accordingly, the Company accrued 50% of the amount in excess of earnout threshold in the amount of \$496,407. The maximum remaining potential accrual under the Earnout Agreement is \$5,503,593.

PART II OTHER INFORMATION

ITEM 6. EXHIBITS

EXHIBIT NO. DESCRIPTION

- 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.
- 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.
- 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.
- 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.

SIGNATURE

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

Cytation Corporation

(Registrant)

Dated: July 18, 2006

By: /s/ Charles G. Masters

Charles G. Masters
President & Chief Executive Officer