

Deer Consumer Products, Inc.  
Form 10-Q  
May 10, 2012

---

---

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 March 31, 2012

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 has submitted electronically and posted on its corporate web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).

YES  NO

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

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

Indicate the number of shares outstanding of each of the issuer’s classes of common stock, as of the latest practicable date: 33,592,562 shares of common stock outstanding as of May 9, 2012.

Table of Contents

Deer Consumer Products, Inc.

Table of Contents

		Page
PART I. FINANCIAL INFORMATION		
Item 1.	<u>Financial Statements</u>	3
Item 2.	<u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	21
Item 3.	<u>Quantitative and Qualitative Disclosures about Market Risk</u>	28
Item 4.	<u>Controls and Procedures</u>	28
PART II. OTHER INFORMATION		
Item 1.	<u>Legal Proceedings</u>	29
Item 1A.	<u>Risk Factors</u>	29
Item 2.	<u>Unregistered Sales of Equity Securities and Use of Proceeds</u>	29
Item 3.	<u>Defaults Upon Senior Securities</u>	30
Item 4.	<u>Mine Safety Disclosures</u>	30
Item 5.	<u>Other Information</u>	30
Item 6.	<u>Exhibits</u>	30
	<u>Signatures</u>	31
	<u>Exhibit Index</u>	32

---

Table of Contents

## PART I. FINANCIAL INFORMATION

## Item 1. Financial Statements

DEER CONSUMER PRODUCTS, INC. AND SUBSIDIARIES  
CONSOLIDATED BALANCE SHEETS

	March 31, 2012 (Unaudited)	December 31, 2011
<b>ASSETS</b>		
<b>CURRENT ASSETS</b>		
Cash & equivalents	\$15,337,914	\$13,961,434
Restricted cash	534,645	127,235
Accounts receivable	6,387,898	20,553,235
Deposits	88,723	1,153,019
Advances to suppliers	620,731	2,920,746
Other receivables	46,508	287,824
VAT receivable	9,227,463	8,562,076
Prepaid expense	952,902	952,902
Inventories, net	79,381,120	61,017,231
<b>Total current assets</b>	<b>112,577,904</b>	<b>109,535,702</b>
<b>NON-CURRENT ASSETS</b>		
Advance for equipment purchase	101,143	844,964
Deposit for land use right	848,534	847,646
Property and equipment, net	35,329,674	36,137,609
Construction in progress	21,171,672	21,141,715
Intangible assets, net	35,748,608	35,895,528
Other receivable	317,710	-
<b>Total noncurrent assets</b>	<b>93,517,341</b>	<b>94,867,462</b>
<b>TOTAL ASSETS</b>	<b>\$206,095,245</b>	<b>\$204,403,164</b>
<b>LIABILITIES AND EQUITY</b>		
<b>CURRENT LIABILITIES</b>		
Accounts payable	\$4,315,772	\$7,977,167
Advance from customers	844,530	1,056,442
Income taxes payable	5,096,160	4,864,267
Other payables and accrued expenses	2,422,601	2,753,617
Dividend payable	-	1,679,628
Notes payable	-	692,821
<b>Total current liabilities</b>	<b>12,679,063</b>	<b>19,023,942</b>

## COMMITMENTS AND CONTINGENCIES

## STOCKHOLDERS' EQUITY

Common Stock, \$0.001 par value; 75,000,000 shares authorized; 33,592,562 shares issued and outstanding as of March 31, 2012 and December 31, 2011, respectively	33,593	33,593
Paid-in capital	91,187,584	91,187,584
Statutory reserve	9,985,566	9,157,606
Development fund	4,992,783	4,578,803
Accumulated other comprehensive income	14,983,829	14,769,957
Retained earnings	72,235,827	65,651,679
Total stockholders' equity	193,419,182	185,379,222
TOTAL LIABILITIES AND EQUITY	\$ 206,098,245	\$ 204,403,164

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

Table of Contents

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

	2012	2011
Revenue	\$49,869,103	\$34,676,146
Cost of revenue	34,349,861	24,719,201
Gross profit	15,519,242	9,956,945
Operating expenses		
Selling	4,014,207	2,617,437
General and administrative	1,351,486	1,240,626
Total operating expenses	5,365,693	3,858,063
Income from operations	10,153,549	6,098,882
Non-operating income (expenses)		
Interest income	311,440	62,535
Financial expense	(6,260 )	-
Exchange loss	(36,162 )	(116,123 )
Other income (expenses), net	1,759	(38,298 )
Subsidy income	236,230	999,232
Total non-operating income, net	507,007	907,346
Income before income tax	10,660,556	7,006,228
Income tax expense	2,834,468	1,212,282
Net income	7,826,088	5,793,946
Other comprehensive item		
Foreign currency translation	213,872	1,476,410
Comprehensive Income	\$8,039,960	\$7,270,356
Basic weighted average shares outstanding	33,592,562	33,592,562
Diluted weighted average shares outstanding	33,592,562	33,592,562
Basic earnings per share	\$0.23	\$0.17
Diluted earnings per share	\$0.23	\$0.17

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



Table of Contents

DEER CONSUMER PRODUCTS, INC. AND SUBSIDIARIES  
CONSOLIDATED STATEMENTS OF CASH FLOWS  
THREE MONTHS ENDED MARCH 31, 2012 AND 2011  
(UNAUDITED)

	2012	2011
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>		
Net income	\$7,826,088	\$5,793,946
Adjustments to reconcile net income to net cash provided by (used in) operating activities:		
Depreciation and amortization	1,057,048	703,455
Provision for inventory losses	114,355	-
Stock-based compensation	-	25,657
(Increase) decrease in current assets:		
Accounts receivable	14,153,610	7,118,569
Advances to suppliers	2,862,987	713,336
Other receivables, prepayments, and deposits	1,309,945	(417,015 )
Subsidy receivable	-	(480,460 )
VAT receivable	(655,045 )	-
Other assets	-	1,708
Inventories	(18,376,257 )	(5,935,516 )
Increase (decrease) in current liabilities:		
Accounts payable	(3,486,665 )	(9,154,319 )
Unearned revenue	(212,577 )	(711,755 )
Taxes payable	228,815	(4,210,783 )
Notes payable	(692,107 )	(3,440,063 )
Other payables and accrued expenses	(333,210 )	(879,287 )
Changes in noncurrent assets - other receivable	(317,050 )	-
Net cash provided by (used in) operating activities	3,479,937	(10,872,527 )
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>		
Change in restricted cash	(406,430 )	494,294
Acquisition of property & equipment	(28,801 )	(728,682 )
Refund of deposit on land use right	-	6,071,063
Construction in progress	(7,772 )	(1,042,779 )
Net cash (used in) provided by investing activities	(443,003 )	4,793,896
<b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>		
Dividends paid	(1,679,628 )	-
Net cash used in financing activities	(1,679,628 )	-
EFFECT OF EXCHANGE RATE CHANGE ON CASH & EQUIVALENTS	19,174	315,663
NET DECREASE IN CASH & EQUIVALENTS	1,376,480	(5,762,968 )



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

CASH & EQUIVALENTS, BEGINNING OF PERIOD	13,961,434	33,956,591
CASH & EQUIVALENTS, END OF PERIOD	\$15,337,914	\$28,193,623
Supplemental Cash flow data:		
Income tax paid	\$2,639,188	\$2,076,848
Interest paid	\$-	\$-

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

Table of Contents

DEER CONSUMER PRODUCTS, INC. AND SUBSIDIARIES  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
For the Three Months Ended March 31, 2012 and 2011  
(unaudited)

Note 1 – Organization and Basis of Presentation

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 corporation organized under the laws of the British Virgin Islands 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, 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 was 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.

The unaudited financial statements included herein were prepared by the Company, 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 fairly present the operating results for the respective periods. Certain information and footnote disclosures normally present in annual financial statements prepared in accordance with accounting principles generally accepted in the United States of America (“US GAAP”) have been omitted pursuant to such rules and regulations. These financial statements should be read in conjunction with the audited financial statements and footnotes included in the Company’s 2011 audited financial statements included in the Company’s Annual Report on Form 10-K. The results for the three months ended March 31, 2012 are not necessarily indicative of the results to be

expected for the full year ending December 31, 2012.

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.

Table of Contents

DEER CONSUMER PRODUCTS, INC. AND SUBSIDIARIES  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
For the Three Months Ended March 31, 2012 and 2011  
(unaudited)

Cash and Equivalents

Cash and 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 guarantee deposit in the bank for issuing letters of credit and bank acceptances.

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. The Company has not incurred any bad debts to date. If the Company finds a possibility that it may incur a bad debt, the Company will accrue the appropriate allowance based on the aging of our accounts receivables. The Company's policy is to accrue the full amount of account receivables when their aging exceeds one year. Based on historical collection activity, the Company did not record any bad debt allowance at March 31, 2012 and December 31, 2011.

The Company sells products in the China domestic market through regional and national wholesalers and third party distributors. The standard term of payment of accounts receivables for several of the Company's large and established China domestic retailer customers is 180 days from the close of the billing cycle, which is 30 – 45 days after the Company's products are delivered to the customer. This accounts receivable term is customary for large and established China domestic retailers. Historically, the Company has not experienced late payments or bad debts under such terms from these retailers. The term of payment of accounts receivable for the Company's other China domestic customers is 30 – 90 days from the close of the billing cycle. The Company provides its major customers with payment terms based on their payment history, amount they have purchased in the past, and upon any strategic agreement the Company may have with them.

As the Company continues to focus on expanding sales to the China domestic market, the Company's sales to the China domestic market may represent a larger percentage of the Company's total revenue. The Company anticipates that its accounts receivable will remain in line with standard industry practice relating to accounts receivable in China, which could be up to seven months.

The Company sells products to overseas customers under letters of credit, prepaid arrangements, certain short credit terms or direct customer purchase orders. As of March 31, 2012 and December 31, 2011, approximately 2 % and 43%, respectively, of its accounts receivable was from overseas customers. The Company's export sales-related accounts receivable typically are less than three months, depending on customer shipment schedules. Historically, the Company has not experienced significant bad debts from export sales. The Company also 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.

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

The Company believes its accounts receivable will be collected in the ordinary course of business within seven months as the Company has established relationships with many of its major customers. In addition, the Company's domestic customers typically pay according to the Company's payment terms and the Company maintains insurance for its accounts receivable with respect to its international customers.

The table below provides account receivable roll forward schedules for our three largest customers ---- Gome ,Reed Sea and Tianhong.

Client Name	December 31, 2011 Receivable	2012 Sales	2012 collection	Bad debt allowance	March 31, 2012 Receivable
Gome	\$ 2,802,821	\$ 22,517,732	\$ 24,558,350	-	\$ 762,203
Tianhong	\$ 1,587,777,	\$ 10,154,314	\$ 8,951,756	-	\$ 2,790,335
Reed Sea	\$ 4,236,537,	\$ 10,856,826	\$ 13,779,548	-	\$ 1,313,815

Table of Contents

DEER CONSUMER PRODUCTS, INC. AND SUBSIDIARIES  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
For the Three Months Ended March 31, 2012 and 2011  
(unaudited)

VAT Receivables

VAT receivables are VAT rebates which arise from our purchase of raw materials. VAT receivables are returned to the Company or offset against VAT payable. The Company anticipates collecting its VAT receivables within one year. The Company does not experience credit losses with respect to VAT receivables because they are owed to the Company by the government. The Company classifies VAT receivables as a current asset because it is an asset that is reasonably expected to be realized (or sold or consumed) within one year or within the Company's normal operating cycle.

Advances to Suppliers

The Company makes advances to certain vendors to purchase material and equipment. 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 their market value and allowance is made to write down inventories to their market value, if lower.

Notes Receivable

The Company sold goods to its customers and received commercial notes (bank acceptance) from them in lieu of payments for accounts receivable. The Company discounted the commercial notes with bank or endorsed the commercial notes to vendors for payment of their own obligations or to get cash from third parties. Most of the commercial notes have a maturity of less than six months. Winder transferred commercial notes to vendors in lieu of payment. If the original remitters fail to pay the notes, Winder will be responsible for making the payment. The Company was contingently liable for \$11.37 million (RMB 71.54 million) and \$41.6 million (RMB 262.12 million) for Winder at March 31, 2012, and December 31, 2011, respectively.

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

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

The following are the details of property and equipment at March 31, 2012 and December 31, 2011:

	2012	2011
Building	\$ 21,276,853	\$ 21,254,566
Equipment	25,128,008	25,072,857
Vehicle	454,743	454,267
Office equipment	566,648	566,054
Total	47,426,252	47,347,744
Less accumulated depreciation	(12,096,579)	(11,210,135)
Property & equipment, net	\$ 35,329,673	\$ 36,137,609

Depreciation for the three months ended March 31, 2012 and 2011, was \$872,872 and \$540,313, respectively.

Table of Contents

DEER CONSUMER PRODUCTS, INC. AND SUBSIDIARIES  
 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
 For the Three Months Ended March 31, 2012 and 2011  
 (unaudited)

**Construction in Progress**

Construction in progress consists of molds under construction of \$3.12 million for Winder as of March 31, 2012, and December 31, 2011, with no major additional costs to be incurred.

Construction in progress also includes costs for the construction of a new plant, office building and power distribution station for Deer Technology. Total estimated cost for this project is \$36.23 million. As of March 31, 2012, construction in progress was \$18.05 million. This phase of construction is anticipated to be completed in September 2012.

**Long-Lived Assets**

The Company follows 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 March 31, 2012 and December 31, 2011, 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 March 31, 2012 and December 31, 2011:

	2012	2011
Right to use land	\$ 36,873,441	\$ 36,834,817
Computer software	83,288	83,201
Total	36,956,729	36,918,018
Less accumulated amortization	(1,208,121)	(1,022,490)
Intangibles, net	\$ 35,748,608	\$ 35,895,528

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



In 2010, Deer Technology acquired the land use rights for two parcels of land with a total of 439,640 square meters located in east central China in the city of Wuhu, AnHui Province. The purchase price of the land use rights for these two parcels of land was approximately \$35 million, a price of RMB 4.95 million (\$743,000) per hectare and including a 4% PRC government land transfer tax and other government charges. The use right for the first parcel of land covering 289,416 square meters was purchased for approximately RMB 149 million (\$22.74 million). The land use right for the second parcel of land covering 150,224 square meters was purchased for RMB 77.37 million (\$11.8 million). The Company received the land use right certificates from the PRC government on these two parcels of land.

The deposit of \$10.5 million (RMB 67,901,400) paid in 2010 to acquire a land use right was returned to the Company in the first quarter of 2011, as it failed to win the auction for the land. The Company paid an additional \$4.3 million (RMB 27,934,381) in first quarter of 2011 to make payment in full for the land use rights it acquired in December 2010. As of December 31, 2010, the Company prepaid (RMB 22,300,000) \$3,367,207 for land use rights acquired in December 2010. This prepayment was transferred into intangible assets in the first quarter of 2011 when the Company received the land use right certificate.

Table of Contents

DEER CONSUMER PRODUCTS, INC. AND SUBSIDIARIES  
 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
 For the Three Months Ended March 31, 2012 and 2011  
 (unaudited)

A summary of Company's land use rights are as follows:

Name	Site use right Phase I	Site use right Phase II	Land use right	Land use right
Size (In Square Meters)	33,728	52,597	289,416	150,224
Location	Yangjiang City	Yangjiang City	Wuhu City	Wuhu City
Owner	Winder	Winder	Deer Technology	Deer Technology
Useful life in months	600	600	600	600
Purpose	Plant and workshop	Plant and workshop	Plant and workshop	Plant and workshop
Purchase date	November 2002	June 2005 & March 2010	September 2010	December 2010
Price in RMB/USD	RMB 1.7 million (\$0.3 million)	RMB 3.9 million (\$0.6 million)	RMB 149.1 million (\$23 million)	RMB 77.4 million (\$12 million)
	-	-	-	-

In addition, as of March 31, 2012, the Company prepaid RMB 5.34 million (\$0.8 million) for the land use rights for 60,000 square meters of land in Yangjiang City, or Site use right Phase III. The total cost for the land use rights is approximately RMB 21.3 million (\$3.3 million), which the Company is required to pay in full in 2012.

There are no regulatory deadlines or commitments to develop the land.

Amortization for the three months ended March 31, 2012 and 2011 was \$184,176 and \$163,142, respectively.

The following table summarizes the expected amortization over the next five years as of March 31, 2012:

Three Months ended March 31,	Amount
2013	\$ 736,407
2014	736,407
2015	736,407
2016	736,407
2017	736,407
Thereafter	32,066,573
Total	\$ 35,748,608

Table of Contents

DEER CONSUMER PRODUCTS, INC. AND SUBSIDIARIES  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
For the Three Months Ended March 31, 2012 and 2011  
(unaudited)

Fair Value of Financial Instruments

Certain of the Company's financial instruments, including cash and 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.

The Company analyzes all financial instruments with features of both liabilities and equity under ASC Topic 480, "Distinguishing Liabilities from Equity," and ASC Topic 815, "Derivatives and Hedging."

As of March 31, 2012 and December 31, 2011, 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 (codified in FASB ASC Topic 480).

Sales revenue from export customers is recognized at the date of shipment when the price is fixed or determinable, no other significant obligations of the Company exist and collectability is reasonably assured. The Company records payments for goods before all relevant criteria for revenue recognition are satisfied as unearned revenue.

Sales revenue from domestic customers is recognized at FOB destination when the price is fixed or determinable, no other significant obligations of the Company exist and collectability is reasonably assured. Company pays for the cost of freight and insurance and risk of loss passes when customers receive the goods. The Company records payments for goods before all relevant criteria for revenue recognition are satisfied as unearned revenue.

Sales revenue is the invoiced value of goods, net of value-added tax. All of the Company's products sold in the PRC are subject to a VAT of 17% of the gross sales price. This VAT may be offset by the VAT paid by the Company on raw materials and other materials included in the cost of producing the Company's finished product. The Company recorded VAT payable and VAT receivable net of payments in the financial statements. The VAT tax return is filed offsetting the payables against the receivables.

Sales and purchases are recorded net of VAT collected and paid as the Company acts as an agent for the government. VAT taxes are not affected by the income tax holiday.

Table of Contents

DEER CONSUMER PRODUCTS, INC. AND SUBSIDIARIES  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
For the Three Months Ended March 31, 2012 and 2011  
(unaudited)

Sales returns and allowances were \$0 for the three months ended March 31, 2012 and 2011. The Company does not provide a right of unconditional return, price protection or any other concessions to its customers.

Cost of Revenue and Selling, General and Administrative Expenses

Cost of revenue includes expenses associated with the acquisition, inspection, manufacturing and receiving of materials for use in the manufacturing process. These costs include inbound freight charges, purchasing and receiving costs, inspection costs, warehousing costs, internal transfer costs as well as depreciation, amortization, wages, benefits and other costs that are incurred directly or indirectly to support the manufacturing process. Selling, general and administrative expenses includes expenses associated with the distribution of our products, sales efforts including commissions payable to in store promotional staff, administration costs and other costs that are not incurred to support the manufacturing process. The Company records distribution costs associated with the sale of inventory as a component of selling, general and administrative expenses in the Statements of Consolidated Income. These expenses include warehousing costs, outbound freight charges, insurance and costs associated with distribution personnel.

Advance from Customers

The Company records payments received from customers in advance of their future orders to an advance account. These orders are normally delivered within a reasonable period of time based upon contract terms with the customers.

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 three month ended March 31, 2012 and 2011 were \$17,466 and \$23,079, respectively.

Research and Development

The Company expenses its research and development costs as incurred. Research and development costs for the three months ended March 31, 2012 and 2011, were \$0 and \$183,814 respectively. Research and development costs are included in general and administrative expenses.

Subsidy Income

The Company was awarded grants from local government bureaus to encourage the development of its business. As a general policy of municipal governments in the PRC, local government bureaus commonly provide grants to leading local companies in order to encourage greater economic development and employment. The grants are typically based on certain standards that are reviewed periodically. The grants set forth below were awarded to the Company based on its progress in technological innovation and building of a standardized plant and factory. As the exact amount of a grant is uncertain until the local government makes its final determination, the Company records income only when the grant is received or approved. The grants set forth below were made without any conditions and restrictions, and were not required to be repaid.

Set forth below are the grants recorded in the three months ended March 31, 2012.

Item	Amount in (\$)
Development fund from Yangjiang Hi-Tech Industrial Development Zone Administration Committee	79,272
From Yangjiang Hi-Tech Industrial Development Zone for business development reward	150,617
Others	6,341
Total --	\$ 236,230

Table of Contents

DEER CONSUMER PRODUCTS, INC. AND SUBSIDIARIES  
 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
 For the Three Months Ended March 31, 2012 and 2011  
 (unaudited)

Set forth below are the grants recorded in the three months ended March 31, 2011.

Item	Amount in
Development fund from Yangjiang Hi-tech Industrial Development Zone	\$ 264,839
Reward from Yangjiang Finance Bureau for acting as a lead role model of demonstrating the standardize factory construction	692,620
Others	41,773
<b>Total</b>	<b>\$ 999,232</b>

The above subsidy income attributable to the grants specified was received in full and could be used without restriction.

#### Stock-Based Compensation

The Company records stock-based compensation in accordance with ASC Topic 718 & 505, "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 its statement of operations the grant-date fair value of stock options and other equity-based compensation issued to employees and non-employees. There were 50,000 options outstanding as of March 31, 2012.

#### Income Taxes

The Company utilizes Statement of Financial Accounting Standards ("SFAS") No. 109, "Accounting for Income Taxes" (codified in FASB ASC Topic 740), which requires recognition of deferred tax assets and liabilities for expected future tax consequences of events included in the financial statements or tax returns. Under this method, deferred income taxes are recognized for the tax consequences in future years of differences between the tax bases of assets and liabilities and their financial reporting amounts at each period end based on enacted tax laws and statutory tax rates applicable to the periods in which the differences are expected to affect taxable income. Valuation allowances are established, when necessary, to reduce deferred tax assets to the amount expected to be realized.

The Company follows FASB Interpretation No. 48 ("FIN 48"), Accounting for Uncertainty in Income Taxes (codified in FASB ASC Topic 740). When tax returns are filed, it is likely that some positions taken would be sustained upon examination by the taxing authorities, while others are subject to uncertainty about the merits of the position taken or the amount of the position that would be ultimately sustained. The benefit of a tax position is recognized in the financial statements in the period during which, based on all available evidence, management believes it is more likely than not that the position will be sustained upon examination, including the resolution of appeals or litigation processes, if any. Tax positions taken are not offset or aggregated with other positions. Tax positions that meet the more-likely-than-not recognition threshold are measured as the largest amount of tax benefit that is more than 50 percent likely of being realized upon settlement with the applicable taxing authority. The portion of the benefits associated with tax positions taken that exceeds the amount measured as described above is reflected as a liability for unrecognized tax benefits in the accompanying balance sheets along with any associated interest and penalties that

would be payable to the taxing authorities upon examination.

Interest associated with unrecognized tax benefits is classified as interest expense and penalties are classified as selling, general and administrative expense in the statements of income. At March 31, 2012 and December 31, 2011, the Company had not taken any significant uncertain tax position on its tax returns for 2011 and prior years or in computing its tax provision for 2012.

#### Foreign Currency Transactions and Comprehensive Income

The financial statements' accounts of the Company's PRC subsidiaries were translated into USD in accordance with SFAS No. 52, "Foreign Currency Translation" (codified in FASB ASC Topic 830), with the RMB as the Company's China subsidiaries' functional currency. According to SFAS No. 52 (codified in FASB ASC Topic 830), all assets and liabilities were translated at the exchange rate on the balance sheet date, stockholders' equity are translated at the historical rates and statement of operations items are translated at the average exchange rate for the year. The resulting translation adjustments are reported under other comprehensive income in accordance with SFAS No. 130, "Reporting Comprehensive Income" (codified in FASB ASC Topic 220).



Table of Contents

DEER CONSUMER PRODUCTS, INC. AND SUBSIDIARIES  
 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
 For the Three Months Ended March 31, 2012 and 2011  
 (unaudited)

### Currency Hedging

The Company from time to time may enter into forward exchange agreements with the Bank of China, whereby the Company agrees to sell U.S. dollars to the Bank of China at certain rates. At March 31, 2012 and December 31, 2011, the Company had no outstanding forward exchange contracts.

### Basic and Diluted Earnings Per Share

Earnings per share are calculated in accordance with the ASC Topic 260, "Earnings per Share." Basic earnings per share are based upon the weighted average number of common shares outstanding. Diluted earnings per share are based on the assumption that all dilutive convertible shares and stock options were converted or exercised. Dilution is calculated 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 calculations:

Three months ended March 31,	2012		2011	
	Shares	Per Share Amount	Shares	Per Share Amount
Basic earnings per share	\$33,592,962	\$0.23	\$33,592,962	\$0.17
Effect of dilutive warrants and stock options	-	-	-	-
Diluted earnings per share	33,592,962	\$0.23	33,592,962	\$0.17

### 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 recognized separately and measured in accordance with ASC Topic 450, "Contingencies."

### Segment Reporting

SFAS No. 131, "Disclosures about Segments of an Enterprise and Related Information" (codified in FASB ASC Topic 280) requires use of the "management approach" model for segment reporting. The management approach model is

based on the way a company's management organizes segments within the company for making operating decisions and assessing performance. Reportable segments are based on products and services, geography, legal structure, management structure or any other manner in which management disaggregates a company.

SFAS No. 131 has no effect on the Company's financial statements as substantially all of the Company's operations are conducted in one industry segment. All of the Company's assets are located in the PRC.

Table of Contents

DEER CONSUMER PRODUCTS, INC. AND SUBSIDIARIES  
 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
 For the Three Months Ended March 31, 2012 and 2011  
 (unaudited)

## Recent Pronouncements

In May 2011, the FASB issued ASU No. 2011-04, “Amendments to Achieve Common Fair Value Measurement and Disclosure Requirements in U.S. GAAP and IFRSs”, which is adopted for fiscal years, and interim periods beginning after December 15, 2011 for public entities with retrospective application. There is no material impact on the consolidated financial statements upon adoption.

In June 2011, the FASB issued ASU No. 2011-05, “Presentation of Comprehensive Income”. Under the amendments in this ASU, an entity has two options for presenting its total comprehensive income: to present total comprehensive income and its components along with the components of net income in a single continuous statement, or in two separate but consecutive statements. The amendments in this ASU are required to be applied retrospectively and are effective for fiscal years, and interim periods within those years, beginning after December 15, 2011, with early adoption permitted. There is no material impact on the consolidated financial statements upon adoption.

In September 2011, the FASB issued ASU No. 2011-08, Intangibles—Goodwill and Other (Topic 350)—Testing Goodwill for Impairment, to simplify how entities test goodwill for impairment. ASU No. 2011-08 allows entities to first assess qualitative factors to determine whether it is more likely than not that the fair value of a reporting unit is less than its carrying amount. If greater than 50 percent likelihood exists that the fair value is less than the carrying amount then a two-step goodwill impairment test as described in Topic 350 must be performed. The guidance provided by this update becomes effective for annual and interim goodwill impairment tests performed for fiscal years beginning after December 15, 2011. The Company adopts this ASU beginning with its Quarterly Report on Form 10-Q for the three months ended March 31, 2012. There is no material impact on the consolidated financial statements upon adoption.

As of March 31, 2012, there are no other recently issued accounting standards not yet adopted that would have a material effect on the Company’s consolidated financial statements.

## Note 3 – Inventories

Inventories consisted of the following at March 31, 2012 and December 31, 2011:

	2012	2011
Raw material	\$ 16,050,515	\$ 23,080,165
Work in process	8,434,602	10,265,880
Finished goods	55,168,886	27,829,309
Allowance for inventory impairment	(272,883)	(158,123)
Total	\$ 79,381,120	\$ 61,017,231

## Note 4 – Other Payables and Accrued Expenses

Other payables and accrued expenses consisted of the following at March 31, 2012 and December 31, 2011:

	2012	2011
Accrued expenses	\$ 100,874	\$ 113,695
Accrued wages	781,644	975,071

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

Welfare payable	20,374	20,353
Other payables	1,519,709	1,644,498
Total	\$ 2,422,601	\$ 2,753,617

Accrued expenses were for electricity and freight. Other payables were for government charges, payable to the local construction management department, and payable for employees' education fund and labor union fund, etc.

Table of Contents

DEER CONSUMER PRODUCTS, INC. AND SUBSIDIARIES  
 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
 For the Three Months Ended March 31, 2012 and 2011  
 (unaudited)

## Note 5 – Notes Payable

Notes payable at March 31, 2012 and December 31, 2011 was \$0 and \$692,821, respectively, were for multiple bankers' acceptances from the Bank of China. The terms of the notes range from 3-6 months, bear no interest and pay the bank 0.05% of the note balance as an acceptance fee. The Company deposits a certain percentage of the notes' par value with the Bank of China, refundable when the notes are re-paid and accounted for as restricted cash in the accompanied consolidated financial statements.

## Note 6 – Dividend Payable

On March 9, 2011, the Company's Board of Directors ("BOD") declared a first quarter dividend payable from future earnings, of \$0.05 per share which was paid on April 14, 2011. On May 9, 2011, the Company's BOD declared a second quarter dividend of \$0.05 per share, payable from future earnings on July 15, 2011, to the shareholders of record as of June 30, 2011. On August 9, 2011, the Company's BOD declared a third quarter dividend of \$0.05 per share, payable from future earnings on October 15, 2011, to the shareholders of record as of September 30, 2011. On November 8, 2011, the Company's BOD declared a fourth quarter dividend of \$0.05 per share, payable from future earnings on January 13, 2012, to the shareholders of record as of December 30, 2011. No dividend was declared by the Company's BOD for the first quarter ended March 31, 2012.

## Note 7 – Stockholders' Equity

## Stock Options

Following is a summary of the activity of options to an independent director:

	Options outstanding	Weighted Average Exercise Price	Weighted average remaining contractual life	Aggregate Intrinsic Value
Outstanding, December 31, 2011	50,000	\$ 10.96	2.98	\$ -
Exercisable, December 31, 2011	50,000	\$ 10.96	2.98	\$ -
Outstanding, March 31, 2012	50,000	\$ 10.96	2.73	\$ -
Exercisable, March 31, 2012	50,000	\$ 10.96	2.73	\$ -

The exercise price for options outstanding at March 31, 2012, is as follows:

Number of Options	Exercise Price
----------------------	-------------------

50,000 \$ 10.96

The assumptions used in calculating the fair value of options granted using the Black-Scholes option-pricing model are as follows:

Risk-free interest rate	2.25%
Expected life of the options	3 to 3.5 years
Expected volatility	80%
Expected dividend yield	0%

During the three months ended March 31, 2012 and 2011, the Company recorded \$0 and \$25,657 as stock option expense, respectively.

#### Warrants

At the end of 2010, all warrants were exercised. No new warrants were granted during the quarter ended March 31, 2012.

Table of Contents

DEER CONSUMER PRODUCTS, INC. AND SUBSIDIARIES  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
For the Three Months Ended March 31, 2012 and 2011  
(unaudited)

Note 8 – Employee Welfare Plan

Expense for employee common welfare was \$1,471 and \$7,861 for the three months ended March 31, 2012 and 2011, respectively. The Company is not required to establish welfare and common welfare reserves.

Note 9 – 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. Allocations of 5-10% of income after tax, as determined under PRC accounting rules and regulations, to the Company's "statutory common welfare fund," 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 the Company's 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% of income after tax, not to exceed 50% of registered capital.

The Company appropriated \$827,960 and \$635,065 as reserve for the statutory surplus reserve, and \$413,980 and \$317,533 as reserve for development fund, for the three months ended March 31, 2012 and 2011 respectively.

Note 10 – Income Tax

The Company is subject to income taxes by entity on income arising in or derived from the tax jurisdiction in which each entity is domiciled.

Deer, the U.S. parent company, was incorporated in the U.S. and has net operating losses (NOL) for income tax purposes. Deer has net operating loss carry forwards for income taxes of \$262,827 as at March 31, 2012, which may be available to reduce future years' taxable income as NOL; NOL can be carried forward up to 20 years from the year the loss is incurred. Management believes the realization of benefits from these losses remains uncertain due to Deer's limited operating history and continuing losses. Accordingly, a 100% deferred tax asset valuation allowance has been provided.

Deer International was incorporated in the BVI and there is no income tax for a company domiciled in the BVI. Accordingly, the Company's consolidated financial statements do not present any income tax provisions related to the

BVI tax jurisdiction where Deer International is domiciled.

Local PRC Income Tax

Pursuant to the tax laws of China, general enterprises are subject to income tax at an effective rate of 25%. Winder enjoyed a 15% preferential income tax effective as of 2009 until expiration on December 31, 2011, as a result of its status as a high tech enterprise. For the period ended March 31, 2012, Winder used standard tax rate of 25% to record income tax expenses.



Table of Contents

DEER CONSUMER PRODUCTS, INC. AND SUBSIDIARIES  
 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
 For the Three Months Ended March 31, 2012 and 2011  
 (unaudited)

The following is a reconciliation of tax at the U.S. federal statutory rate to the provision for income tax recorded in the consolidated financial statements for the three months ended March 31, 2012 and 2011:

	2012	2011
Tax provision at U.S. statutory rate	34.0%	34.0%
Foreign tax rate difference	(9.2)%	(9.4)%
Other	0.5%	2.6%
Valuation allowance	1.3%	0.8%
Effect of tax holiday	-%	(10.7)%
Tax per financial statement	26.6%	17.3%

## Note 11 – Geographical Sales

Geographical distribution of sales is as follows:

Geographical Areas	Three months ended March 31,	
	2012	2011
China	\$ 49,803,305	\$ 15,406,740
South America	-	5,226,580
Asia	65,798	5,764,689
Europe	-	2,718,368
Middle East	-	3,188,665
North America	-	2,145,929
Africa	-	225,175
	\$ 49,869,103	\$ 34,676,146

## Note 12 – Operating Risks

The Company's operations in the PRC are subject to specific considerations and significant risks not typically associated with companies in North America and Western Europe. These include risks associated with, among others, the political, economic and legal environments of the PRC and PRC rules and regulations regarding foreign currency exchange. The Company's results may be adversely affected by changes in governmental policies with respect to laws and regulations, anti-inflationary measures, currency conversion and remittance abroad, and rates and methods of taxation, among other things.

The Company's sale, purchase and expense transactions are denominated in RMB and all of the Company's assets and liabilities are also denominated in RMB. The RMB is not freely convertible into foreign currencies under current PRC law. Foreign exchange transactions are required by law to be carried out only by authorized financial institutions. Remittances in currencies other than RMB may require certain supporting documentation in order to effect the remittance.

## Note 13 – Commitments

The Company had construction in progress, which includes costs for the construction of a new plant, office building and power distribution station for Deer Technology. Total estimated cost for this project is \$36.23 million. As of

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

March 31, 2012, construction in progress was \$18.05 million. This phase of construction is anticipated to be completed in September 2012.

Winder has a registered capital of \$57.2 million. At March 31, 2012, the Company has contributed \$36.7 million to Winder's registered capital and is committed to contribute an additional \$20.5 million by April 2013.

On September 1, 2010, the Company entered into a 2-year lease, expiring August 30, 2012, for a show room in Panyu, Guangdong Province with monthly rent, inclusive of property management fees, of \$5,500 (RMB 37,000). The Company has the option to renew this lease upon expiration. At March 31, 2012, the Company's future minimum rental payments required under this operating lease for 2012 were as follows:

2012	\$ 27,500
------	-----------

Table of Contents

DEER CONSUMER PRODUCTS, INC. AND SUBSIDIARIES  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
For the Three Months Ended March 31, 2012 and 2011  
(unaudited)

Note 14 – Major Customers and Vendors

For the three months ended March 31, 2012, four customers accounted for approximately 45%, 22%, 20% and 12% of sales, respectively. At March 31, 2012, the total accounts receivable balance due from these four customers was \$6,289,111.

For the three months ended March 31, 2012, three vendors accounted for approximately 28%, 21% and 10% of the Company's purchase of raw materials. At March 31, 2012, the total payable to these vendors was approximately \$795,317

For the three months ended March 31, 2011, two customers accounted for approximately 13% and approximately 10% of sales, respectively. At March 31, 2011, the total receivable balance due from these customers was approximately \$26,162,920.

For the three months ended March 31, 2011, one vendor accounted for 16% of the Company's purchases of raw materials. At March 31, 2011, the total payable to this vendor was approximately \$2,054,741.

Note 15 – Contingencies

Acquisition of Winder

On April 1, 2008, Deer International acquired 100% of the equity interest in Winder from 50HZ Electric Limited ("50HZ"). At the time of such acquisition, Deer International was an offshore enterprise controlled by some of the Company's shareholders who are PRC residents. Certain of these shareholders also owned or controlled 50HZ at the time of such acquisition, which made Winder an affiliated PRC company of such shareholders. In October 2008, such shareholders transferred their ownership interests in 50HZ to an unrelated third party, after which 50HZ was no longer a related party of the Company. The transaction was approved by the Economic Development Bureau of Yangjiang High-Tech Industry Development Zone (the "Yangjiang High-Tech Zone").

The acquisition of 100% of Winder's equity interests by Deer International on April 1, 2008, was free of any consideration and conditions. Under applicable PRC tax rules, any transaction between related parties shall be priced on an arm's length basis. The tax authority has the right to investigate any related party transaction and to make adjustment if it finds the price not on an arm's length basis. The PRC tax authority would make adjustment by applying a deemed arm's length price to the transaction. Given that 50HZ and Deer International had certain related parties at the time of the Winder acquisition, there is a possibility the consideration-free transfer may be challenged and investigated by the PRC tax authority. If the deemed arm's length price determined by the PRC tax authority during such investigation is higher than the original cost that 50HZ paid to get 100% equity interest of Winder, such excess amount would be subject to additional PRC income tax. Although the Company believes 50HZ would be responsible for the possible PRC income tax, the Company understands it is common practice for PRC tax authority to enforce the tax collection on the entity at issue, which in this case would be Winder, and the Company may be required to pay the possible PRC income tax on behalf of 50HZ. According to the M&A Regulations, the acquisition of Winder might require the approval of Ministry of Commerce People's Republic of China ("MOFCOM"). As the interpretation and implementation of the M&A Regulations are unclear, if the approval of MOFCOM is required, the approval that 50HZ obtained from the Yangjiang High-Tech Zone may be deemed incomplete and the transferee, namely Deer

International, may need to obtain further approval from MOFCOM.

Table of Contents

DEER CONSUMER PRODUCTS, INC. AND SUBSIDIARIES  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
For the Three Months Ended March 31, 2012 and 2011  
(unaudited)

Pending Litigation

On March 28, 2011, the Company filed suit in the Supreme Court of the State of New York, captioned Deer Consumer Products, Inc. v. Alfred Little, et al., Index No. 650823/2011, against a certain blogger, “Alfred Little,” the website SeekingAlpha.com and others. The Company claims in this action allege the publishing of false and defamatory statements by the defendants as part of scheme to manipulate and depress the market for our common stock. The Company is claiming compensatory and punitive damages totaling at least \$11 million, not including claims for attorneys’ fees, and other equitable remedies, including disgorgement of any illicit trading profits received by the defendants in connection with the alleged market manipulation scheme. On August 29, 2011, the Company obtained a Court order allowing us to effect service of the summons and complaint upon defendant Alfred Little via email and related notice. We effected service on Alfred Little pursuant to that order and on September 29, 2011, Alfred Little filed motions to dismiss the complaint for lack of personal jurisdiction and for permission to appear anonymously as a party in the litigation. In addition, on August 31, 2011, the Court granted defendant SeekingAlpha.com’s motion to dismiss our claim against it on the ground that a Federal statute, the Communications Decency Act, 47 U.S.C. § 230, precluded the claim against SeekingAlpha.com. On September 29, 2011, the Company filed a notice of appeal of this decision. If the Company decides to go through with the appeal, it must file a brief “perfecting” the appeal no later than June 29, 2012. On January 27, 2012, the Court denied in part Alfred Little’s motion to dismiss the complaint for lack of personal jurisdiction and permitted the Company to conduct discovery on the issue of personal jurisdiction after a confidentiality agreement was reached between the parties. The court also requested that Alfred Little submit to the Court evidence corroborating his allegations of potential risks of physical harm for in camera review. On February 17, 2012, the parties reached a confidentiality agreement. On February 23, 2012, after an in camera review of the evidence presented by Alfred Little, the Court permitted Alfred Little to proceed anonymously until the Court decides the jurisdictional issue and re-directed that the parties proceed with jurisdictional discovery pursuant to the previously ordered confidentiality agreement. The Company has commenced discovery on the jurisdictional issue.

On April 29, 2011, a purported securities class action lawsuit on behalf of the purchasers of the Company’s common stock between March 31, 2009, and March 21, 2011, James Rose v. Deer Consumer Products, Inc. et al, was filed against the Company and certain of its current and former officers and directors in the United States District Court for the Central District of California. The court has not yet certified the class action status. The complaint alleges violations of Section 10(b) and Rule 10b-5 of the Exchange Act, as well as, in the case of the individual defendants, the Section 20(a) control person provisions of the Exchange Act. The factual assertions in the complaint, based expressly on the published statements at issue in the Alfred Little suit described above, consist primarily of allegations that the defendants made materially false or misleading public statements concerning the Company’s financial condition in 2010 and 2009. The complaint seeks unspecified damages and other relief relating to the purported inflation in the price of the Company’s common stock during the class period. A consolidated amended complaint was filed on September 6, 2011, with essentially the same allegations. The Company filed a motion to dismiss the lawsuit, which motion is fully briefed and has been taken under submission by the Court. The Company strongly denies the allegations in the complaint. The Company believes this lawsuit is frivolous and without merit and will contest it vigorously. The Company plans to pursue all legal remedies available to it if the complaint is not withdrawn in its entirety.



Table of Contents

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

We are engaged in the manufacture, marketing, distribution and sale of small home and kitchen electric appliances. We develop, promote, manufacture and sell stylish, safe and easy to use products including: blenders, juicers and soymilk makers that are designed to make today’s lifestyles simpler and healthier. We currently manufacture our products in Yangjiang, China and have corporate functions in Nanshan, Shenzhen, China.

On September 3, 2008, we consummated a series of agreements that resulted in the acquisition of all ordinary shares of Deer International, a corporation organized under the laws of the British Virgin Islands (“BVI”) on December 3, 2007, parent of its wholly owned subsidiary Winder since March 11, 2008, and Delta, a wholly owned subsidiary of Winder. Winder and Delta were 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 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. For accounting purposes, the exchange of shares with Deer International and concurrent transactions described above were treated as a reverse acquisition and recapitalization of Deer International, with Deer International being treated as the continuing entity, because the Deer International shareholders owned a majority of our outstanding common stock after the transactions and exercise significant influence over the operating and financial policies of the consolidated entity.

We operate through our wholly owned subsidiaries in China. Our U.S. holding company, Deer Consumer Products, Inc., owns 100% of Deer International Group Ltd., a BVI entity, which owns our three wholly foreign owned enterprises, Winder, Deer Technology (AnHui) Co., Ltd. and Anlin Technology (Anhui) Co., Ltd. Delta, which transferred its material former operations to Winder in 2009, is 100% owned by Winder and is currently engaged in

marketing operations. Winder is located in Guangdong Province and is engaged in the research, production and delivery of our goods. Deer Technology and Anlin Technology were both incorporated in the AnHui Province on April 30, 2010. Deer Technology and Anlin Technology will also be engaged in the manufacture and sale of household electric appliances and were formed to establish production and distribution facilities in the Wuhu area of AnHui Province.



Table of Contents

Each of our wholly owned foreign enterprises, Winder, Deer Technology and Anlin Technology, is authorized by its respective business license to operate our electrical appliance manufacturing business. Delta transferred all of its material former operations to Winder in 2009 to improve the Company's operating efficiency. Currently, Delta only conducts marketing operations for the Company.

On April 30, 2010, we incorporated Deer Technology and Anlin Technology in AnHui Province. As of March 31, 2012, we invested \$39.8 million in Deer Technology and \$10.2 million in Anlin Technology. Deer Technology and Anlin Technology are engaged in the manufacture and sale of household electric appliances and were formed to establish a new factory in the Wuhu area of AnHui Province. In 2010, the Company paid approximately \$35 million to purchase two parcels of land in the Wuhu area of Anhui Province.

The purchase price paid by the Company for the land use rights in Anhui Province was determined through a public bidding process with the PRC government, as is the case with all acquisitions of land use rights in the PRC. Typically, once a bidder wins a land auction a public notification stating the bidder's name, the size of the land and the price paid are available to the public on the PRC government's Ministry of Land and Resources website. After the bidder makes the full payment on the land an official land use rights certificate is granted.

The PRC government bases the price of the land use rights on a number of factors including the land's location, size, condition, proposed use, need for improvement, degree of surface leveling, close proximity to utilities and logistics, availability of other land in the local market, the financial position of the bidder, the competitive bidding positions of other bidders, general market conditions and local government policies at the time of the land auction. The prices for land use rights can vary significantly based on these factors.

## Table of Contents

We traditionally have acted as an ODM and OEM for the export market and, in recent years, have expanded sales of our Deer brand ( ) of appliances in the China domestic market. We will continue to target the China domestic market by expanding our production and manufacturing facilities by building a new factory in the Wuhu area of central China. Wuhu is located on the banks of the Yangtze River within hours from Shanghai and Nanjing, which are some of China's most populous and economically developed regions. This central location will improve our ability to deliver our products to customers located throughout China. The new factory, which will increase our production capacity by 40%, and distribution center will allow us to target the neighboring population of more than 400 million as we continue to grow our business in the China domestic market. We completed the construction of fencing, sewage system, water pipes, gas and utilities, the factory's main entrance and leveling the land during the last quarter of 2011. We plan to complete the construction of certain workshops and the warehouse in 2012. The pace of construction will be determined by the pace of the Company's China domestic market expansion. While our current factory located in Yangjiang, Guangdong province in south China does not operate a full capacity, we plan to use these facilities primarily for fulfilling export orders whereas we anticipate using our new facilities in Anhui to fulfill China domestic orders. These two facilities are about 1,000 miles apart and management anticipates needing the additional capacity at the new facilities in AnHui over the next few years. This additional capacity will be brought on line incrementally in accordance with our domestic expansion strategy.

### Critical Accounting Policies

Presented below are those accounting policies we believe require subjective and complex judgments that could potentially affect our 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 accounting principles generally accepted in the United States ("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.

**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 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 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.

Revenue Recognition. Our revenue recognition policies are in compliance with SEC Staff Accounting Bulletin (SAB) 104 (codified in FASB ASC Topic 480). Sales revenue from export customers is recognized at the date of shipment when the price is fixed or determinable, no other significant obligations of the Company exist and collectability is reasonably assured. The Company records payments for goods before all relevant criteria for revenue recognition are satisfied as unearned revenue.

Sales revenue from domestic customers is recognized at FOB destination when the price is fixed or determinable, no other significant obligations of the Company exist and collectability is reasonably assured. Company pays for the cost of freight and insurance and risk of loss passes when customers receive the goods. The Company records payments for goods before all relevant criteria for revenue recognition are satisfied as unearned revenue.

Table of Contents

## Recent Accounting Pronouncements

In May 2011, the FASB issued ASU No. 2011-04, “Amendments to Achieve Common Fair Value Measurement and Disclosure Requirements in U.S. GAAP and IFRSs”, which is adopted for fiscal years, and interim periods beginning after December 15, 2011 for public entities with retrospective application. There is no material impact on the consolidated financial statements upon adoption.

In June 2011, the FASB issued ASU No. 2011-05, “Presentation of Comprehensive Income”. Under the amendments in this ASU, an entity has two options for presenting its total comprehensive income: to present total comprehensive income and its components along with the components of net income in a single continuous statement, or in two separate but consecutive statements. The amendments in this ASU are required to be applied retrospectively and are effective for fiscal years, and interim periods within those years, beginning after December 15, 2011, with early adoption permitted. There is no material impact on the consolidated financial statements upon adoption.

In September 2011, the FASB issued ASU No. 2011-08, Intangibles—Goodwill and Other (Topic 350)—Testing Goodwill for Impairment, to simplify how entities test goodwill for impairment. ASU No. 2011-08 allows entities to first assess qualitative factors to determine whether it is more likely than not that the fair value of a reporting unit is less than its carrying amount. If greater than 50 percent likelihood exists that the fair value is less than the carrying amount then a two-step goodwill impairment test as described in Topic 350 must be performed. The guidance provided by this update becomes effective for annual and interim goodwill impairment tests performed for fiscal years beginning after December 15, 2011. The Company adopts this ASU beginning with its Quarterly Report on Form 10-Q for the three months ended March 31, 2012. There is no material impact on the consolidated financial statements upon adoption.

As of March 31, 2012, there are no other recently issued accounting standards not yet adopted that would have a material effect on the Company’s consolidated financial statements.

## Results of Operations

Three Months Ended March 31, 2012 compared to the Three Months Ended March 31, 2011

	2012	2011	\$ Change	% Change
Revenue	\$ 49,869,103	\$ 34,676,146	\$ 15,192,957	44%
Cost of revenue	34,349,861	24,719,201	9,630,660	39%
Gross profit	15,519,242	9,956,945	5,562,297	56%
Selling, general and administrative expenses	5,365,693	3,858,063	1,507,630	39%
Interest and financing (costs) income, net	305,180	62,535	242,645	388%
Other income, net (including subsidy)	237,989	960,934	(722,945)	(75)%
Foreign exchange transaction loss	(36,162)	(116,123)	79,961	(69)%
Income tax expense	2,834,468	1,212,282	1,622,186	134%
Net income	\$ 7,826,088	\$ 5,793,946	\$ 2,032,142	35%

## Revenues

Our revenues for the three months ended March 31, 2012, were \$49.9 million, an increase of \$15.2 million, or 44%, from \$34.7 million in 2011. The increase in revenues resulted from our continued sales expansion in the China domestic market. In addition, the average selling price of our products increased 267.67% compared to the average selling prices in the first quarter of 2011, conforming to our strategy of promoting high value products and focusing on middle and high-end customer groups. We also adjusted product categories to meet domestic market needs. We

increased our China domestic market sales to \$49.8 million in the three months ended March 31, 2012, from \$15.4 million in 2011, a 223% increase. Our products are available in over 4,000 stores as of March 31, 2012. Our customers include Gome, a prominent national electronic appliance retail chain in China with approximately 1,400 stores. In the three months ended March 31, 2012, we also increased our sales to Reed Sea Company, an internet sales operator in China that owns over 100 networked sales channels and who is now one of our largest customers. We also added another major customer, Tianhong Mall, a retail chain of a Sino-foreign joint venture. We also added retail locations in other channels such as regional electric appliance retailers, wholesalers and department stores. We increased our product sales over internet portals, into hotels and restaurants, and via reward programs with large banks, telecommunication firms and postal offices in China. These results are on pace with our plan to capture the fast growth being experienced in the China domestic small appliance market.

## Table of Contents

Our sales in South America were \$0 million for the three months ended March 31, 2012, a \$5.2 million or 100% decrease from 2011. We believe the decrease in sales in South America was mainly due to the continued weak economic growth of emerging markets on that continent. Our sales in Asia, excluding sales to China, were \$65,800 for the three months ended March 31, 2012, a \$5.7 million or 99%, decrease from 2011. The reason for the decrease was mainly due to our increased execution of purchase orders in the last quarter of 2011 due to the holiday season in Asia.

Our sales in Europe were \$0 million for the three months ended March 31, 2012, a \$2.7 million or 100% decrease from 2011. Our sales in the Middle East were \$0 million for the three months ended March 31, 2012, a \$3.2 million or 100% decrease from 2011. Our sales in Africa were \$0 million for the three months ended March 31, 2012, a \$0.2 million or 100% decrease from 2011. Our sales in U.S. were \$0 million for the three months ended March 31, 2012, a \$2.1 million or 100% decrease from 2011. We believe the decrease in international sales was mainly due to weak consumer demand as a result of the continued effects of the world-wide financial crisis in these regions. Nonetheless, we experienced overall growth as our domestic business has been expanding rapidly, and management has adjusted our growth strategy to focus on China domestic sales, which offer higher profit margins than international sales. As workers' salaries continue to increase in China, Chinese manufacturers are gradually losing competitive advantage in the OEM market, and thus we are transforming our business to focus on creating and marketing our own brand domestically.

### Cost of Revenue

Cost of revenue includes expenses associated with the acquisition, inspection, manufacturing and receiving of materials for use in the manufacturing process. These costs include inbound freight charges, purchasing and receiving costs, inspection costs, warehousing costs, internal transfer costs as well as depreciation, amortization, wages, benefits and other costs that are incurred directly or indirectly to support the manufacturing process. Our cost of revenue for the three months ended March 31, 2012, was \$34.3 million, an increase of \$9.6 million or 39% from \$24.7 million in 2011. The increased cost of revenue in the three months ended March 31, 2012, was due primarily to our increase in sales. Our cost of revenue as a percentage of revenue decreased nearly 2% due to our increased domestic sales which have higher profit margins than export sales.

### Gross Profit

Our gross profit was \$15.5 million for the three months ended March 31, 2012, compared to \$10.0 million for 2011, an increase of 56%. Our gross margin was 31% for the three months ended March 31, 2012, compared to 29% for 2011, an increase of 2%. Our increase in gross profit was attributable to higher gross margins in the China domestic market, where we experienced a significant growth in sales, as compared to gross margins in the export market. Products generally sell for higher prices at retail and wholesale in China and our gross margin is in line with other comparable companies specializing in small household and kitchen appliances in the China domestic market. In addition, we have continued to improve the efficiency of our manufacturing operations through in-house production of motors and other primary components of our products, providing benefits from economies of scale.

### Operating Expenses

Selling, general and administrative expenses ("SG&A") includes expenses associated with the distribution of our products, sales efforts, including commissions payable to in-store promotional staff, administration costs and other costs that are not incurred to support the manufacturing process. We record distribution costs associated with the sale of inventory as a component of SG&A expenses in the Consolidated Statements of Income. These expenses include warehousing costs, outbound freight charges, insurance and costs associated with distribution personnel. SG&A expenses for the three months ended March 31, 2012, were \$5.4 million, an increase of \$1.5 million or 39% from \$3.9 million in 2011. Selling expenses for the three months ended March 31, 2012, increased by \$1.44 million, or 53%, in

comparison to 2011, due to our increase in sales. Associated selling expenses include advertising to expand our market share, increase brand awareness and to help generate the significant increase in sales. As expected, our direct advertising expenses remained minimal during the three months ended March 31, 2012, because we hire factory representatives and in-store promoters to promote our products directly to consumers at retail locations. We believe this direct in-store promotion approach, a standard practice in the small household appliances industry in China, is highly effective in marketing to consumers in the unique Chinese retail environment as compared to traditional mass media advertising channels, which can cause significant television and other mass media advertising expense without target customer interaction. Our in-store promoters market our products exclusively and directly to in-store customer traffic. According to a survey in the 2010 China Small Electronics Market Research Report, approximately 60% of Chinese consumers surveyed purchased small household appliances after being introduced to the product by in-store promoters.

#### Interest and Financing (Costs) Income, net

Interest and financing (costs) income, net, for the three months ended March 31, 2012, was a net gain of \$305,180, which was an increase of \$242,645 or 388% from a net gain of \$62,535 for the three months ended March 31, 2011. The change was due principally to an increase in interest income from \$62,535 in the three months ended March 31, 2011 to \$311,440 in the three months ended March 31, 2012.

Table of Contents

Other Income, net

Other income, net, in the three months ended March 31, 2012, was \$237,989 compared to a \$960,934 for the three months ended March 31, 2011, a decrease of \$722,945. The decrease was due mainly to grants and rewards totaling \$999,232 which we received from various PRC governments in the three months ended March 31, 2011, compared to \$236,230 in the period of 2012.

Foreign Exchange Transaction Gain (Loss)

Foreign exchange transaction loss for the three months ended March 31, 2012 was \$36,162 compared to foreign exchange transaction loss of \$116,123 for 2011, a decrease of \$79,961. The decrease was due principally to decreased export sales in the first quarter of 2012 and continuous foreign exchange rate fluctuations.

Income Tax Expense

Our effective tax rate for the three months ended March 31, 2012, was 26.6% compared to 17.3% for 2011. Winder enjoyed a 15% preferential income tax from 2009 through December 31, 2011, as a result of its status as a high tech enterprise. Winder is currently in the process of renewing its high tech enterprise status.

Off-Balance Sheet Arrangements

There were no off-balance sheet arrangements as of March 31, 2012, that have, or are reasonably likely to have, a current or future effect 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

During 2010, certain warrant holders exercised warrants to purchase 1,759,114 shares of our common stock that resulted in gross proceeds of \$6,964,510.

In May 2010, we announced a \$20 million share buyback program. We purchased 798,300 shares of our common stock on the open market during 2010 for \$6,945,950 and returned such shares to the treasury for cancellation. We may purchase additional shares of our common stock from time to time on the open market pursuant to the buyback program.

Cash Flows

As of March 31, 2012, we had \$15.34 million in cash and equivalents on hand. Our principal demands for liquidity are to help increase our sales in China by adding capacity, purchasing inventory and for sales distribution infrastructure and general corporate purposes. We anticipate the cash we have on hand as of March 31, 2012, as well as the cash that we will generate from operations, will satisfy these requirements.

At March 31, 2012, other current assets were \$97.24 million and current liabilities were \$12.68 million. Working capital was \$99.90 million. The current ratio was 8.88:1.

The following is a summary of cash provided by or used in each of the indicated types of activities during the three months ended March 31, 2012 and 2011:

2012

2011



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

Cash provided by (used in):

Operating activities	\$	3,479,937	\$	(10,872,527)
Investing activities		(443,003)		4,793,896
Financing activities		(1,679,628)		-

Net cash flows provided by operating activities for the three months ended March 31, 2012, was \$3.5 million compared to net cash used in operating activities of \$10.9 million for 2011. The increased cash inflows from operating activities was attributed principally to increased net income, timely collection of our accounts receivable, less payment made for advance to suppliers and other current assets, as well as less cash outflows for accounts payable, and taxes payable and notes payable, although our inventory on hand increased significantly which is within our expectations and consistent with our strategy as we anticipate continued sales increases in the China domestic market.

## Table of Contents

Net cash flows used in investing activities for the three months ended March 31, 2012, was \$0.44 million compared to net cash provided of \$4.8 million for 2011. The change from cash inflow to cash outflow from investing activities in the three months ended March 31, 2012, was principally from an increase in restricted cash of \$0.41 million, while we had \$6.1 million of refund of deposit on land use right in the first quarter of 2011, despite paying \$1.04 million for construction in progress.

Net cash flows used in financing activities for the three months ended March 31, 2012, was \$1.7 million, compared to \$0 million for the period. The increase in cash outflows from financing activities was attributed principally to dividends paid totaling \$1.7 million.

We sell our products in the China domestic market through distribution outlets including: regional and national wholesalers and third party distributors. Our standard terms for accounts receivable for several of our large and established China domestic retailers is 180 days from the close of the billing cycle, which is 30 – 45 days after our products are delivered. These terms are customary for large and established China domestic retailers. Historically, we have not experienced late payments or bad debts under such terms from these retailers. The term for accounts receivable for our other domestic customers is 30 – 90 days from the close of the billing cycle. We sell our products to overseas customers in the export markets under letters of credit, prepaid arrangements, certain short credit terms or direct customer purchase orders. Our export sales-related account receivables typically are less than three months, depending on customer shipment schedules. Historically, we have not experienced significant bad debts from export sales. For the three months ended March 31, 2012, we had accounts receivable turnover of 14.8 on an annualized basis, with sales outstanding of 24 days. For the three months ended March 31, 2011, we had accounts receivable turnover of 2.8 on an annualized basis, with sales outstanding of 125 days. We experienced significant improvements in our accounts receivable collection in 2012, compared to 2011. As we continue to focus on our expansion in the China domestic markets, our sales in the China domestic market will continue to represent a larger percentage of our total revenue. We anticipate our accounts receivable will remain in line with standard industry practice relating to accounts receivable in China, which could be up to seven months.

## Pending Litigation

On March 28, 2011, we filed suit in the Supreme Court of the State of New York, captioned Deer Consumer Products, Inc. v. Alfred Little, et al., Index No. 650823/2011, against a certain blogger, “Alfred Little,” the website SeekingAlpha.com and others. Our claims in this action allege the publishing of false and defamatory statements by the defendants as part of scheme to manipulate and depress the market for our common stock. We are claiming compensatory and punitive damages totaling at least \$11 million, not including claims for attorneys’ fees, and other equitable remedies, including disgorgement of any illicit trading profits received by the defendants in connection with the alleged market manipulation scheme. On August 29, 2011, we obtained a Court order allowing us to effect service of the summons and complaint upon defendant Alfred Little via email and related notice. We effected service on Alfred Little pursuant to that order and on September 29, 2011, Alfred Little filed motions to dismiss the complaint for lack of personal jurisdiction and for permission to appear anonymously as a party in the litigation. In addition, on August 31, 2011, the Court granted defendant SeekingAlpha.com’s motion to dismiss our claim against it on the ground that a Federal statute, the Communications Decency Act, 47 U.S.C. § 230, precluded the claim against SeekingAlpha.com. On September 29, 2011, we filed a notice of appeal of this decision. If we decide to go through with the appeal, it must file a brief “perfecting” the appeal no later than June 29, 2012. On January 27, 2012, the Court denied in part Alfred Little’s motion to dismiss the complaint for lack of personal jurisdiction and permitted us to conduct discovery on the issue of personal jurisdiction after a confidentiality agreement was reached between the parties. The court also requested that Alfred Little submit to the Court evidence corroborating his allegations of potential risks of physical harm for in camera review. On February 17, 2012, the parties reached a confidentiality agreement. On February 23, 2012, after an in camera review of the evidence presented by Alfred Little, the Court permitted Alfred Little to proceed anonymously until the Court decides the jurisdictional issue and re-directed that the

parties proceed with jurisdictional discovery pursuant to the previously ordered confidentiality agreement. We have commenced discovery on the jurisdictional issue.

On April 29, 2011, a purported securities class action lawsuit on behalf of the purchasers of our common stock between March 31, 2009, and March 21, 2011, James Rose v. Deer Consumer Products, Inc. et al, was filed against us and certain of our current and former officers and directors in the United States District Court for the Central District of California. The court has not yet certified the class action status. The complaint alleges violations of Section 10(b) and Rule 10b-5 of the Exchange Act, as well as, in the case of the individual defendants, the Section 20(a) control person provisions of the Exchange Act. The factual assertions in the complaint, based expressly on the published statements at issue in the Alfred Little suit described above, consist primarily of allegations that the defendants made materially false or misleading public statements concerning our financial condition in 2010 and 2009. The complaint seeks unspecified damages and other relief relating to the purported inflation in the price of our common stock during the class period. A consolidated amended complaint was filed on September 6, 2011, with essentially the same allegations. We filed a motion to dismiss the lawsuit, which motion is fully briefed and has been taken under submission by the Court. We strongly deny the allegations in the complaint. We believe this lawsuit is frivolous and without merit and will contest it vigorously. We plan to pursue all legal remedies available to us if the complaint is not withdrawn in its entirety.

## Table of Contents

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

We are exposed to market risks related to fluctuations in currency exchange rates and commodity prices for certain of our raw materials. We currently do not engage in forward foreign exchange agreements or other hedging transactions in an effort to reduce our exposure to foreign currency exchange risk. We do not engage in hedging transactions to protect against raw material pricing fluctuations; instead, we attempt to mitigate the short-term risks of price swings by purchasing raw materials in advance.

Our Annual Report on Form 10-K for the year ended December 31, 2011, contains information about our exposure to market risks under “Item 7A. Quantitative and Qualitative Disclosures about Market Risk.” There has been no material change in our exposure to market risks during the three months ended March 31, 2012.

### Item 4. Controls and Procedures

#### Disclosure Controls and Procedures

Our management, with the participation of our Chief Executive Officer and Chief Financial Officer, our principal executive officer and principal financial officer, respectively, evaluated the effectiveness of our disclosure controls and procedures as defined in Rules 13a-15(e) and 15d-15(e) under the Exchange Act as of the end of the period covered by this report. Disclosure controls and procedures include, without limitation, controls and procedures designed to ensure that information required to be disclosed by us in the reports that we file or submit under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the SEC’s rules and forms, and that such information is accumulated and communicated to our management, including our Chief Executive Officer and Chief Financial Officer, as appropriate, to allow timely decisions regarding required disclosure. Based on this evaluation, our Chief Executive Officer and Chief Financial Officer concluded that, as of March 31, 2012, our disclosure controls and procedures were not effective as of such date because management had not remediated the material weakness in our internal control over financial reporting identified during the fourth quarter of 2011, as described below and discussed in “Item 9A. Controls and Procedures” in our Annual Report on Form 10-K for the year ended December 31, 2011.

Notwithstanding this material weakness, our management has concluded that our consolidated financial statements for the periods covered by and included in this report are prepared in accordance with US GAAP and fairly present, in all material respects, our financial position, results of operations and cash flows for each of the periods presented herein.

#### Changes in Internal Control over Financial Reporting

As of March 31, 2012, we are in the process of remediating the following material weakness identified by management in our internal control over financial reporting (as such term is defined in Rules 13a-15(f) and 15d-15(f) of the Exchange Act). The material weakness identified during management’s assessment as of December 31, 2011, was our lack of technical accounting expertise among our financial staff regarding the requirements of U.S. GAAP and the PCAOB Accounting Standard No. 5 and COSO in the assessment of internal control over financial reporting.

We have developed certain remediation steps to address this material weakness and to improve our internal control over financial reporting. Specifically, we plan to hire additional credentialed professional staff and consulting professionals with greater knowledge of US GAAP in our domestic operations and the requirements of Section 404 of the Sarbanes-Oxley Act of 2002 to oversee our financial reporting process in order to ensure our compliance with US GAAP and the relevant securities laws. In addition, we plan to provide additional training to our accounting staff on US GAAP, the Sarbanes-Oxley Act of 2002 and the requirements of the PCAOB, regarding the preparation of financial statements.

We believe the measures described above will facilitate remediation of the material weakness management identified and will continue to strengthen our internal control over financial reporting. As we continue to evaluate and work to improve our internal control over financial reporting, we may determine that additional measures are necessary to address control deficiencies.

#### Changes in Internal Control over Financial Reporting

Other than the changes discussed above, there were no changes in our internal control over financial reporting during the quarter ended March 31, 2012, that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

Table of Contents

PART II. OTHER INFORMATION

Item 1. Legal Proceedings

We may become involved in various lawsuits and legal proceedings arising in the ordinary course of business. Litigation is subject to inherent uncertainties and an adverse result in these or other matters that may arise from time to time could have an adverse effect on our business, financial conditions or operating results. Other than the following pending suits, we are currently not aware of any such legal proceedings or claims that will have, individually or in the aggregate, a material adverse effect on our business, financial condition or operating results.

On March 28, 2011, we filed suit in the Supreme Court of the State of New York, captioned Deer Consumer Products, Inc. v. Alfred Little, et al., Index No. 650823/2011, against a certain blogger, "Alfred Little," the website SeekingAlpha.com and others. Our claims in this action allege the publishing of false and defamatory statements by the defendants as part of an orchestrated scheme to manipulate and depress the market for our common stock. We are claiming compensatory and punitive damages totaling at least \$11 million, not including claims for attorneys' fees, and other equitable remedies, including disgorgement of any illicit trading profits received by the defendants in connection with the alleged market manipulation scheme. On August 29, 2011, we obtained a Court order allowing us to effect service of the summons and complaint upon defendant Alfred Little via email and related notice. We effected service on Alfred Little pursuant to that order and on September 29, 2011, Alfred Little filed motions to dismiss the complaint for lack of personal jurisdiction and for permission to appear anonymously as a party in the litigation. In addition, on August 31, 2011, the Court granted defendant SeekingAlpha.com's motion to dismiss our claim against it on the ground that a Federal statute, the Communications Decency Act, 47 U.S.C. § 230, precluded the claim against SeekingAlpha.com. On September 29, 2011, the Company filed a notice of appeal of this decision. If the Company decides to go through with the appeal, it must file a brief "perfecting" the appeal no later than June 29, 2012. On January 27, 2012, the Court denied in part Alfred Little's motion to dismiss the complaint for lack of personal jurisdiction and permitted the Company to conduct discovery on the issue of personal jurisdiction after a confidentiality agreement was reached between the parties. The court also requested that Alfred Little submit to the Court evidence corroborating his allegations of potential risks of physical harm for in camera review. On February 17, 2012, the parties reached a confidentiality agreement. On February 23, 2012, after an in camera review of the evidence presented by Alfred Little, the Court permitted Alfred Little to proceed anonymously until the Court decides the jurisdictional issue and re-directed that the parties proceed with jurisdictional discovery pursuant to the previously ordered confidentiality agreement. The Company has commenced discovery on the jurisdictional issue.

On April 29, 2011, a purported securities class action lawsuit on behalf of the purchasers of our common stock between March 31, 2009, and March 21, 2011, James Rose v. Deer Consumer Products, Inc. et al, was filed against us and certain of our current and former officers and directors in the United States District Court for the Central District of California. The court has not yet certified the class action status. The complaint alleges violations of Section 10(b) and Rule 10b-5 of the Exchange Act, as well as, in the case of the individual defendants, the Section 20(a) control person provisions of the Exchange Act. The factual assertions in the complaint, based expressly on the published statements at issue in the Alfred Little suit described above, consist primarily of allegations that the defendants made materially false or misleading public statements concerning our financial condition in fiscal years 2010 and 2009. The complaint seeks unspecified damages and other relief relating to the purported inflation in the price of our common stock during the class period. A consolidated amended complaint was filed on September 6, 2011, with essentially the same allegations. We filed a motion to dismiss the lawsuit, which motion is fully briefed and has been taken under submission by the Court. We strongly deny the allegations in the complaint. We believe this lawsuit is frivolous and without merit and will contest it vigorously. We plan to pursue all legal remedies available to us if the complaint is not withdrawn in its entirety.

We maintain directors and officers liability insurance, which provides the protection of certain insurance coverage for both the company and our officers and directors. We can provide no assurance as to the outcome of these cases. Regardless of the outcomes, such litigation may require significant attention and resources of management.

Item 1A. Risk Factors

You should consider carefully the factors discussed in the “Risk Factors” in our Annual Report on Form 10-K for the year ended December 31, 2011, which could materially affect our business. There have been no material changes to the risk factors described previously in that Annual Report.

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

None.

Table of Contents

Item 3. Defaults Upon Senior Securities

None.

Item 4. Mine Safety Disclosures

Not required.

Item 5. Other Information

None.

Item 6. Exhibits

See the Exhibit Index following the signature page to this Quarterly Report on Form 10-Q for a list of exhibits filed or furnished with this report, which Exhibit Index is incorporated herein by reference.

30

---



Table of Contents

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.

Date: May 10, 2012

By: DEER CONSUMER PRODUCTS, INC.  
(Registrant)  
/s/ Ying He  
Ying He  
Chief Executive Officer  
(Principal Executive Officer)

Table of Contents

EXHIBIT INDEX

Exhibit No.	Description of Exhibit
31.1 †	<u>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</u>
31.2 †	<u>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</u>
32.1 ‡	<u>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</u>
32.2 ‡	<u>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</u>
101**	The following financial statements from the Company's Quarterly Report on Form 10-Q for the quarter ended March 31, 2012, formatted in XBRL: (i) Consolidated Balance Sheets, (ii) Consolidated Statements of Income and Comprehensive Income, (iii) Consolidated Statements of Cash Flows, and (iv) Notes to Consolidated Financial Statements

† Filed herewith

‡ Furnished herewith

\*\* XBRL (Extensible Business Reporting Language) information is furnished and not filed or a part of a registration statement or prospectus for purposes of sections 11 or 12 of the Securities Act of 1933, as amended, is deemed not filed for purposes of section 18 of the Securities Exchange Act of 1934, as amended, and otherwise is not subject to liability under these sections.

Table of Contents