

Edgar Filing: Deer Consumer Products, Inc. - Form 10-Q

Deer Consumer Products, Inc.  
Form 10-Q  
August 10, 2010

UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549

FORM 10-Q

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

For the quarterly period ended June 30, 2010

OR

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

Commission file number: 001-34407

DEER CONSUMER PRODUCTS, INC.  
(Exact name of registrant as specified in its charter)

Nevada  
(State or other jurisdiction of incorporation  
or organization)

20-5526104  
(IRS Employer Identification No.)

Area 2, 1/F, Building M-6,  
Central High-Tech Industrial Park,  
Nanshan, Shenzhen, China  
(Address of principal executive offices)

518057  
(Zip Code)

(86) 755-8602-8285  
(Registrant's telephone number, including area code)

Indicate by checkmark 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 last 90 days. YES  NO

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

Large accelerated filer  Accelerated filer   
Non-accelerated filer  Smaller reporting company   
(do not check if a smaller reporting company)

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

Edgar Filing: Deer Consumer Products, Inc. - Form 10-Q

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date: 33,585,058 shares of common stock outstanding as of August 6, 2010.

---

TABLE OF CONTENTS

	Page
<b>PART I. FINANCIAL INFORMATION</b>	
Item 1. Financial Statements	3
Item 2. Management’s Discussion and Analysis of Financial Condition and Results of Operations	16
Item 3. Quantitative and Qualitative Disclosures About Market Risk	24
Item 4. Controls and Procedures	24
<b>PART II. OTHER INFORMATION</b>	
Item 1. Legal Proceedings	24
Item 1A. Risk Factors	24
Item 2. Unregistered Sales of Equity Securities and Use of Proceeds	25
Item 3. Defaults Upon Senior Securities	25
Item 5. Other Information	25
Item 6. Exhibits	25
<b>SIGNATURES</b>	<b>25</b>

---

## PART I. FINANCIAL INFORMATION

## Item 1. Financial Statements.

DEER CONSUMER PRODUCTS, INC. AND SUBSIDIARIES  
CONSOLIDATED BALANCE SHEET

	June 30, 2010 (unaudited)	December 31, 2009
<b>ASSETS</b>		
<b>CURRENT ASSETS:</b>		
Cash and cash equivalents	\$ 74,296,844	\$ 79,333,729
Restricted cash	1,830,091	35,701
Accounts receivable	22,909,025	17,070,781
Advances to suppliers	3,443,313	3,299,107
Other receivables	393,213	213,487
Inventories	22,600,352	18,061,282
Other current assets	106,459	12,500
<b>Total current assets</b>	<b>125,579,297</b>	<b>118,026,587</b>
<b>PROPERTY AND EQUIPMENT, net</b>	<b>11,350,720</b>	<b>11,325,999</b>
<b>CONSTRUCTION IN PROGRESS</b>	<b>5,757,356</b>	<b>3,724,337</b>
<b>INTANGIBLE ASSETS, net</b>	<b>768,227</b>	<b>394,684</b>
<b>OTHER ASSETS</b>	<b>10,307</b>	<b>20,073</b>
<b>TOTAL ASSETS</b>	<b>\$ 143,465,907</b>	<b>\$ 133,491,680</b>
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>		
<b>CURRENT LIABILITIES:</b>		
Accounts payable	\$ 13,140,234	\$ 13,055,110
Other payables	1,267,500	1,061,460
Unearned revenue	1,036,644	1,719,761
Accrued payroll	614,593	1,148,663
Notes payable	7,099,328	6,212,911
Tax and welfare payable	567,894	862,332
<b>Total current liabilities</b>	<b>23,726,193</b>	<b>24,060,237</b>
<b>STOCKHOLDERS' EQUITY:</b>		
Common Stock, \$0.001 par value; 75,000,000 shares authorized; 33,585,058 and 32,631,748 shares issued and outstanding at June 30, 2010 and December 31, 2009	33,585	32,632
Additional paid-in capital	90,962,980	91,111,661
Development funds	1,711,765	1,185,859
Statutory reserve	3,423,531	2,371,718
Other comprehensive income	2,733,652	2,335,216
Retained earnings	20,874,201	12,394,357
<b>Total stockholders' equity</b>	<b>119,739,714</b>	<b>109,431,443</b>

TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	\$ 143,465,907	\$ 133,491,680
--	----------------	----------------

The accompanying notes are an integral part of these consolidated financial statements.

DEER CONSUMER PRODUCTS, INC. AND SUBSIDIARIES  
CONSOLIDATED STATEMENTS OF INCOME AND OTHER COMPREHENSIVE INCOME

	Three Months Ended June 30,		Six Months Ended June 30,	
	2010	2009	2010	2009
	(unaudited)	(unaudited)	(unaudited)	(unaudited)
Revenue	\$ 34,450,687	\$ 15,310,503	\$ 58,353,144	\$ 22,182,719
Cost of Revenue	24,569,034	11,519,865	41,593,643	16,732,569
Gross profit	9,881,653	3,790,638	16,759,501	5,450,150
Operating expenses				
Selling expenses	1,820,456	727,911	3,248,420	911,253
General and administrative expenses	1,089,623	806,323	1,764,689	1,177,904
Total operating expenses	2,910,079	1,534,234	5,013,109	2,089,157
Income from operations	6,971,574	2,256,404	11,746,392	3,360,993
Non-operating income (expense):				
Interest expense and financing costs	(19,755)	(110,522)	(49,461)	(225,353)
Interest income	239,139	1,037	331,060	2,656
Other expense	22,824	(2,015)	8,223	(3,896)
Foreign exchange loss	(92,676)	(9,997)	(125,810)	(80,503)
Total non-operating income (expense)	149,532	(121,497)	164,012	(307,096)
Income before income tax	7,121,106	2,134,907	11,910,404	3,053,897
Income tax	1,100,566	420,031	1,852,841	682,147
Net income	6,020,540	1,714,876	10,057,563	2,371,750
Other comprehensive income				
Foreign currency translation gain (loss)	363,071	(42,108)	398,436	(62,440)
Comprehensive Income	\$ 6,383,611	\$ 1,672,768	\$ 10,455,999	\$ 2,309,310
Weighted average shares outstanding :				
Basic	33,019,662	21,626,413	32,826,777	20,817,208
Diluted	33,703,876	21,706,167	33,729,852	20,876,960
Earnings per share:				
Basic	\$ 0.18	\$ 0.08	\$ 0.31	\$ 0.11
Diluted	\$ 0.18	\$ 0.08	\$ 0.30	\$ 0.11

The accompanying notes are an integral part of these consolidated financial statements.



DEER CONSUMER PRODUCTS, INC. AND SUBSIDIARIES  
CONSOLIDATED STATEMENTS OF CASH FLOWS

	Six Months Ended June 30,	
	2010	2009
	(unaudited)	(unaudited)
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>		
Net income	\$ 10,057,563	\$ 2,371,750
Adjustments to reconcile net income to net cash provided by (used in) operating activities:		
Depreciation	707,571	707,567
Amortization	9,005	4,716
Stock based compensation	166,695	-
(Increase) / decrease in assets:		
Accounts receivable	(5,742,579)	(3,177,512)
Other receivables	(178,052)	68,397
Inventories	(4,445,193)	(678,170)
Due from related party	-	330,974
Advances to suppliers	(130,127)	1,980,585
Other assets	(84,155)	20,792
Increase / (decrease) in current liabilities:		
Accounts payable	888,735	211,143
Unearned revenue	(687,059)	(847,621)
Other payables	264,989	462,873
Due to related party	-	(194,491)
Accrued payroll	(536,355)	441,700
Tax and welfare payable	(296,630)	665,060
Net cash provided by (used in) operating activities	(5,592)	2,367,763
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Acquisition of property and equipment	(686,066)	(532)
Acquisition of intangible assets	(379,267)	-
Construction in process	(2,008,746)	(907,615)
Changes in restricted cash	(1,786,204)	109,304
Sale of short-term investments	-	29,302
Net cash used in investing activities	(4,860,283)	(769,541)
<b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>		
Proceeds from issuance of notes payable	-	1,678,439
Proceeds from sale of common stock	-	2,678,000
Offering costs paid	(320,000)	(338,892)
Proceeds from the exercise of warrants	6,951,527	-
Payment on short term loans	-	(3,549,693)
Purchase of treasury shares	(6,945,950)	-
Net cash provided by (used in) financing activities	(314,423)	467,854



Edgar Filing: Deer Consumer Products, Inc. - Form 10-Q

Effect of exchange rate changes on cash and cash equivalents	143,413	(44,292)
NET INCREASE (DECREASE) IN CASH & CASH EQUIVALENTS	(5,036,885)	2,021,784
CASH & CASH EQUIVALENTS, BEGINNING BALANCE	79,333,729	2,782,026
CASH & CASH EQUIVALENTS, ENDING BALANCE	\$ 74,296,844	\$ 4,803,810
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION:		
Interest paid	\$ -	\$ 102,024
Income taxes paid	\$ 1,251,617	\$ 440,315

The accompanying notes are an integral part of these consolidated financial statements.

DEER CONSUMER PRODUCTS, INC. AND SUBSIDIARIES  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
For the Six Months Ended June 30, 2010 and 2009  
(unaudited)

Note 1 - Organization and Basis of Presentation

These unaudited consolidated financial statements were prepared by Deer Consumer Products, Inc. pursuant to the rules and regulations of the Securities and Exchange Commission (“SEC”). The information furnished herein reflects all adjustments (consisting of normal recurring accruals and adjustments) that are, in the opinion of management, necessary to present fairly the operating results for the respective periods. Certain information and footnote disclosures normally present in annual consolidated financial statements prepared in accordance with accounting principles generally accepted in the United States of America (“US GAAP”) were omitted pursuant to such rules and regulations. These unaudited consolidated financial statements should be read in conjunction with the audited consolidated financial statements and footnotes included in the Company’s Annual Report on Form 10-K. The results for the six months ended June 30, 2010, are not necessarily indicative of the results to be expected for the full year ending December 31, 2010.

Organization and Line of Business

Deer Consumer Products, Inc., formerly known as Tag Events Corp., (hereinafter referred to as the “Company” or “Deer”) was incorporated in the State of Nevada on July 18, 2006.

On September 3, 2008, the Company entered into a share exchange agreement and plan of reorganization with Deer International Group Ltd. (“Deer International”), a company incorporated under the laws of the British Virgin Islands (“BVI”) on December 3, 2007, and acquired 100% of the shares of Winder Electric Group Ltd. (“Winder”) on March 11, 2008. Winder has a 100% owned subsidiary, Delta International Limited (“Delta”). Winder and Delta were formed and incorporated in the Guangdong Province of the People Republic of China (“PRC”) on July 20, 2001 and February 23, 2006, respectively.

Pursuant to the share exchange agreement, the Company acquired from Deer International 50,000 ordinary shares, consisting of all of its issued and outstanding capital stock, in exchange for 15,695,706 shares of the Company’s common stock. Concurrently with the closing of the transactions contemplated by the share exchange agreement and as a condition thereof, the Company entered into an agreement with Crescent Liu, its former Director and Chief Executive Officer, pursuant to which he returned 5,173,914 shares of the Company’s common stock to the Company for cancellation. Mr. Liu was not compensated for the cancellation of his shares of the Company’s common stock. Upon completion of the foregoing transactions, the Company had 19,652,226 shares of common stock issued and outstanding. In connection with the above transaction, the Company changed its name to Deer Consumer Products, Inc. on September 3, 2008.

The exchange of shares with Deer International was recorded as a reverse acquisition under the purchase method of accounting because Deer International obtained control of the Company. Accordingly, the merger of Deer International into the Company was recorded as a recapitalization of Deer International, with Deer International being treated as the continuing entity. The historical financial statements presented are the consolidated financial statements of Deer International. The share exchange agreement was treated as a recapitalization and not as a business combination; therefore, no pro forma information is disclosed. At the date of this transaction, the net liabilities of the legal acquirer were \$0.

The Company is engaged in the manufacture, marketing, distribution and sale of small home and kitchen electric appliances (blenders, food processors, choppers, juicers, etc.). The Company manufactures its products in YangJiang, China and has corporate functions in Nanshan, Shenzhen, China.

#### Stock Splits

On April 24, 2009, the Company effected a 1 for 2.3 reverse stock split of its common stock and on October 2, 2009, the Company effected a 2 for 1 forward stock split of its common stock. All share information for common shares was retroactively restated for these stock splits.

DEER CONSUMER PRODUCTS, INC. AND SUBSIDIARIES  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
For the Six Months Ended June 30, 2010 and 2009  
(unaudited)

#### Basis of Presentation

The accompanying consolidated financial statements include the accounts of the Company, its wholly-owned subsidiary, Deer Technology (AnHui) Co., Ltd. (“Deer Technology”) and Deer International, and its 100% wholly-owned subsidiary Winder and Winder’s wholly-owned subsidiary Delta. All significant inter-company accounts and transactions were eliminated in consolidation. Deer Technology was incorporated on April 30, 2010, in the AnHui Province. The Company invested \$10 million in Deer Technology and committed to invest another \$19.8 million.

The accompanying consolidated financial statements were prepared in conformity with US GAAP. The Company’s Chinese subsidiaries functional currency is the Chinese Yuan Renminbi (RMB); however the accompanying consolidated financial statements were translated and presented in United States Dollars (“\$” or “USD”).

#### Foreign Currency Translation

The accounts of the Company’s Chinese subsidiaries are maintained in the RMB and the accounts of the U.S. parent company are maintained in USD. The accounts of the Chinese subsidiaries were translated into USD in accordance with Accounting Standards Codification (“ASC”) Topic 830 “Foreign Currency Matters,” with the RMB as the functional currency for the Chinese subsidiaries. According to Topic 830, all assets and liabilities were translated at the exchange rate on the respective balance sheet dates, stockholders’ equity is translated at the historical rates and statement of income items are translated at the weighted average exchange rate for the period. The resulting translation adjustments are reported under other comprehensive income in accordance with ASC Topic 220, “Comprehensive Income.” Gains and losses resulting from the translations of foreign currency transactions and balances are reflected in the statements of income.

#### Note 2 – Summary of Significant Accounting Policies

##### Use of Estimates

The preparation of financial statements in conformity with US GAAP requires 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. Areas that require estimates and assumptions include valuation of accounts receivable and inventory, determination of useful lives of property and equipment, estimation of certain liabilities and sales returns.

##### Cash and Cash Equivalents

Cash and cash equivalents include cash in hand and cash in time deposits, certificates of deposit and all highly liquid debt instruments with original maturities of three months or less.

##### Restricted Cash

Restricted cash consists of monies restricted by the Company’s lender and monies restricted under a letter of credit and a bank acceptance.

#### Accounts Receivable

The Company maintains reserves for potential credit losses on accounts receivable. Management reviews the composition of accounts receivable and analyzes historical bad debts, customer concentrations, customer credit worthiness, current economic trends and changes in customer payment patterns to evaluate the adequacy of these reserves. As of June 30, 2010 and December 31, 2009, approximately 48% and 46%, respectively, of our accounts receivable was from overseas customers. The Company maintains a substantial amount of export insurance that covers losses arising from customers' rejection of its products, political risk, losses arising from business credit and other credit risks including bankruptcy, insolvency and delay in payment.

7

---

DEER CONSUMER PRODUCTS, INC. AND SUBSIDIARIES  
 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
 For the Six Months Ended June 30, 2010 and 2009  
 (unaudited)

Investments

The Company purchased various stocks during 2007 and in 2008 the Company was required to purchase an equity fund for a bank loan. The investments were trading securities that were bought and held principally for the purpose of selling them in the near term and are reported at fair value, with unrealized gains and losses included in earnings. All of these stocks were sold during 2009.

Advances to Suppliers

The Company makes advances to certain vendors to purchase its material. The advances are interest free and unsecured.

Inventories

Inventories are valued at the lower of cost (determined on a weighted average basis) or market. The Company compares the cost of inventories with the market value and allowance is made for writing down the inventories to their market value, if lower.

Property and Equipment

Property and equipment are stated at cost. Expenditures for maintenance and repairs are charged to earnings as incurred; additions, renewals and betterments are capitalized. When property and equipment are retired or otherwise disposed of, the related cost and accumulated depreciation are removed from the respective accounts, and any gain or loss is included in operations. Depreciation of property and equipment is provided using the straight-line method for substantially all assets with estimated lives as follows:

Buildings	5-20 years
Equipment	5-10 years
Vehicles	5 years
Office equipment	5-10 years

The following are the details of property and equipment at June 30, 2010 and December 31, 2009:

	June 30, 2010	December 31, 2009 (audited)
Building	\$ 3,411,281	\$ 3,294,109
Equipment	14,762,156	14,312,145
Vehicle	215,395	34,735
Office Equipment	435,286	420,106
	18,824,118	18,061,095
Less accumulated depreciation	(7,473,398)	(6,735,096)
	\$ 11,350,720	\$ 11,325,999

Construction in Progress

Construction in progress consists of costs related to the Company's construction of a new plant, office building and power distribution station. The Company expects to expend an additional \$1,770,000 to finish the current projects.

8

---

DEER CONSUMER PRODUCTS, INC. AND SUBSIDIARIES  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
For the Six Months Ended June 30, 2010 and 2009  
(unaudited)

### Long-Lived Assets

The Company applies the provisions of ASC Topic 360, "Property, Plant, and Equipment," which addresses financial accounting and reporting for the impairment or disposal of long-lived assets. ASC 360 requires impairment losses to be recorded on long-lived assets used in operations when indicators of impairment are present and the undiscounted cash flows estimated to be generated by those assets are less than the assets' carrying amounts. In that event, a loss is recognized based on the amount by which the carrying amount exceeds the fair value of the long-lived assets. Loss on long-lived assets to be disposed of is determined in a similar manner, except that fair values are reduced for the cost of disposal. Based on its review, the Company believes that as of June 30, 2010 and December 31, 2009, there was no significant impairment of its long-lived assets.

### Intangible Assets

Intangible assets consist of rights to use land and computer software. The Company evaluates intangible assets for impairment, at least annually and whenever events or changes in circumstances indicate that the carrying value may not be recoverable from its estimated future cash flows. Recoverability of intangible assets is measured by comparing their net book value to the related projected undiscounted cash flows from these assets, considering a number of factors including past operating results, budgets, economic projections, market trends and product development cycles. If the net book value of the asset exceeds the related undiscounted cash flows, the asset is considered impaired, and a second test is performed to measure the amount of impairment loss.

The following are the details of intangible assets at June 30, 2010 and December 31, 2009:

	June 30, 2010	December 31, 2009 (audited)
Right to use land	\$ 833,151	\$ 450,335
Computer software	77,221	76,906
<b>Total</b>	<b>910,372</b>	<b>527,241</b>
Less Accumulated amortization	(142,145)	(132,557)
<b>Intangibles, net</b>	<b>\$ 768,227</b>	<b>\$ 394,684</b>

Pursuant to PRC governmental regulations, the Government owns all land. The Company recognized the amounts paid for the rights to use land as an intangible asset. The Company amortizes these rights over their respective periods, which range from 45 to 50 years and computer software is amortized over 1-2 years.

### Fair Value of Financial Instruments

Certain of the Company's financial instruments, including cash and cash equivalents, restricted cash, accounts receivable, accounts payable, accrued liabilities and short-term loans and notes payable, have carrying amounts that approximate their fair values due to their short maturities.

ASC Topic 820, "Fair Value Measurements and Disclosures," requires disclosure of the fair value of financial instruments held by the Company. ASC Topic 825, "Financial Instruments," defines fair value, and establishes a three-level valuation hierarchy for disclosures of fair value measurement that enhances disclosure requirements for



fair value measures. The carrying amounts reported in the consolidated balance sheets for receivables and current liabilities each qualify as financial instruments and are a reasonable estimate of their fair values because of the short period of time between the origination of such instruments and their expected realization and their current market rate of interest. The three levels of valuation hierarchy are defined as follows:

- § Level 1 inputs to the valuation methodology are quoted prices for identical assets or liabilities in active markets.
- § Level 2 inputs to the valuation methodology include quoted prices for similar assets and liabilities in active markets, and inputs that are observable for the asset or liability, either directly or indirectly, for substantially the full term of the financial instrument.
- § Level 3 inputs to the valuation methodology are unobservable and significant to the fair value measurement.

DEER CONSUMER PRODUCTS, INC. AND SUBSIDIARIES  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
For the Six Months Ended June 30, 2010 and 2009  
(unaudited)

The Company analyzes all financial instruments with features of both liabilities and equity under ASC 480, “Distinguishing Liabilities from Equity,” and ASC 815.

As of June 30, 2010 and December 31, 2009, the Company did not identify any assets and liabilities that are required to be presented on the balance sheet at fair value.

#### Concentration of Credit Risk

Cash includes cash on hand and demand deposits in accounts maintained within China. Certain financial instruments, which subject the Company to concentration of credit risk, consist of cash. Balances at financial institutions within China are not covered by insurance. The Company has not experienced any losses in such accounts.

#### Revenue Recognition

The Company’s revenue recognition policies are in compliance with SEC Staff Accounting Bulletin (SAB) 104. Sales revenue is recognized at the date of shipment to customers when no other significant obligations of the Company exist and collectability is reasonably assured. Payments received before all of the relevant criteria for revenue recognition are satisfied are recorded as unearned revenue.

#### Unearned Revenue

The Company records payments for goods before all relevant criteria for revenue recognition are satisfied under unearned revenue.

#### Advertising Costs

The Company expenses the cost of advertising as incurred or, as appropriate, the first time the advertising takes place. Advertising costs for the six months ended June 30, 2010 and 2009 were not significant.

#### Research and Development

The Company expenses its research and development costs as incurred. Research and development costs for the six months ended June 30, 2010 and 2009, were \$285,657 and \$57,527, respectively.

#### Stock-Based Compensation

The Company records stock-based compensation in accordance with ASC Topic 718, “Compensation – Stock Compensation.” ASC 718 requires companies to measure compensation cost for stock-based employee compensation at fair value at the grant date and recognize the expense over the employee’s requisite service period. The Company recognizes in the statement of operations the grant-date fair value of stock options and other equity-based compensation issued to employees and non-employees. There were 130,000 options outstanding as of June 30, 2010.

#### Income Taxes

The Company accounts for income taxes in accordance with ASC Topic 740, "Income Taxes." ASC 740 requires a company to use the asset and liability method of accounting for income taxes, whereby deferred tax assets are recognized for deductible temporary differences, and deferred tax liabilities are recognized for taxable temporary differences. Temporary differences are the differences between the reported amounts of assets and liabilities and their tax bases. Deferred tax assets are reduced by a valuation allowance when, in the opinion of management, it is more likely than not that some portion, or all of, the deferred tax assets will not be realized. Deferred tax assets and liabilities are adjusted for the effects of changes in tax laws and rates on the date of enactment.

DEER CONSUMER PRODUCTS, INC. AND SUBSIDIARIES  
 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
 For the Six Months Ended June 30, 2010 and 2009  
 (unaudited)

Under ASC 740, a tax position is recognized as a benefit only if it is “more likely than not” that the tax position would be sustained in a tax examination, with a tax examination being presumed to occur. The amount recognized is the largest amount of tax benefit that is greater than 50% likely of being realized on examination. For tax positions not meeting the “more likely than not” test, no tax benefit is recorded. The adoption had no effect on the Company’s consolidated financial statements.

#### Foreign Currency Transactions and Comprehensive Income

US GAAP requires that recognized revenue, expenses, gains and losses be included in net income. Certain statements, however, require entities to report specific changes in assets and liabilities, such as gain or loss on foreign currency translation, as a separate component of the equity section of the balance sheet. Such items, along with net income, are components of comprehensive income. The functional currency of the Company’s Chinese subsidiaries is Chinese RMB. Translation gains of \$2,733,652 and \$2,335,216 at June 30, 2010 and December 31, 2009, respectively, are classified as an item of other comprehensive income in the stockholders’ equity section of the consolidated balance sheets.

#### Currency Hedging

The Company entered into a forward exchange agreement with the Bank of China, whereby the Company agreed to sell US dollars to the Bank of China at certain rates. At June 30, 2010, the Company had no outstanding forward exchange contracts.

#### Basic and Diluted Earnings Per Share

Earnings per share is calculated in accordance with the ASC Topic 260, “Earnings Per Share.” Basic earnings per share is based upon the weighted average number of common shares outstanding. Diluted earnings per share is based on the assumption that all dilutive convertible shares and stock options were converted or exercised. Dilution is computed by applying the treasury stock method. Under this method, options and warrants are assumed to be exercised at the beginning of the period (or at the time of issuance, if later), and as if funds obtained thereby were used to purchase common stock at the average market price during the period.

The following is a reconciliation of the number of shares (denominator) used in the basic and diluted earnings per share computations:

Three months ended June 30,	2010		2009	
	Shares	Per Share Amount	Shares	Per Share Amount
Basic earnings per share	33,019,662	\$ 0.18	21,626,413	\$ 0.08
Effect of dilutive stock options and warrants	684,214	-	79,754	-
Diluted earnings per share	33,703,876	\$ 0.18	21,706,167	\$ 0.08
Six months ended June 30,	2010		2009	
	Shares	Per Share Amount	Shares	Per Share Amount
Basic earnings per share	32,826,777	\$ 0.31	20,817,208	\$ 0.11

Edgar Filing: Deer Consumer Products, Inc. - Form 10-Q

Effect of dilutive stock options and warrants	903,075	(0.01)	59,752	-
Diluted earnings per share	33,729,852	\$ 0.30	20,876,960	\$ 0.11

11

---

DEER CONSUMER PRODUCTS, INC. AND SUBSIDIARIES  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
For the Six Months Ended June 30, 2010 and 2009  
(unaudited)

### Statement of Cash Flows

In accordance with ASC Topic 230, "Statement of Cash Flows," cash flows from the Company's operations are calculated based upon the local currencies using the average translation rates. As a result, amounts related to assets and liabilities reported on the consolidated statements of cash flows will not necessarily agree with changes in the corresponding balances on the consolidated balance sheets.

### Registration Rights Agreement

The Company accounts for payment arrangements under a registration rights agreement in accordance with ASC Topic 825, "Financial Instruments," which requires the contingent obligation to make future payments or otherwise transfer consideration under a registration payment arrangement, whether issued as a separate agreement or included as a provision of a financial instrument or other agreement, be separately recognized and measured in accordance with ASC Topic 450, "Contingencies."

### Recent Pronouncements

On July 1, 2009, the Company adopted Accounting Standards Update ("ASU") No. 2009-01, "Topic 105 - Generally Accepted Accounting Principles - amendments based on Statement of Financial Accounting Standards No. 168, The FASB Accounting Standards Codification and the Hierarchy of Generally Accepted Accounting Principles" ("ASU No. 2009-01"). ASU No. 2009-01 re-defines authoritative GAAP for nongovernmental entities to be only comprised of the FASB Accounting Standards Codification ("Codification") and, for SEC registrants, guidance issued by the SEC. The Codification is a reorganization and compilation of all then-existing authoritative GAAP for nongovernmental entities, except for guidance issued by the SEC. The Codification is amended to effect non-SEC changes to authoritative GAAP. Adoption of ASU No. 2009-01 only changed the referencing convention of GAAP in Notes to the Consolidated Financial Statements.

On February 25, 2010, the FASB issued ASU No. 2010-09 Subsequent Events Topic 855 "Amendments to Certain Recognition and Disclosure Requirements," effective immediately. The amendments in the ASU remove the requirement for an SEC filer to disclose a date through which subsequent events have been evaluated in both issued and revised financial statements. Revised financial statements include financial statements revised as a result of either correction of an error or retrospective application of US GAAP. The FASB believes these amendments remove potential conflicts with the SEC's literature. The adoption of this ASU did not have a material impact on the Company's consolidated financial statements.

On March 5, 2010, the FASB issued ASU No. 2010-11 Derivatives and Hedging Topic 815 "Scope Exception Related to Embedded Credit Derivatives." This ASU clarifies the guidance within the derivative literature that exempts certain credit related features from analysis as potential embedded derivatives requiring separate accounting. The ASU specifies that an embedded credit derivative feature related to the transfer of credit risk that is only in the form of subordination of one financial instrument to another is not subject to bifurcation from a host contract under ASC 815-15-25, Derivatives and Hedging — Embedded Derivatives — Recognition. All other embedded credit derivative features should be analyzed to determine whether their economic characteristics and risks are "clearly and closely related" to the economic characteristics and risks of the host contract and whether bifurcation is required. The ASU is effective for the Company on July 1, 2010. Early adoption is permitted. The adoption of this ASU will not have a material impact on the Company's consolidated financial statements.

In April 2010, the FASB codified the consensus reached in Emerging Issues Task Force Issue No. 08-09, "Milestone Method of Revenue Recognition." FASB ASU No. 2010-17 provides guidance on defining a milestone and determining when it may be appropriate to apply the milestone method of revenue recognition for research and development transactions. FASB ASU No. 2010-17 is effective for fiscal years beginning on or after June 15, 2010, and is effective on a prospective basis for milestones achieved after the adoption date. The Company does not expect this ASU will have a material impact on its financial position or results of operations when it adopts this update on January 1, 2011.

DEER CONSUMER PRODUCTS, INC. AND SUBSIDIARIES  
 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
 For the Six Months Ended June 30, 2010 and 2009  
 (unaudited)

Note 3 – Inventories

Inventories consisted of the following at June 30, 2010 and December 31, 2009:

	June 30, 2010	December 31, 2009 (audited)
Raw material	\$ 10,974,211	\$ 11,113,055
Work in process	9,066,496	5,236,692
Finished goods	2,559,645	1,711,535
Total	\$ 22,600,352	\$ 18,061,282

Note 4 – Notes Payable

Notes payable at June 30, 2010 and December 31, 2009, consist of multiple bankers' acceptances from the Bank of China. The terms of the notes range from 3-6 months, bear no interest and pays the bank 0.05% of the note balance as an acceptance fee. The Company deposits 10% of the notes' par value with the Bank of China, refundable when the notes are re-paid.

Note 5 – Stockholders' Equity

Treasury Stock

During the quarter ended June 30, 2010, the Company purchased 798,300 shares of its common stock on the open market (treasury shares) for \$6,945,950. The Company accounted for the purchase of these treasury shares using the cost method. The Company has retired the 798,300 shares that were purchased.

Stock Options

Following is a summary of the options activity:

	Options outstanding	Weighted Average Exercise Price	Weighted average remaining contractual life	Aggregate Intrinsic Value
Outstanding, December 31, 2009	130,000	\$ 10.96	4.98	\$ 45,500
Granted	-	-		
Forfeited	-	-		
Exercised	-	-		
Outstanding, June 30, 2010	130,000	\$ 10.96	4.48	\$ -
Exercisable, June 30, 2010	56,666	\$ 10.96	4.48	\$ -

The exercise price for options outstanding at June 30, 2010 is as follows:



Number of Options	Exercise Price
130,000 \$	10.96
130,000	

DEER CONSUMER PRODUCTS, INC. AND SUBSIDIARIES  
 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
 For the Six Months Ended June 30, 2010 and 2009  
 (unaudited)

Warrants

Following is a summary of warrant activity:

	Warrants Outstanding	Weighted Average Exercise Price	Weighted average remaining contractual life	Aggregate Intrinsic Value
Outstanding, December 31, 2009	1,759,118	\$ 3.96	2.61	\$ 12,931,146
Granted	-	-		
Forfeited	-	-		
Exercised	(1,751,610)	3.97		
Outstanding, June 30, 2010	7,508	\$ 1.73	1.70	\$ 49,365
Exercisable, June 30, 2010	7,508	\$ 1.73	1.70	\$ 49,365

The exercise price for warrants outstanding at June 30, 2010 is as follows:

Number of Warrants	Exercise Price
7,508	\$ 1.73
7,508	

During the three months ended June 30, 2010, certain warrant holders exercised 1,751,610 warrants that resulted in gross proceeds of \$6,951,527 to the Company.

Note 6 - Employee Welfare Plan

The total expense for the employee common welfare was \$18,733 and \$17,726 for the six months ended June 30, 2010 and 2009, respectively. The Chinese government abolished the 14% welfare plan policy during 2007. The Company is not required to establish welfare and common welfare reserves.

Note 7 - Statutory Reserve and Development Fund

As stipulated by the Company Law of the PRC, net income after taxation can only be distributed as dividends after appropriation has been made for the following:

- i. Making up cumulative prior years' losses, if any;
- ii. Allocations to the "Statutory surplus reserve" of at least 10% of income after tax, as determined under PRC accounting rules and regulations, until the fund amounts to 50% of the Company's registered capital;
- iii.

Edgar Filing: Deer Consumer Products, Inc. - Form 10-Q

Allocations of 5-10% of income after tax, as determined under PRC accounting rules and regulations, to the Company's "Statutory common welfare fund" ("SCWF"), which is established for the purpose of providing employee facilities and other collective benefits to the Company's employees; and

iv. Allocations to the discretionary surplus reserve, if approved in the stockholders' general meeting. The Company allocates 5% of income after tax as development fund. The fund is for enlarging its business and increasing capital.

Pursuant to the new Corporate Law effective on January 1, 2006, there is now only one "Statutory surplus reserve" requirement. The reserve is 10 percent of income after tax, not to exceed 50 percent of registered capital.

The Company appropriated \$1,051,813 and \$253,395, respectively as reserve for the statutory surplus reserve and \$525,906 and \$126,697 for the development fund for the six months ended June 30, 2010 and 2009, respectively.

Note 8 - Geographical Sales

Geographical distribution of sales is as follows:

Geographical Areas	Three Months Ended June 30,		Six Months Ended June 30,	
	2010	2009	2010	2009
China	\$ 11,376,532	\$ 1,674,260	\$ 17,771,412	\$ 2,129,471
South America	6,886,774	1,902,283	11,427,425	3,280,810
Asia	5,641,665	1,909,456	10,026,064	2,569,581
Europe	4,723,182	2,570,618	7,296,407	3,881,735
Middle East	4,359,474	2,029,455	6,651,291	3,349,045
North America	1,033,543	5,171,476	4,585,720	6,878,781
Africa	429,517	52,955	594,825	93,296
	\$ 34,450,687	\$ 15,310,503	\$ 58,353,144	\$ 22,182,719

## CAUTIONARY STATEMENT FOR FORWARD-LOOKING STATEMENTS

This Quarterly Report on Form 10-Q includes forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended. We based these forward-looking statements on our current expectations and projections about future events. These forward-looking statements are subject to known and unknown risks, uncertainties and assumptions about us that may cause our actual results, levels of activity, performance or achievements to be materially different from any future results, levels of activity, performance or achievements expressed or implied by such forward-looking statements. In some cases, you can identify forward-looking statements by terminology such as “may,” “will,” “should,” “could,” “would,” “expect,” “plan,” “anticipate,” “believe,” “estimate,” “continue,” or the negative of such terms or other similar expressions. Factors that might cause or contribute to such a discrepancy include, but are not limited to, those listed under the heading “Risk Factors” and those listed in our other Securities and Exchange Commission filings. The following discussion should be read in conjunction with our Financial Statements and related Notes thereto included elsewhere in this report. Throughout this Quarterly Report, we will refer to Deer Consumer Products, Inc. as “Deer,” the “Company,” “we,” “us,” and “our.”

### Item 2. Management’s Discussion and Analysis of Financial Condition and Results of Operations

#### Overview

On September 3, 2008, we entered into a share exchange agreement and plan of reorganization with Deer International Group Ltd. (“Deer International”), a company incorporated under the laws of the British Virgin Islands (“BVI”) on December 3, 2007, and holder of 100% of the shares of Winder Electric Group Ltd. (“Winder”) since March 11, 2008. Winder has a 100% owned subsidiary, Delta International Limited (“Delta”). Winder and Delta were formed and incorporated in the Guangdong Province of the PRC on July 20, 2001 and February 23, 2006, respectively.

Pursuant to the share exchange agreement, we acquired from Deer International 50,000 ordinary shares, consisting of all of its issued and outstanding capital stock in exchange for 15,695,706 shares of our common stock.

Concurrently with the closing of the transactions contemplated by the share exchange agreement and as a condition thereof, we entered into an agreement with Crescent Liu, our former Director and Chief Executive Officer, pursuant to which he returned 5,173,914 shares of our common stock for cancellation. Mr. Liu was not compensated for the cancellation of his shares of our common stock. Upon completion of the foregoing transactions, we had 19,652,226 shares of common stock issued and outstanding. In connection with the above transaction we changed our name to Deer Consumer Products, Inc. on September 3, 2008.

The exchange of shares with Deer International was recorded as a reverse acquisition under the purchase method of accounting because Deer International obtained control of our company. Accordingly, the merger of Deer International into us was recorded as a recapitalization of Deer International, with Deer International being treated as the continuing entity. The historical financial statements presented are the consolidated financial statements of Deer International. The share exchange agreement has been treated as a recapitalization and not as a business combination; therefore, no pro forma information is disclosed. At the date of this transaction, the net liabilities of the legal acquirer were \$0.

We are engaged in the manufacture, marketing, distribution and sale of small home and kitchen electric appliances (blenders, food processors, choppers, juicers, etc.). The Company manufactures its products in YangJiang, China and has corporate functions in Nanshan, Shenzhen, China.

We operate through our two wholly-owned subsidiaries, Winder, which is a wholly-owned foreign enterprise (“WOFE”) and responsible for research, production and delivery of goods, and Delta, which has transferred all of its material former operations to Winder. We have traditionally acted as both an original equipment manufacturer (“OEM”) and original design manufacturer (“ODM”) for the export market. On April 30, 2010, we incorporated Deer Technology (AnHui) Co., Ltd. (“Deer Technology”) in the AnHui Province. We invested \$10 million in Deer Technology and have committed to invest another \$19.8 million. Deer Technology is engaged in the manufacture and sales of household electric appliances.

## Critical Accounting Policies

In presenting our financial statements in conformity with accounting principles generally accepted in the United States (“US GAAP”), we are required to make estimates and assumptions that affect the amounts reported therein. Several of the estimates and assumptions we are required to make relate to matters that are inherently uncertain as they pertain to future events. However, events that are outside of our control cannot be predicted and, as such, they cannot be contemplated in evaluating such estimates and assumptions. If there is a significant unfavorable change to current conditions, it will likely result in a material adverse impact to our results of operations, financial position and in liquidity. We believe the estimates and assumptions we used when preparing our financial statements were the most appropriate at that time. Presented below are those accounting policies we believe require subjective and complex judgments that could potentially affect reported results.

**Use of Estimates.** Our discussion and analysis of our financial condition and results of operations are based upon our financial statements, which were prepared in accordance with US GAAP. The preparation of these 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. On an ongoing basis, we evaluate our estimates, including those related to impairment of long-lived assets, and allowance for doubtful accounts. We base our estimates on historical experience and on various other assumptions that 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 that 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.

Areas that require estimates and assumptions include valuation of accounts receivable and inventory, determination of useful lives of property and equipment, estimation of certain liabilities and sales returns.

**Accounts Receivable.** We maintain reserves for potential credit losses on accounts receivable. Management reviews the composition of accounts receivable and analyzes historical bad debts, customer concentrations, customer credit worthiness, current economic trends and changes in customer payment patterns to evaluate the adequacy of these reserves.

**Advances to Suppliers.** We make advances to certain vendors for purchase of its material. The advances to suppliers are interest free and unsecured.

**Inventory.** Inventory is valued at the lower of cost (determined on a weighted average basis) or market. We compare the cost of inventories with the market value and allowance is made for writing down the inventories to their market value, if lower.

**Long-Lived Assets.** We periodically assess potential impairments to our long-lived assets. We perform an impairment review whenever events or changes in circumstances indicate that the carrying value may not be fully recoverable. Factors we considered include, but are not limited to: significant underperformance relative to expected historical or projected future operating results; significant changes in the manner of use of the acquired assets or the strategy for our overall business; and significant negative industry or economic trends. When we determine that the carrying value of a long-lived asset may not be recoverable based upon the existence of one or more of the above indicators of impairment, we estimate the future undiscounted cash flows expected to result from the use of the asset and its eventual disposition. If the sum of the expected future undiscounted cash flows and eventual disposition is less than the carrying amount of the asset, we recognize an impairment loss. An impairment loss is reflected as the amount by which the carrying amount of the asset exceeds the fair market value of the asset, based on the fair market value if available, or discounted cash flows. To date, there has been no impairment of long-lived assets.

Property and Equipment: Property and equipment are stated at cost. Expenditures for maintenance and repairs are charged to earnings as incurred; additions, renewals and betterments are capitalized. When property and equipment are retired or otherwise disposed of, the related cost and accumulated depreciation are removed from the respective accounts, and any gain or loss is included in operations. Depreciation of property and equipment is provided using the straight-line method for substantially all assets with estimated lives as follows:

17

---



Buildings	5-20 years
Equipment	5-10 years
Vehicles	5 years
Office equipment	5-10 years

Revenue Recognition. Our revenue recognition policies are in compliance with SEC Staff Accounting Bulletin (SAB) 104. Sales revenue is recognized at the date of shipment to customers when no other significant obligations exist and collectability is reasonably assured. Payments received before all of the relevant criteria for revenue recognition are satisfied are recorded as unearned revenue.

Foreign Currency Transactions and Comprehensive Income. US GAAP generally requires that recognized revenue, expenses, gains and losses be included in net income. Certain statements, however, require entities to report specific changes in assets and liabilities, such as gain or loss on foreign currency translation, as a separate component of the equity section of the balance sheet. Such items, along with net income, are components of comprehensive income. The functional currency of the Company is Chinese Renminbi. The unit of Renminbi is in Yuan. Translation gains are classified as an item of other comprehensive income in the stockholders' equity section of the balance sheet. Other comprehensive income in the statements of income and other comprehensive income includes translation gains recognized each period.

Currency Hedging. We entered into a forward exchange agreement with the Bank of China, whereby we have agreed to sell US dollars to the Bank of China at certain rates. Since the contractual rate at which we sell US dollars to the Bank of China was greater than the exchange rate on the date of each exchange transaction, we have recognized foreign exchange gains. At June 30, 2010, we had no outstanding forward exchange contracts.

#### Recent Accounting Pronouncements

On July 1, 2009, we adopted Accounting Standards Update ("ASU") No. 2009-01, "Topic 105 - Generally Accepted Accounting Principles - amendments based on Statement of Financial Accounting Standards No. 168, The FASB Accounting Standards Codification and the Hierarchy of Generally Accepted Accounting Principles" ("ASU No. 2009-01"). ASU No. 2009-01 re-defines authoritative GAAP for nongovernmental entities to be only comprised of the FASB Accounting Standards Codification ("Codification") and, for SEC registrants, guidance issued by the SEC. The Codification is a reorganization and compilation of all then-existing authoritative GAAP for nongovernmental entities, except for guidance issued by the SEC. The Codification is amended to effect non-SEC changes to authoritative GAAP. Adoption of ASU No. 2009-01 only changed the referencing convention of GAAP in Notes to the Consolidated Financial Statements.

On February 25, 2010, the FASB issued ASU No. 2010-09 Subsequent Events Topic 855 "Amendments to Certain Recognition and Disclosure Requirements," effective immediately. The amendments in the ASU remove the requirement for an SEC filer to disclose a date through which subsequent events have been evaluated in both issued and revised financial statements. Revised financial statements include financial statements revised as a result of either correction of an error or retrospective application of US GAAP. The FASB believes these amendments remove potential conflicts with the SEC's literature. The adoption of this ASU did not have a material impact on our consolidated financial statements.

On March 5, 2010, the FASB issued ASU No. 2010-11 Derivatives and Hedging Topic 815 "Scope Exception Related to Embedded Credit Derivatives." This ASU clarifies the guidance within the derivative literature that exempts certain credit related features from analysis as potential embedded derivatives requiring separate accounting. The ASU specifies that an embedded credit derivative feature related to the transfer of credit risk that is only in the form of subordination of one financial instrument to another is not subject to bifurcation from a host contract under ASC 815-15-25, Derivatives and Hedging — Embedded Derivatives — Recognition. All other embedded credit derivative

features should be analyzed to determine whether their economic characteristics and risks are “clearly and closely related” to the economic characteristics and risks of the host contract and whether bifurcation is required. The ASU is effective for the Company on July 1, 2010. Early adoption is permitted. The adoption of this ASU will not have a material impact on our consolidated financial statements.

In April 2010, the FASB codified the consensus reached in Emerging Issues Task Force Issue No. 08-09, "Milestone Method of Revenue Recognition." FASB ASU No. 2010-17 provides guidance on defining a milestone and determining when it may be appropriate to apply the milestone method of revenue recognition for research and development transactions. FASB ASU No. 2010-17 is effective for fiscal years beginning on or after June 15, 2010, and is effective on a prospective basis for milestones achieved after the adoption date. We do not expect this ASU will have a material impact on our financial position or results of operations when we adopt this update on January 1, 2011.

## Results of Operations

Three Months Ended June 30, 2010, Compared to the Three Months Ended June 30, 2009:

	Three Months Ended June 30,		\$	%
	2010	2009	Change	Change
Revenue	\$ 34,450,687	\$ 15,310,503	\$ 19,140,184	125.0
Cost of revenue	24,569,034	11,519,865	13,049,169	113.3
Gross profit	9,881,653	3,790,638	6,091,015	160.7
Selling, general and administrative expenses	2,910,079	1,534,234	1,375,845	89.7
Interest and financing costs, net	19,755	110,522	(90,767)	(82.1)
Other income (expense)	22,824	(2,015)	24,839	(1,232.7)
Foreign exchange (loss)	(92,676)	(9,997)	(82,679)	827.0
Income tax expense	1,100,566	420,031	680,535	162.0
Net income	6,020,540	1,714,876	4,305,664	251.1

## Revenues

Our revenue for the three months ended June 30, 2010, was \$34.5 million, an increase of \$19.1 million or 125.0% from \$15.3 million for the three months ended June 30, 2009. The increase in revenues was a result of us aggressively expanding our sales in the China domestic market and increasing our market shares in the South American, Asian, European and Middle East markets. We increased our China domestic market sales from approximately \$1.7 million for the three months ended June 30, 2009 to approximately \$11.4 million for the same period in 2010, a 579% increase. Beginning in the latter half of 2009, we increased sales of our products to a prominent national electric appliance retail chain in China with roughly 900 stores. In the first quarter of 2010, we started selling to Wal-Mart stores in the Guandong Province and began ramping up sales to another prominent national electronic appliance retail chain in China with over 1,100 stores. We also added retail locations in other channels such as regional electric appliance retailers and department stores. We increased our product sales over internet portals, into hotels and restaurants, and via reward programs with large Chinese banks, telecommunication firms, and postal offices. The results are on pace with management's plan to capture the fast growth experienced in the domestic Chinese small appliance market.

Our sales in South America were \$6.9 million for the three months ended June 30, 2010, a \$4.9 million or 262% increase over the same period in 2009. Our sales in Asia were \$5.6 million for the three months ended June 30, 2010, a \$3.7 million or 195% increase over the same period in 2009. We believe that the increase in sales in Asia and South America were largely due to emerging wealth in the regions and because those regions experienced less of an impact from the recent financial crisis. In the longer term, we are optimistic about our Asian and South American markets because of their GDP growth and large populations.

Our sales in Europe were \$4.7 million for the three months ended June 30, 2010, a \$2.2 million or 84% increase over the same period in 2009. Our sales in the Middle East were \$4.4 million for the three months ended June 30, 2010, a \$2.3 million or 115% increase over the same period in 2009. Our sales gains in the Europe and the Middle East were

largely due to Deer gaining market share following the financial crisis. Our sales in the U.S. were \$1.0 million for the three months ended June 30, 2010, a \$4.1 million or 80% decrease over the same period in 2009. The decrease is due to seasonality of order placement and delivery schedules of our U.S. customers. On an annual basis, we do not expect to see a slowdown in U.S. sales.

Following the financial crisis, we believe that many smaller suppliers with limited capital resources have gone out of business, leading to further consolidation in the industry. In addition, we noticed that buyers increasingly favored companies with strong financial strength, higher quality, sufficient plant capacity, and a track record of prompt delivery. Buyers placed even greater emphasis on being able to source quality supplies without delays or interruptions. We utilized this market opportunity to add new accounts and increase sales volume with our existing customers.

#### Cost of Revenue

Our cost of revenue for the three months ended June 30, 2010, increased by \$13.0 million or 113.3% from \$11.5 million for the three months ended June 30, 2009, to \$24.6 million for the three months ended June 30, 2010. The increased cost of revenue in 2010 was due to the increase in sales.

#### Gross Profit

Our gross margin for the three months ended June 30, 2010, was 28.7% compared to 24.8% for the same period in 2009. The increase in gross margin for the three months ended June 30, 2010, compared to the same period in 2009, was due to increased sales in the China domestic market, which has higher margins. Our gross margin is substantially higher in the China domestic market because of the lower household penetration of small household products and trends of emerging wealth. In addition, our higher manufacturing efficiency as a result of higher revenue volume contributed to the increase in gross margin.

#### Operating Expenses

Selling, general and administrative expenses for the three months ended June 30, 2010, increased by \$1.4 million or 89.7%, from \$1.5 million for the three months ended June 30, 2009, to \$2.9 million for the three months ended June 30, 2010. Selling expenses for the three months ended June 30, 2010, increased by 150.1% or \$1.1 million in comparison to the same period in 2009 due to the associated selling costs incurred to generate the significant increase in revenue. General and administrative expenses for the three months ended June 30, 2010, increased by 35.1% or \$0.3 million in comparison to the same period in 2009 due to an increase in research and development, employee welfare, insurance and travel expenses.

#### Interest and Financing Costs

Interest and financing costs for the three months ended June 30, 2010, was \$19,755 compared to \$110,522 for the three months ended June 30, 2009, a decrease of \$90,767 or 82.1%. The change is principally due to lower interest expense due to lower borrowings in 2010.

#### Interest Income

Interest income for the three months ended June 30, 2010, was \$239,139 compared to \$1,037 for the three months ended June 30, 2009, an increase of \$238,102. The change is principally due to the excess cash invested in interest bearing accounts.

#### Income Tax Expense

Our effective tax rate for the three months ended June 30, 2010, was 15.5%, as opposed to 19.7% for the three months ended June 30, 2009. In 2009, the PRC government granted the Company this special tax rate because of its high tech enterprise status. These special tax benefits last for three years and can be renewed prior to expiration.



Edgar Filing: Deer Consumer Products, Inc. - Form 10-Q

Six Months Ended June 30, 2010, Compared to the Six Months Ended June 30, 2009:

	Six Months Ended June 30,		\$	%
	2010	2009	Change	Change
Revenue	\$ 58,353,144	\$ 22,182,719	\$ 36,170,425	163.1
Cost of revenue	41,593,643	16,732,569	24,861,074	148.6
Gross profit	16,759,501	5,450,150	11,309,351	207.5
Selling, general and administrative expenses	5,013,109	2,089,157	2,923,952	140.0
Interest and financing costs, net	49,461	225,353	(175,892)	(78.1)
Other income (expense)	8,223	(3,896)	12,119	(311.1)
Foreign exchange gain (loss)	(125,810)	(80,503)	(45,307)	56.3
Income tax expense	1,852,841	682,147	1,170,694	171.6
Net income	10,057,563	2,371,750	7,685,813	324.1

### Revenues

Our revenue for the six months ended June 30, 2010, was \$58.4 million, an increase of \$36.2 million or 163.1% from \$22.2 million for the six months ended June 30, 2009. The increase in revenues was a result of us aggressively expanding our sales in the China domestic market and increasing our market shares in the South American, Asian, European and Middle East markets. We increased our China domestic market sales from approximately \$2.2 million for the six months ended June 30, 2009 to approximately \$17.8 million for the same period in 2010, a 735% increase. Beginning in the latter half of 2009, we increased sales of our products to a prominent national electric appliance retail chain in China with roughly 900 stores. In the first quarter of 2010, we started selling to Wal-Mart stores in the Guandong Province and began ramping up sales to another prominent national electronic appliance retail chain in China with over 1,100 stores. We also added retail locations in other channels such as regional electric appliance retailers and department stores. We increased our product sales over internet portals, into hotels and restaurants, and via reward programs with large Chinese banks, telecommunication firms, and postal offices. The results are on pace with management's plan to capture the fast growth experienced in the domestic Chinese small appliance market.

Our sales in South America were \$11.4 million for the six months ended June 30, 2010, an \$8.1 million or 248% increase over the same period in 2009. Our sales in Asia were \$10.0 million for the six months ended June 30, 2010, a \$7.5 million or 290% increase over the same period in 2009. We believe that the increase in sales in Asia and South America were largely due to emerging wealth in the regions and because those regions experienced less of an impact from the recent financial crisis. In the longer term, we are optimistic about our Asian and South American markets because of their GDP growth and large populations.

Our sales in Europe were \$7.3 million for the six months ended June 30, 2010, a \$3.4 million or 88% increase over the same period in 2009. Our sales in the Middle East were \$6.7 million for the six months ended June 30, 2010, a \$3.3 million or 99% increase over the same period in 2009. Our sales gains in the Europe and the Middle East were largely due to Deer gaining market share following the financial crisis. Our sales in the U.S. were \$4.6 million for the six months ended June 30, 2010, a \$2.3 million or 33% decrease over the same period in 2009. The decrease is due to seasonality of order placement and delivery schedules of our U.S. customers. On an annual basis, we do not expect to see a slowdown in U.S. sales.

Following the financial crisis, we believe that many smaller suppliers with limited capital resources have gone out of business, leading to further consolidation in the industry. In addition, we noticed that buyers increasingly favored companies with strong financial strength, higher quality, sufficient plant capacity, and a track record of prompt delivery. Buyers placed even greater emphasis on being able to source quality supplies without delays or interruptions. We utilized this market opportunity to add new accounts and increase sales volume with our existing customers.





### Cost of Revenue

Our cost of revenue for the six months ended June 30, 2010, increased by \$24.9 million or 149% from \$16.7 million for the six months ended June 30, 2009, to \$41.6 million for the six months ended June 30, 2010. The increased cost of revenue in 2010 was due to the increase in sales.

### Gross Profit

Our gross margin for the six months ended June 30, 2010, was 28.7% compared to 24.6% for the same period in 2009. The increase in gross margin for the six months ended June 30, 2010, compared to the same period in 2009, was due to increased sales in the China domestic market, which has higher margins. Our gross margin is substantially higher in the China domestic market because of the lower household penetration of small household products and trends of emerging wealth. In addition, our higher manufacturing efficiency as a result of higher revenue volume contributed to the increase in gross margin.

### Operating Expenses

Selling, general and administrative expenses for the six months ended June 30, 2010, increased by \$2.9 million or 140%, from \$2.1 million for the six months ended June 30, 2009, to \$5.0 million for the six months ended June 30, 2010. Selling expenses for the six months ended June 30, 2010, increased by 257% or \$2.3 million in comparison to the same period in 2009 due to the associated selling costs incurred to generate the significant increase in revenue. General and administrative expenses for the six months ended June 30, 2010, increased by 50% or \$0.6 million in comparison to the same period in 2009 due to an increase in research and development, employee welfare, insurance and travel expenses.

### Interest and Financing Costs

Interest and financing costs for the six months ended June 30, 2010, was \$49,461 compared to \$225,353 for the six months ended June 30, 2009, a decrease of \$175,892 or 78.1%. The change is principally due to lower interest expense due to lower borrowings in 2010.

### Interest Income

Interest income for the six months ended June 30, 2010, was \$331,060 compared to \$2,656 for the six months ended June 30, 2009, an increase of \$328,404. The change is principally due to the excess cash invested in interest bearing accounts.

### Income Tax Expense

Our effective tax rate for the six months ended June 30, 2010, was 15.6%, as opposed to 22.3% for the six months ended June 30, 2009. In 2009, the PRC government granted the Company this special tax rate because of its high tech enterprise status. These special tax benefits last for six years and can be renewed prior to expiration.

### Off-Balance Sheet Arrangements

There were no off-balance sheet arrangements during the six months ended June 30, 2010, that have, or are reasonably likely to have, a current or future affect on our financial condition, revenues or expenses, results of operations, liquidity, capital expenditures or capital resources that is material to our interests.

### Liquidity and Capital Resources

On April 24, 2009, we effected a 1 for 2.3 reverse stock split of our common stock and on October 2, 2009, the Company effected a 2 for 1 forward stock split of our common stock. All share information for common shares was restated retroactively for these stock splits.

On March 31, 2009, we completed a closing of a private placement offering of Units (as defined below) pursuant to which we sold an aggregate of 810,690 Units at an offering price of \$0.92 per Unit for aggregate gross proceeds of \$746,000. Each "Unit" consisted of one share of our common stock and a three-year warrant to purchase 15% of one share of common stock at an exercise price of \$1.73 per share. The total warrants issued to investors were 121,660. We also issued warrants to purchase 81,090 shares of common stock to the placement agents.

On May 1, 2009, we completed a closing of a private placement offering of 1,040,000 Units at an offering price of \$0.92 per Unit for aggregate gross proceeds of \$956,800 to two non-U.S. investors. Each Unit consisted of one share of our common stock and a three-year warrant to purchase 15% of one share of common stock, or an aggregate of 156,000 shares of common stock, at an exercise price of \$1.73 per share. We also issued warrants to purchase 104,000 shares of common stock to the placement agents.

On May 20, 2009, we completed a closing of a private placement offering of 1,060,000 Units at an offering price of \$0.92 per Unit for aggregate gross proceeds of \$975,200 to two non-U.S. investors. Each Unit consisted of one share of our common stock and a three-year warrant to purchase 15% of one share of common stock, or an aggregate of 159,000 shares of common stock, at an exercise price of \$1.73 per share. We also issued warrants to purchase 106,000 shares of common stock to the placement agents.

On September 21, 2009, we completed a private placement offering of 3,000,000 Units at an offering price of \$5.00 per Unit for aggregate offering price of \$15,000,000 to non-U.S. investors. Each Unit consisted of one share of our common stock, and a three-year warrant to purchase 30% of one share of our common stock, or an aggregate of 900,000 shares of common stock, at an exercise price of \$5.00 per share. A non-U.S. advisor to us received fees of 9% of the gross proceeds and warrants to purchase 300,000 shares of common stock on the same terms as the non-U.S. investors. In addition, we paid an additional 3% advisory fee in connection with this private placement offering.

On December 17, 2009, we completed a public offering of 6,900,000 shares of our common stock at a public offering price of \$11.00 per share for gross proceeds of \$75,900,000. We paid commissions and fees associated with this offering of \$9,931,296 in 2009. We also paid offering cost of \$320,000 related to this offering in 2010.

During the three months ended June 30, 2010, certain warrant holders exercised 1,751,610 warrants that resulted in gross proceeds of \$6,951,527. Also during the three months ended June 30, 2010, we purchased 798,300 shares of our common stock on the open market (treasury shares) for \$6,945,950.

#### Cash Flows

At June 30, 2010, we had \$74.3 million in cash and cash equivalents on hand. Our principal demands for liquidity are to increase sales in China, adding capacity, inventory purchase, sales distribution, and general corporate purposes. We anticipate that the amount of cash we have on hand as of the date of this report as well as the cash that we will generate from operations will satisfy these requirements.

Net cash flows used in operating activities for the six months ended June 30, 2010, was \$5,592 compared to cash provided by operating activities of \$2.4 million for the six months ended June 30, 2009. The cash flows from operating activities was principally attributed to the net income generated during the six months ended June 30, 2010, an increase in accounts and other payables, offset by an increase in our accounts receivable and inventories and a decrease in current liabilities.

We used \$4.9 million in investing activities during the six months ended June 30, 2010, principally for construction in process and land use rights (intangible assets) and an increase in restricted cash.

Cash used in financing activities for the six months ended June 30, 2010, was \$0.3 million, which included proceeds from the exercise of warrants offset by the payment of offering costs and the purchase of treasury shares.

We intend to meet our liquidity requirements, including capital expenditures related to the purchase of equipment, purchase of raw materials, and the expansion of our business, through cash flow provided by operations and funds raised through offerings of our securities, if and when the Company determines such offerings are required.

We maintain export insurance that covers losses arising from customers' rejection of our products, political risk, losses arising from business credit and other credit risks including bankruptcy, insolvency and delay in payment.

The majority of our revenues were denominated in USD and expenses were denominated primarily in RMB, the currency of the PRC. As we increase our sales in China, we expect a significant component of our revenue to be denominated in RMB.

There is no assurance that exchange rates between the RMB and the USD will remain stable. We currently do not engage in currency hedging. Inflation has not had a material impact on our business.

### Item 3. Quantitative and Qualitative Disclosures about Market Risk

Not required.

### Item 4. Controls and Procedures

#### Disclosure Controls and Procedures

As of the end of the period covered by this report, the Company conducted an evaluation under the supervision and with the participation of the Company's management, including the Chief Executive Officer ("CEO"), its principal executive officer, and Chief Financial Officer ("CFO"), its principal financial officer, of the effectiveness of the design and operation of the Company's disclosure controls and procedures (as defined in Rule 13a-15(e) and Rule 15d-15(e) of the Exchange Act). Based on that evaluation, the CEO and CFO concluded that the Company's disclosure controls and procedures were effective as of the date of that evaluation to ensure that information required to be disclosed in the reports that it files or submits under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in Securities and Exchange Commission rules and forms. Disclosure controls and procedures include, without limitation, controls and procedures designed to ensure that information required to be disclosed by the Company in the reports that it files or submits under the Exchange Act is accumulated and communicated to the Company's management, including its principal executive and principal financial officers, or persons performing similar functions, as appropriate to allow timely decisions regarding required disclosure.

#### Changes in Internal Control over Financial Reporting

There were no changes in the Company's internal control over financial reporting (as such term is defined in Rules 13a-15(f) and 15d-15(f) of the Exchange Act) during its most recently completed fiscal quarter that have materially affected, or are reasonably likely to materially affect, its internal control over financial reporting.

## PART II. OTHER INFORMATION

### Item 1. Legal Proceedings

From time to time, we may become involved in various lawsuits and legal proceedings, which arise in the ordinary course of business. However, litigation is subject to inherent uncertainties and an adverse result in these or other matters may arise from time to time that may have an adverse affect on our business, financial conditions, or operating results. We are currently not aware of any such legal proceedings or claims that will have, individually or in the aggregate, a material adverse affect on our business, financial condition or operating results

### Item 1A. Risk Factors

Not required.



Item 2. Unregistered Sales of Equity Securities and Use of Proceeds

Unregistered Sales of Securities

There were no sales of unregistered equity securities during the period covered by this report.

Purchases of Equity Securities by the Issuer and Affiliated Purchasers

On May 17, 2010, the Board of Directors authorized the Company to repurchase up to \$20 million of the Company's common stock. After taking into account all shares repurchased through August 6, 2010, the Company has approximately \$13.05 million in aggregate remaining repurchase capacity under the Company's outstanding repurchase authorization. The timing and actual number of shares repurchased will depend on a variety of factors, including the stock price, corporate and regulatory requirements and other market and economic conditions. The Company's stock repurchase program may be suspended or discontinued at any time, and expires two years following the date of authorization. The following table provides information with respect to purchases made by the Company of shares of the Company's common stock during the three-month period ended June 30, 2010:

Issuer Purchases of Equity Securities				
Period	Total Number of Shares Purchased	Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	Maximum Number (or Approximate Dollar Value) of Shares that May Yet Be Purchased Under the Plans or Programs
April 1 through April 30, 2010	-	\$ -	-	\$ 20,000,000
May 1 through May 31, 2010	-	-	-	20,000,000
June 1 through June 30, 2010	798,300	8.70	798,300	13,054,050
Total	798,300	\$ 8.70	798,300	

Item 3. Defaults Upon Senior Securities

None.

Item 5. Other Information

All information required to be reported in a Current Report on Form 8-K during the period covered by this Form 10-Q has been reported.

Item 6. Exhibits

Exhibit No. Description of Exhibit

- 31.1 Certification of Principal Executive Officer pursuant to Exchange Act Rules 13a-14(a) and 15d-14(a), as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
- 31.2 Certification of Principal Financial Officer pursuant to Exchange Act Rules 13a-14(a) and 15d-14(a), as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002

- 32.1 Certification pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, as signed by the Chief Executive Officer
- 32.2 Certification pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, as signed by the Chief Financial Officer

25

---



SIGNATURES

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

DEER CONSUMER PRODUCTS, INC.  
(Registrant)

Date: August 10, 2010

By: /s/ Ying He  
Ying He  
Chief Executive Officer  
(Principal Executive Officer)