

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

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

FORM 10-Q

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

For the quarterly period ended September 30, 2010

OR

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

Commission file number: 001-34407

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

Nevada
(State or other jurisdiction of incorporation
or organization)

20-5526104
(IRS Employer Identification No.)

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

518057
(Zip Code)

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

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

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

Large accelerated filer

Accelerated filer

Non-accelerated filer

Smaller reporting company

(do not check if a smaller reporting company)

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

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: 33,590,116 shares of common stock outstanding as of November 8, 2010.

TABLE OF CONTENTS

	Page
PART I. FINANCIAL INFORMATION	
Item 1. Financial Statements	3
Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations	16
Item 3. Quantitative and Qualitative Disclosures About Market Risk	24
Item 4. Controls and Procedures	24
PART II. OTHER INFORMATION	
Item 1. Legal Proceedings	25
Item 1A. Risk Factors	25
Item 2. Unregistered Sales of Equity Securities and Use of Proceeds	25
Item 3. Defaults Upon Senior Securities	25
Item 5. Other Information	25
Item 6. Exhibits	25
SIGNATURES	26

PART I. FINANCIAL INFORMATION

Item 1. Financial Statements.

DEER CONSUMER PRODUCTS, INC. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS

	September 30, 2010 (unaudited)	December 31, 2009
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents	\$ 54,377,822	\$ 79,333,729
Restricted cash	1,128,314	35,701
Accounts receivable	42,119,937	17,070,781
Advances to suppliers	8,576,188	3,299,107
Other receivables	170,526	213,487
Inventories	21,811,223	18,061,282
Other current assets	159,583	12,500
Total current assets	128,343,593	118,026,587
PROPERTY AND EQUIPMENT, net	12,020,769	11,325,999
CONSTRUCTION IN PROGRESS	6,035,101	3,724,337
INTANGIBLE ASSETS, net	22,997,999	394,684
OTHER ASSETS	448,129	20,073
TOTAL ASSETS	\$ 169,845,591	\$ 133,491,680
LIABILITIES AND STOCKHOLDERS' EQUITY		
CURRENT LIABILITIES:		
Accounts payable	\$ 22,168,819	\$ 13,055,110
Other payables	1,441,269	1,061,460
Unearned revenue	2,092,634	1,719,761
Accrued payroll	1,459,646	1,148,663
Notes payable	9,393,419	6,212,911
Tax and welfare payable	2,065,358	862,332
Total current liabilities	38,621,145	24,060,237
STOCKHOLDERS' EQUITY:		
Common Stock, \$0.001 par value; 75,000,000 shares authorized; 33,590,116 and 32,631,748 shares issued and outstanding at September 30, 2010 and December 31, 2009	33,590	32,632
Additional paid-in capital	91,055,073	91,111,661
Development funds	2,205,163	1,185,859
Statutory reserve	4,410,327	2,371,718
Other comprehensive income	4,860,662	2,335,216
Retained earnings	28,659,631	12,394,357

Total stockholders' equity	131,224,446	109,431,443
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	\$ 169,845,591	\$ 133,491,680

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

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2010	2009	2010	2009
	(unaudited)	(unaudited)	(unaudited)	(unaudited)
Revenue	\$ 55,263,309	\$ 26,541,039	\$ 113,616,453	\$ 48,723,758
Cost of Revenue	39,417,477	20,670,731	81,011,120	37,403,300
Gross profit	15,845,832	5,870,308	32,605,333	11,320,458
Operating expenses				
Selling expenses	2,756,357	960,013	6,004,777	1,871,266
General and administrative expenses	1,480,948	429,656	3,245,637	1,607,560
Total operating expenses	4,237,305	1,389,669	9,250,414	3,478,826
Income from operations	11,608,527	4,480,639	23,354,919	7,841,632
Non-operating income (expense):				
Interest expense and financing costs	(35,977)	(50,174)	(85,438)	(275,527)
Interest income	188,754	63,698	519,814	66,354
Other income	9,227	8,894	17,450	4,998
Foreign exchange gain (loss)	(758,621)	288,461	(884,431)	207,958
Total non-operating income (expense)	(596,617)	310,879	(432,605)	3,783
Income before income tax	11,011,910	4,791,518	22,922,314	7,845,415
Income tax	1,746,286	668,745	3,599,127	1,350,892
Net income	9,265,624	4,122,773	19,323,187	6,494,523
Other comprehensive income				
Foreign currency translation gain (loss)	2,127,010	57,012	2,525,446	(5,428)
Comprehensive Income	\$ 11,392,634	\$ 4,179,785	\$ 21,848,633	\$ 6,489,095
Weighted average shares outstanding :				
Basic	33,585,553	22,730,722	33,082,481	21,462,056
Diluted	33,591,108	23,266,256	33,654,774	21,908,490
Earnings per share:				
Basic	\$ 0.28	\$ 0.18	\$ 0.58	\$ 0.30
Diluted	\$ 0.28	\$ 0.18	\$ 0.57	\$ 0.30

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

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

	Nine Months Ended September 30,	
	2010	2009
	(unaudited)	(unaudited)
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income	\$ 19,323,187	\$ 6,494,523
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation	1,084,183	1,072,586
Amortization	102,243	7,076
Stock based compensation	250,042	-
(Increase) / decrease in assets:		
Accounts receivable	(24,271,068)	(3,194,307)
Other receivables	46,505	294,584
Inventories	(3,321,876)	(4,650,620)
Due from related party	-	331,019
Advances to suppliers	(5,119,133)	1,247,216
Other assets	(567,302)	25,695
Increase / (decrease) in current liabilities:		
Accounts payable	11,693,505	719,113
Unearned revenue	331,838	(47,897)
Other payables	344,756	901,444
Due to related party	-	(194,529)
Accrued payroll	282,499	859,787
Tax and welfare payable	1,164,803	101,915
Net cash provided by operating activities	1,344,182	3,967,605
CASH FLOWS FROM INVESTING ACTIVITIES		
Acquisition of property and equipment	(1,539,295)	(1,486,891)
Acquisition of intangible assets	(22,305,052)	-
Construction in process	(2,195,791)	(1,319,539)
Changes in restricted cash	(1,072,919)	199,948
Sale of short-term investments	-	29,318
Net cash used in investing activities	(27,113,057)	(2,577,164)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Proceeds from issuance of notes payable	-	1,724,933
Proceeds from sale of common stock	-	17,678,000
Offering costs paid	(320,000)	(2,213,892)
Proceeds from the exercise of warrants	6,960,278	22,387
Payment on short term loans	-	(3,550,177)
Purchase of treasury shares	(6,945,950)	-
Net cash provided by (used in) financing activities	(305,672)	13,661,251
Effect of exchange rate changes on cash and cash equivalents	1,118,640	(535)

NET INCREASE (DECREASE) IN CASH & CASH EQUIVALENTS	(24,955,907)	15,051,157
CASH & CASH EQUIVALENTS, BEGINNING BALANCE	79,333,729	2,782,026
CASH & CASH EQUIVALENTS, ENDING BALANCE	\$ 54,377,822	\$ 17,833,183
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION:		
Interest paid	\$ -	\$ 116,315
Income taxes paid	\$ 2,170,198	\$ 565,418

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

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

Note 1 - Organization and Basis of Presentation

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

Organization and Line of Business

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

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

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

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

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

Stock Splits

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

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

Basis of Presentation

The accompanying consolidated financial statements include the accounts of the Company, its wholly-owned subsidiary, Deer Technology (AnHui) Co., Ltd. (“Deer Technology”), Anlin Technology (Anhui) Co. Ltd (“Anlin”) and Deer International, and its 100% wholly-owned subsidiary Winder and Winder’s wholly-owned subsidiary Delta. All significant inter-company accounts and transactions were eliminated in consolidation. Deer Technology was incorporated on April 30, 2010, in the AnHui Province and the Company invested \$29.8 million into Deer Technology. Anlin was incorporated on April 30, 2010, in the AnHui Province and the Company invested \$10.2 million into Anlin.

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

Foreign Currency Translation

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

Note 2 – Summary of Significant Accounting Policies

Use of Estimates

The preparation of financial statements in conformity with US GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. Areas that require estimates and assumptions include valuation of accounts receivable and inventory, determination of useful lives of property and equipment, estimation of certain liabilities and sales returns.

Cash and Cash Equivalents

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

Restricted Cash

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

Accounts Receivable

The Company maintains reserves for potential credit losses on accounts receivable. Management reviews the composition of accounts receivable and analyzes historical bad debts, customer concentrations, customer credit worthiness, current economic trends and changes in customer payment patterns to evaluate the adequacy of these reserves. As of September 30, 2010 and December 31, 2009, approximately 42% and 46%, respectively, of our accounts receivable was from overseas customers. The Company maintains a substantial amount of export insurance that covers losses arising from customers' rejection of its products, political risk, losses arising from business credit and other credit risks including bankruptcy, insolvency and delay in payment.

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

Investments

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

Advances to Suppliers

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

Inventories

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

Property and Equipment

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

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

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

	September 30, 2010	December 31, 2009 (audited)
Building	\$ 3,466,862	\$ 3,294,109
Equipment	15,841,670	14,312,145
Vehicle	218,905	34,735
Office equipment	469,507	420,106
	19,996,944	18,061,095
Less accumulated depreciation	(7,976,175)	(6,735,096)
	\$ 12,020,769	\$ 11,325,999

Construction in Progress

Construction in progress consists of costs related to the Company's construction of a new plant, office building and power distribution station. The Company expects to expend an additional \$1,650,000 to finish the current projects.

8

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

Long-Lived Assets

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

Intangible Assets

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

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

	September 30, 2010	December 31, 2009 (audited)
Right to use land	\$ 23,158,839	\$ 450,335
Computer software	78,478	76,906
Total	23,237,317	527,241
Less accumulated amortization	(239,318)	(132,557)
Intangibles, net	\$ 22,997,999	\$ 394,684

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

Fair Value of Financial Instruments

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

ASC Topic 820, "Fair Value Measurements and Disclosures," requires disclosure of the fair value of financial instruments held by the Company. ASC Topic 825, "Financial Instruments," defines fair value, and establishes a

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

§ Level 1 inputs to the valuation methodology are quoted prices for identical assets or liabilities in active markets.

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

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

§ 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 480, “Distinguishing Liabilities from Equity,” and ASC 815.

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

Concentration of Credit Risk

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

Revenue Recognition

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

Unearned Revenue

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

Advertising Costs

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

Research and Development

The Company expenses its research and development costs as incurred. Research and development costs for the three months ended September 30, 2010 and 2009, were \$244,380 and \$5,377, respectively, and for the nine months ended September 30, 2010 and 2009, were \$500,963 and \$62,904, respectively.

Stock-Based Compensation

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

2010.

10

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

Income Taxes

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

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

Foreign Currency Transactions and Comprehensive Income

US GAAP requires that recognized revenue, expenses, gains and losses be included in net income. Certain statements, however, require entities to report specific changes in assets and liabilities, such as gain or loss on foreign currency translation, as a separate component of the equity section of the balance sheet. Such items, along with net income, are components of comprehensive income. The functional currency of the Company's China subsidiaries is Chinese RMB. Translation gains of \$4,860,662 and \$2,335,216 at September 30, 2010 and December 31, 2009, respectively, are classified as an item of other comprehensive income in the stockholders' equity section of the consolidated balance sheets.

Currency Hedging

The Company from time-to-time may enter into forward exchange agreements with the Bank of China, whereby the Company agrees to sell US dollars to the Bank of China at certain rates. At September 30, 2010, the Company had no outstanding forward exchange contracts.

Basic and Diluted Earnings Per Share

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

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

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

Three months ended
September 30,

	2010		2009	
	Shares	Per Share Amount	Shares	Per Share Amount
Basic earnings per share	33,585,553	\$ 0.28	22,730,722	\$ 0.18
Effect of dilutive stock options and warrants	5,555	-	535,534	-
Diluted earnings per share	33,591,108	\$ 0.28	23,266,256	\$ 0.18

11

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

Nine months ended September 30,	2010		2009	
	Shares	Per Share Amount	Shares	Per Share Amount
Basic earnings per share	33,082,481	\$ 0.58	21,462,056	\$ 0.30
Effect of dilutive stock options and warrants	572,293	(0.01)	446,434	-
Diluted earnings per share	33,654,774	\$ 0.57	21,908,490	\$ 0.30

Statement of Cash Flows

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

Registration Rights Agreement

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

Recent Pronouncements

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

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

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

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

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

Note 3 – Inventories

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

	September 30, 2010	December 31, 2009 (audited)
Raw material	\$ 8,123,122	\$ 11,113,055
Work in process	10,743,961	5,236,692
Finished goods	2,944,140	1,711,535
Total	\$ 21,811,223	\$ 18,061,282

Note 4 – Notes Payable

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

Note 5 – Stockholders' Equity

Treasury Stock

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

Stock Options

Following is a summary of the options activity:

	Options outstanding	Weighted Average Exercise Price	Weighted average remaining contractual life	Aggregate Intrinsic Value
Outstanding, December 31, 2009	130,000	\$ 10.96	4.98	\$ 45,500

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

Granted	-	-		
Forfeited	-	-		
Exercised	-	-		
Outstanding, September 30, 2010	130,000	\$ 10.96	4.23	\$ -
Exercisable, September 30, 2010	56,666	\$ 10.96	4.23	\$ -

13

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

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

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

Warrants

Following is a summary of warrant activity:

	Warrants outstanding	Weighted Average Exercise Price	Weighted average contractual life	Aggregate Intrinsic Value
Outstanding, December 31, 2009	1,759,114	\$ 3.96	2.61	\$ 12,931,146
Granted	-	-		
Forfeited	-	-		
Exercised	(1,756,668)	\$ 3.96		
Outstanding, September 30, 2010	2,446	\$ 1.73	1.50	\$ 19,287
Exercisable, September 30, 2010	2,446	\$ 1.73	1.50	\$ 19,287

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

Number of Warrants	Exercise Price
2,446	\$ 1.73
2,446	

During the nine months ended September 30, 2010, certain warrant holders exercised 1,756,668 warrants that resulted in gross proceeds of \$6,960,278 to the Company.

Note 6 - Employee Welfare Plan

The total expense for the employee common welfare was \$81,327 and \$32,510 for the nine months ended September 30, 2010 and 2009, respectively. The PRC government abolished the 14% welfare plan policy during 2007. The Company is not required to establish welfare and common welfare reserves.

Note 7 - Statutory Reserve and Development Fund

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

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

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

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" ("SCWF"), which is established for the purpose of providing employee facilities and other collective benefits to the Company's employees; and

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

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

The Company appropriated \$2,038,609 and \$633,320, respectively, as reserve for the statutory surplus reserve and \$1,019,304 and \$316,660, respectively, as reserve for the development fund for the three and nine months ended September 30, 2010 and 2009, respectively.

Note 8 - Geographical Sales

Geographical distribution of sales is as follows:

Geographical Areas	Three Months Ended September 30,		Nine Months Ended September 30,	
	2010	2009	2010	2009
China	\$ 23,344,687	\$ 2,888,011	\$ 41,116,099	\$ 5,017,482
South America	8,292,216	3,845,583	19,719,641	7,126,393
Asia	9,293,129	2,364,182	19,319,193	4,933,763
Europe	5,768,105	4,047,740	13,064,512	7,929,475
Middle East	5,534,332	3,601,564	12,185,623	6,950,609
North America	2,369,655	9,456,088	6,955,375	16,334,869
Africa	661,185	337,871	1,256,010	431,167
	\$ 55,263,309	\$ 26,541,039	\$ 113,616,453	\$ 48,723,758

CAUTIONARY STATEMENT FOR FORWARD-LOOKING STATEMENTS

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

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

Overview

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

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

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

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

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

We operate through our two wholly-owned subsidiaries, Winder, which is a wholly-owned foreign enterprise (“WOFE”) and responsible for research, production and delivery of goods, and Delta, which has transferred all of its material former operations to Winder. We have traditionally acted as both an original equipment manufacturer (“OEM”) and original design manufacturer (“ODM”) for the export market. On April 30, 2010, we incorporated Deer Technology (AnHui) Co., Ltd. (“Deer Technology”) in the AnHui Province. We invested \$29.8 million in Deer Technology. Deer Technology is engaged in the manufacture and sales of household electric appliances. Also on April 30, 2010, we incorporated Anlin Technology (Anhui) Co. Ltd (“Anlin”) in the AnHui Province. We invested \$10.2 million in Anlin. Anlin is engaged in the manufacture and sales of household electric appliances.

We are positioning Deer to continue to target the China domestic market by expanding our production and manufacturing facilities. We are currently investing in a new factory located in the Wuhu area of central China. Wuhu is located in China's east coast, 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. Wuhu is also close in proximity to raw material suppliers as well as end user buyers such as two of China's largest domestic retailers and current customers of the Company – SuNing and Gome. The new factory is anticipated to be completed in 2011 and will increase our production capacity by 40%. We paid approximately \$22.2 million in the third quarter of 2010 to secure the land use rights for our new factory.

Critical Accounting Policies

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

Use of Estimates. Our discussion and analysis of our financial condition and results of operations are based upon our financial statements, which were prepared in accordance with US GAAP. The preparation of these financial statements requires us to make estimates and judgments that affect the reported amounts of assets, liabilities, revenues and expenses, and related disclosures of contingent assets and liabilities. On an ongoing basis, we evaluate our estimates, including those related to impairment of long-lived assets, and allowance for doubtful accounts. We base our estimates on historical experience and on various other assumptions that we believe to be reasonable under the circumstances, the results of which form the basis for making judgments about the carrying value of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates under different assumptions or conditions; however, we believe that our estimates, including those for the above-described items, are reasonable.

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

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

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

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

Long-Lived Assets. We periodically assess potential impairments to our long-lived assets. We perform an impairment review whenever events or changes in circumstances indicate that the carrying value may not be fully recoverable.

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

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

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

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

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

Currency Hedging. From time-to-time, we may enter into forward exchange agreements with the Bank of China, whereby we agree to sell US dollars to the Bank of China at certain rates. At September 30, 2010, we had no outstanding forward exchange contracts.

Recent Accounting Pronouncements

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

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

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

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

Results of Operations

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

	Three Months Ended September 30,		\$	%
	2010	2009	Change	Change
Revenue	\$ 55,263,309	\$ 26,541,039	\$ 28,722,270	108.2
Cost of revenue	39,417,477	20,670,731	18,746,746	90.7
Gross profit	15,845,832	5,870,308	9,975,524	169.9
Selling, general and administrative expenses	4,237,305	1,389,669	2,847,636	204.9
Interest and financing costs	35,977	50,174	(14,197)	(28.3)
Interest income	188,754	63,698	125,056	196.3
Foreign exchange gain (loss)	(758,621)	288,461	(1,047,082)	(363.0)
Income tax expense	1,746,286	668,745	1,077,541	161.1
Net income	9,265,624	4,122,773	5,142,851	124.7

Revenues

Our revenue for the three months ended September 30, 2010, was \$55.3 million, an increase of \$28.7 million or 108.2% from \$26.5 million for the three months ended September 30, 2009. The increase in revenues was a result of us aggressively expanding our sales in the China domestic market and increasing our market shares in the Asian, South American, Middle East and European markets. We increased our China domestic market sales from \$2.9 million for the three months ended September 30, 2009, to \$23.3 million for the same period in 2010, a 708.3% increase. Beginning in the latter half of 2009, we increased sales of our products to a prominent national electric appliance retail chain in China with roughly 900 stores. In the first quarter of 2010, we started selling to Wal-Mart stores in the Guandong Province and began ramping up sales to another prominent national electronic appliance retail chain in China with over 1,100 stores. We also added retail locations in other channels such as regional electric appliance retailers and department stores. We increased our product sales over internet portals, into hotels and restaurants, and via reward programs with large banks, telecommunication firms and postal offices in China. The results are on pace with management’s plan to capture the fast growth experienced in the China domestic small

appliance market.

Our sales in Asia were \$9.3 million for the three months ended September 30, 2010, a \$6.9 million or 293.1% increase over the same period in 2009. Our sales in South America were \$8.3 million for the three months ended September 30, 2010, a \$4.4 million or 115.6% increase over the same period in 2009. We believe the increase in sales in Asia and South America were largely due to emerging wealth in the regions and because those regions experienced less of an impact from the recent financial crisis. In the longer term, we are optimistic about our Asian and South American markets because of their GDP growth and large populations.

Our sales in Europe were \$5.8 million for the three months ended September 30, 2010, a \$1.7 million or 42.5% increase over the same period in 2009. Our sales in the Middle East were \$5.5 million for the three months ended September 30, 2010, a \$1.9 million or 53.7% increase over the same period in 2009. Our sales gains in Europe and the Middle East were largely due to Deer gaining market share following the financial crisis. Our sales in the U.S. were \$2.4 million for the three months ended September 30, 2010, a \$7.1 million or 74.9% decrease over the same period in 2009. The economic recovery in the U.S. has been slower than anticipated and our U.S. customers placed orders as expected based on the slow recovery. We expect our U.S. revenues to recover in 2011 as the economic recovery progresses and we continue to pursue new large U.S. customers.

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

Cost of Revenue

Our cost of revenue for the three months ended September 30, 2010, increased by \$18.7 million or 90.7% from \$20.7 million for the three months ended September 30, 2009, to \$39.4 million for the three months ended September 30, 2010. The increased cost of revenue in 2010 was due to the increase in sales.

Gross Profit

Our gross margin for the three months ended September 30, 2010, was 28.7% compared to 22.1% for the same period in 2009. The increase in gross margin for the three months ended September 30, 2010, compared to the same period in 2009, was due to increased sales in the China domestic market, which has higher margins. Our gross margin is substantially higher in the China domestic market because of the lower household penetration of small household products and trends of emerging wealth. In addition, our higher manufacturing efficiency as a result of higher revenue volume contributed to the increase in gross margin.

Operating Expenses

Selling, general and administrative expenses for the three months ended September 30, 2010, increased by \$2.8 million or 204.9%, from \$1.4 million for the three months ended September 30, 2009, to \$4.2 million for the three months ended September 30, 2010. Selling expenses for the three months ended September 30, 2010, increased by 187.1% or \$1.8 million in comparison to the same period in 2009 due to the associated selling costs incurred to generate the significant increase in revenue. General and administrative expenses for the three months ended September 30, 2010, increased by 244.7% or \$1.1 million in comparison to the same period in 2009 due to an increase in research and development, trade shows, insurance and travel expenses.

Interest and Financing Costs

Interest and financing costs for the three months ended September 30, 2010, was \$35,977 compared to \$50,174 for the three months ended September 30, 2009, a decrease of \$14,197 or 28.3%. The change is principally due to lower interest expense due to lower borrowings in 2010.

Interest Income

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

Interest income for the three months ended September 30, 2010, was \$188,754 compared to \$63,698 for the three months ended September 30, 2009, an increase of \$125,056. The change is principally due to the excess cash invested in interest bearing accounts.

Foreign Exchange Gain (Loss)

Foreign exchange loss for the three months ended September 30, 2010, was \$0.8 million compared to foreign exchange gain of \$0.3 million for the three months ended September 30, 2009, a decrease of \$1.0 million. The change is principally due to foreign exchange rate fluctuations.

Income Tax Expense

Our effective tax rate for the three months ended September 30, 2010, was 15.9%, as opposed to 14.0% for the three months ended September 30, 2009. In 2009, the PRC government granted the Company this special tax rate because of its high tech enterprise status. These special tax benefits last for three years and can be renewed prior to expiration.

Nine Months Ended September 30, 2010, Compared to the Nine Months Ended September 30, 2009:

	Nine Months Ended September 30,		\$	%
	2010	2009	Change	Change
Revenue	\$ 113,616,453	\$ 48,723,758	\$ 64,892,695	133.2
Cost of revenue	81,011,120	37,403,300	43,607,820	116.6
Gross profit	32,605,333	11,320,458	21,284,875	188.0
Selling, general and administrative expenses	9,250,414	3,478,826	5,771,588	165.9
Interest and financing costs	85,438	275,527	(190,089)	(69.0)
Interest income	519,814	66,354	453,460	683.4
Foreign exchange gain (loss)	(884,431)	207,958	(1,092,389)	(525.3)
Income tax expense	3,599,127	1,350,892	2,248,235	166.4
Net income	19,323,187	6,494,523	12,828,664	197.5

Revenues

Our revenue for the nine months ended September 30, 2010, was \$113.6 million, an increase of \$64.9 million or 133.2% from \$48.7 million for the nine months ended September 30, 2009. The increase in revenues was a result of us aggressively expanding our sales in the China domestic market and increasing our market shares in the Asian, South American, Middle East and European markets. We increased our China domestic market sales from \$5.0 million for the nine months ended September 30, 2009, to \$41.1 million for the same period in 2010, a 719.5% increase. Beginning in the latter half of 2009, we increased sales of our products to a prominent national electric appliance retail chain in China with roughly 900 stores. In the first quarter of 2010, we started selling to Wal-Mart stores in the Guandong Province and began ramping up sales to another prominent national electronic appliance retail chain in China with over 1,100 stores. We also added retail locations in other channels such as regional electric appliance retailers and department stores. We increased our product sales over internet portals, into hotels and restaurants, and via reward programs with large banks, telecommunication firms and postal offices in China. The results are on pace with management's plan to capture the fast growth experienced in the China domestic small appliance market.

Our sales in South America were \$19.7 million for the nine months ended September 30, 2010, a \$12.6 million or 176.7% increase over the same period in 2009. Our sales in Asia were \$19.3 million for the nine months ended September 30, 2010, a \$14.4 million or 291.6% increase over the same period in 2009. We believe the increase in sales in South America and Asia were largely due to emerging wealth in the regions and because those regions experienced less of an impact from the recent financial crisis. In the longer term, we are optimistic about our South American and Asian markets because of their GDP growth and large populations.

Our sales in Europe were \$13.1 million for the nine months ended September 30, 2010, a \$5.1 million or 64.8% increase over the same period in 2009. Our sales in the Middle East were \$12.2 million for the nine months ended September 30, 2010, a \$5.2 million or 75.3% increase over the same period in 2009. Our sales gains in Europe and the Middle East were largely due to Deer gaining market share following the financial crisis. Our sales in the U.S. were \$7.0 million for the nine months ended September 30, 2010, a \$9.4 million or 57.4% decrease over the same period in 2009. The economic recovery in the U.S. has been slower than anticipated and our U.S. customers placed orders as expected based on the slow recovery. We expect our U.S. revenues to recover in 2011 as the economic recovery progresses and we continue to pursue new large U.S. customers.

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

Cost of Revenue

Our cost of revenue for the nine months ended September 30, 2010, increased by \$43.6 million or 116.6% from \$37.4 million for the nine months ended September 30, 2009, to \$81.0 million for the nine months ended September 30, 2010. The increased cost of revenue in 2010 was due to the increase in sales.

Gross Profit

Our gross margin for the nine months ended September 30, 2010, was 28.7% compared to 23.2% for the same period in 2009. The increase in gross margin for the nine months ended September 30, 2010, compared to the same period in 2009, was due to increased sales in the China domestic market, which has higher margins. Our gross margin is substantially higher in the China domestic market because of the lower household penetration of small household products and trends of emerging wealth. In addition, our higher manufacturing efficiency as a result of higher revenue volume contributed to the increase in gross margin.

Operating Expenses

Selling, general and administrative expenses for the nine months ended September 30, 2010, increased by \$5.8 million or 165.9%, from \$3.5 million for the nine months ended September 30, 2009, to \$9.3 million for the nine months ended September 30, 2010. Selling expenses for the nine months ended September 30, 2010, increased by 220.9% or \$4.1 million in comparison to the same period in 2009 due to the associated selling costs incurred to generate the significant increase in revenue. General and administrative expenses for the nine months ended September 30, 2010, increased by 101.9% or \$1.6 million in comparison to the same period in 2009 due to an increase in research and development, trade shows, insurance and travel expenses.

Interest and Financing Costs

Interest and financing costs for the nine months ended September 30, 2010, was \$85,438 compared to \$275,527 for the nine months ended September 30, 2009, a decrease of \$190,089 or 69.0%. The change is principally due to lower interest expense due to lower borrowings in 2010.

Interest Income

Interest income for the nine months ended September 30, 2010, was \$519,814 compared to \$66,354 for the nine months ended September 30, 2009, an increase of \$453,460. The change is principally due to the excess cash invested in interest bearing accounts.

Foreign Exchange Gain (Loss)

Foreign exchange loss for the nine months ended September 30, 2010, was \$0.9 million compared to foreign exchange gain of \$0.2 million for the nine months ended September 30, 2009, a decrease of \$1.1 million. The change is principally due to foreign exchange rate fluctuations.

Income Tax Expense

Our effective tax rate for the nine months ended September 30, 2010, was 15.7%, as opposed to 17.23% for the nine months ended September 30, 2009. In 2009, the PRC government granted the Company this special tax rate because of its high tech enterprise status. These special tax benefits last for six years and can be renewed prior to expiration.

Off-Balance Sheet Arrangements

There were no off-balance sheet arrangements during the nine months ended September 30, 2010, 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

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

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

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

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

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

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

During the nine months ended September 30, 2010, certain warrant holders exercised 1,756,668 warrants that resulted in gross proceeds of \$6,960,278. Also during the nine months ended September 30, 2010, we purchased 798,300 shares of our common stock on the open market (treasury shares) for \$6,945,950.

Cash Flows

At September 30, 2010, we had \$54.4 million in cash and cash equivalents on hand. Our principal demands for liquidity are to increase sales in China, adding capacity, inventory purchase, sales distribution and general corporate purposes. We anticipate that the amount of cash we have on hand as of the date of this report as well as the cash that we will generate from operations will satisfy these requirements.

Net cash flows provided by operating activities for the nine months ended September 30, 2010, was \$1.3 million compared to cash provided by operating activities of \$4.0 million for the nine months ended September 30, 2009. The cash flows from operating activities was principally attributed to the net income generated during the nine months ended September 30, 2010, an increase in accounts payables, offset by an increase in our accounts receivable, inventories and advances to suppliers. The increase in account receivable is within expectations as we continue to increase sales in the China domestic markets. The higher margin in the China domestic markets typically requires payment terms for as long as seven to eight months from the date of shipments. We historically have not experienced significant bad debts from our customers; therefore, we believe our current receivables are manageable and within expectations.

We used \$27.1 million in investing activities during the nine months ended September 30, 2010, principally for the purchase of land use rights (intangible assets) for our new production and manufacturing facility that will be located in the Wuhu area in central China.

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

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

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

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

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

Item 3. Quantitative and Qualitative Disclosures about Market Risk

Not required.

Item 4. Controls and Procedures

Disclosure Controls and Procedures

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

Company's management, including its principal executive and principal financial officers, or persons performing similar functions, as appropriate to allow timely decisions regarding required disclosure.

Changes in Internal Control over Financial Reporting

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

PART II. OTHER INFORMATION

Item 1. Legal Proceedings

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

Item 1A. Risk Factors

Not required.

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

None.

Item 3. Defaults Upon Senior Securities

None.

Item 5. Other Information

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

Item 6. Exhibits

Exhibit No.	Description of Exhibit
31.1	Certification of Principal Executive Officer pursuant to Exchange Act Rules 13a-14(a) and 15d-14(a), as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
31.2	Certification of Principal Financial Officer pursuant to Exchange Act Rules 13a-14(a) and 15d-14(a), as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
32.1	Certification pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, as signed by the Chief Executive Officer
32.2	Certification pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, as signed by the Chief Financial Officer

SIGNATURES

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

DEER CONSUMER PRODUCTS, INC.
(Registrant)

Date: November 10, 2010

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