Deer Consumer Products, Inc.
Form 10-Q
November 05, 2009

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

FORM 10-Q

(Mark One)

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

For the quarterly period ended September 30, 2009

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

For the transition period from ________________ to _______________

333-140545
(Commission file number)

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)

011-86-755-8602-8285
(Issuer's telephone number)

N/A
(Former name, former address and former fiscal year, if changed since last report)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.
Yes x 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" and "smaller reporting company" in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer ¨	Accelerated filer ¨
Non-accelerated filer ¨	Smaller reporting company x

(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 x

As of November 3, 2009 there were 25,606,378 shares of common stock were outstanding.

DEER CONSUMER PRODCUTS, INC. AND SUBSIDIARIES
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DEER CONSUMER PRODCUTS, INC. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS

PART I – FINANCIAL INFORMATION

Item 1. Financial Statements

	September 30, 2009 (unaudited)	December 31, 2008
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents	$ 17,833,183	$ 2,782,026
Restricted cash	-	200,099
Accounts receivable, net	11,757,169	8,560,465
Advances to suppliers	3,767,328	5,015,479
Other receivables	199,871	489,286
Short term investments	-	29,340
Due from related party	-	331,267
Inventories	12,334,960	7,680,851
Other current assets	-	13,342
Total current assets	45,892,511	25,102,155
PROPERTY AND EQUIPMENT, net	11,705,817	11,291,202
CONSTRUCTION IN PROGRESS	2,213,427	892,897
INTANGIBLE ASSETS, net	397,044	404,125
OTHER ASSETS	24,977	39,689
TOTAL ASSETS	$ 60,233,776	$ 37,730,068
LIABILITIES AND STOCKHOLDERS' EQUITY		
CURRENT LIABILITIES:		
Accounts payable	$ 9,687,669	$ 8,968,088
Other payables	1,676,026	760,632
Unearned revenue	3,258,033	3,305,966
Accrued payroll	1,028,714	168,282
Short term loans	-	3,552,841
Advances from related party	80,070	274,805
Notes payable	4,881,576	3,155,348
Tax and welfare payable	1,635,005	1,533,013
Total current liabilities	22,247,093	21,718,975
LONG-TERM LOAN	733,500	733,500
TOTAL LIABILITIES	22,980,593	22,452,475
STOCKHOLDERS' EQUITY:		
Common Stock, $0.001 par value; 75,000,000 shares authorized; 25,576,094 and 19,652,226 shares issued and outstanding as of September 30, 2009 and December	25,576	19,652

31, 2008, respectively		
Additional paid-in capital	24,809,942	9,329,371
Development funds	859,361	542,701
Statutory reserve	1,718,723	1,085,403
Other comprehensive income	2,340,270	2,345,698
Retained earnings	7,499,311	1,954,768
Total stockholders' equity	37,253,183	15,277,593
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	$ 60,233,776	$ 37,730,068

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

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

	Three Months Ended September 30, 2009 (unaudited)	Three Months Ended September 30, 2008 (unaudited)	Nine Month Ended September 30, 2009 (unaudited)	Nine Month Ended September 30, 2008 (unaudited)
Revenue	$ 26,541,039	$ 11,542,215	$ 48,723,758	$ 32,045,142
Cost of Revenue	20,670,731	8,255,913	37,403,300	24,550,251
Gross profit	5,870,308	3,286,302	11,320,458	7,494,891
Operating expenses				
Selling expenses	960,013	672,714	1,871,266	1,882,130
General and administrative expenses	429,656	943,467	1,607,560	2,182,969
Total operating expenses	1,389,669	1,616,181	3,478,826	4,065,099
Income from operations	4,480,639	1,670,121	7,841,632	3,429,792
Non-operating income (expense):				
Financing costs	(35,882)	(1,926)	(156,543)	(48,361)
Interest income	63,698	1,693	66,354	8,548
Interest expense	(14,292)	(116,617)	(118,984)	(206,474)
Other income (expense)	8,894	(1,698)	4,998	74,523
Realized loss on trading securities	-	(296)	-	(34,684)
Foreign exchange gain	288,461	530,510	207,958	876,436
Total non-operating income (expense)	310,879	411,666	3,783	669,988
Income before income tax	4,791,518	2,081,787	7,845,415	4,099,780
Income tax	668,745	540,717	1,350,892	1,165,020
Net income	4,122,773	1,541,070	6,494,523	2,934,760
Other comprehensive income				
Foreign currency translation gain (loss)	57,012	1,367,814	(5,428)	2,305,404
Comprehensive Income	$ 4,179,785	$ 2,908,884	$ 6,489,095	$ 5,240,164
Weighted average shares outstanding :				
Basic	22,730,722	16,856,898	21,462,056	16,087,045
Diluted	23,266,256	16,856,898	21,908,490	16,087,045
Earnings per share:				
Basic	$ 0.18	$ 0.09	$ 0.30	$ 0.18
Diluted	$ 0.18	$ 0.09	$ 0.30	$ 0.18

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

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

	Nine Month Ended September 30, 2009 (unaudited)	2008 (unaudited)
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income	$ 6,494,523	$ 2,934,760
Adjustments to reconcile net income to net cash provided by (used in) operating activities:		
Depreciation	1,072,586	857,170
Amortization	7,076	13,966
Loss on disposal of fixed assets	-	36,996
Realized loss on short term investments	-	34,684
(Increase) / decrease in assets:		
Accounts receivable	(3,194,307)	(4,015,909)
Other receivables	294,584	147,815
Inventories	(4,650,620)	(6,234,027)
Due from stockholder	-	1,446,505
Due from related party	331,019	(3,799,263)
Advances to suppliers	1,247,216	(228,506)
Tax rebate receivable	-	347,731
Other assets	25,695	176,343
Increase / (decrease) in current liabilities:		
Accounts payable	719,113	4,946,373
Unearned revenue	(47,897)	1,383,045
Other payables	901,444	(150,561)
Due to related party	(194,529)	(791,123)
Accrued payroll	859,787	113,427
Tax and welfare payable	101,915	392,629
Net cash provided by (used in) operating activities	3,967,605	(2,387,945)
CASH FLOWS FROM INVESTING ACTIVITIES		
Acquisition of property and equipment	(1,486,891)	(3,188,166)
Acquisition (disposal) of intangible assets	-	8,041
Construction in process	(1,319,539)	(617,887)
Changes in restricted cash	199,948	(147,634)
Sale of short-term investments	29,318	114,235
Net cash used in investing activities	(2,577,164)	(3,831,411)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Proceeds from issuance of notes payable	1,724,933	2,969,781
Proceeds from issuance of short term loans	-	4,176,723
Proceeds from sale of common stock	17,678,000	-
Offering costs paid	(2,213,892)	-
Proceeds from exercise of warrants	22,387	-

Payment on notes short term loans	(3,550,177)	-
Change in advance to shareholder, net	-	(532,470)
Change in advance to related party, net	-	114,695
Net cash provided by financing activities	13,661,251	6,728,729
Effect of exchange rate changes on cash and cash equivalents	(535)	111,982
NET DECREASE IN CASH & CASH EQUIVALENTS	15,051,157	621,355
CASH & CASH EQUIVALENTS, BEGINNING BALANCE	2,782,026	1,511,545
CASH & CASH EQUIVALENTS, ENDING BALANCE	$ 17,833,183	$ 2,132,900
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION:		
Interest paid	$ 116,315	$ 113,356
Income taxes paid	$ 565,418	$ 112,743

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

Deer Consumer Products, Inc. and Subsidiaries
Notes to Consolidated Financial Statements
For the Nine Months Ended September 30, 2009 and 2008
(unaudited)

Note 1 - Organization and Basis of Presentation

The 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) which 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 consolidated financial statements prepared in accordance with accounting principles generally accepted in the United States of America were omitted pursuant to such rules and regulations. These 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, 2009 are not necessarily indicative of the results to be expected for the full year ending December 31, 2009.

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 Limited ("Deer International"), a company incorporated under the laws of British Virgin Islands ("BVI") on December 3, 2007 and acquired 100% of the shares of Winder Electrical Company, Ltd. ("Winder") on March 11, 2008. Winder has a 100% owned subsidiary, Delta International, Ltd., ("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, 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 accounted for as a reverse acquisition under the purchase method of accounting since Deer International obtained control of the Company. Accordingly, the merger of the Deer International into the Company was recorded as a recapitalization of Deer International, 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 manufacture, marketing, distribution and sale of 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.

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Stock Split

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.

Basis of Presentation

The accompanying consolidated financial statements include the accounts of the Company, its wholly-owned subsidiary, 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.

The accompanying consolidated financial statements have been prepared in conformity with accounting principles generally accepted in the United States of America (“US GAAP”). The Company’s Chinese subsidiaries functional currency is the Chinese Yuan Renminbi (RMB); however the accompanying consolidated financial statements were translated and presented in United States Dollars.

Foreign Currency Translation

The accounts of the Company’s Chinese subsidiaries are maintained in the RMB and the accounts of the U.S. parent company are maintained in the U.S. Dollar (USD). The accounts of the Chinese subsidiaries were translated into USD in accordance with Statement of Financial Accounting Standards ("SFAS") No. 52, "Foreign Currency Translation," (codified in Financial Accounting Standards Board (“FASB”) Accounting Standards Codification (“ASC”) Topic 830) with the RMB as the functional currency for the Chinese subsidiaries. According to the Statement, 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 weighted average exchange rate for the period. 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).

Note 2 – Summary of Significant Accounting Policies

Use of Estimates

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

Cash and Cash Equivalents

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

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Deer Consumer Products, Inc. and Subsidiaries
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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. As of September 30, 2009 and December 31, 2008, total restricted cash was $0 and $200,099 (interest rate of 0.36%), respectively.

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, 2009, approximately 79% 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.

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 are 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 the nine months ended September 30, 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 & 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

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The following are the details of property and equipment:

	September 30, 2009	December 31, 2008
Building	$ 3,294,109	$ 1,889,916
Equipment	14,325,687	14,232,539
Vehicle	34,735	34,735
Office Equipment	419,138	430,177
Total	18,073,669	16,587,367
Less accumulated depreciation	(6,367,852)	(5,296,165)
	$ 11,705,817	$ 11,291,202

Long-Lived Assets

The Company applies the provisions of SFAS No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets" ("SFAS 144") (codified in FASB ASC Topic 360), which addresses financial accounting and reporting for the impairment or disposal of long-lived assets and supersedes SFAS No. 121, "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to be Disposed Of," and the accounting and reporting provisions of APB Opinion No. 30, "Reporting the Results of Operations for a Disposal of a Segment of a Business." The Company periodically evaluates the carrying value of long-lived assets to be held and used in accordance with SFAS 144. SFAS 144 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 market value of the long-lived assets. Loss on long-lived assets to be disposed of is determined in a similar manner, except that fair market values are reduced for the cost of disposal. Based on its review, the Company believes that, as of September 30, 2009 there were no significant impairments 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 on an annual basis 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.

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Net intangible assets consisted of the following:

	September 30, 2009	December 31, 2008
Right to use land	$ 450,335	$ 450,335
Computer software	76,906	76,906
Total	527,241	527,241
Less Accumulated amortization	(130,197)	(123,116)
Intangibles, net	$ 397,044	$ 404,125

Pursuant to People's Republic of China's ("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

The Company discloses estimated fair values of financial instruments. The carrying amounts reported in the statements of financial position for current assets and current liabilities qualifying as financial instruments are a reasonable estimate of fair value.

On January 1, 2008, the Company adopted SFAS No. 157, "Fair Value Measurements" (codified in FASB ASC Topic 820). SFAS No. 157 defines fair value, establishes a three-level valuation hierarchy for disclosures of fair value measurement and enhances disclosures requirements for fair value measures. The carrying amounts reported in the balance sheets for receivables and current liabilities each qualify as financial instruments and are a reasonable estimate of fair value 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 are defined as follow:

- Level 1 inputs to the valuation methodology are quoted prices (unadjusted) 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.

As of September 30, 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.

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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 a formal arrangement exists, the price is fixed or determinable, the delivery is completed, 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 three and nine months ended September 30, 2009 and 2008 were not significant.

Income Taxes

The Company utilizes SFAS No. 109, “Accounting for Income Taxes” (codified in FASB ASC Topic 740), which requires the recognition of deferred tax assets and liabilities for the expected future tax consequences of events that have been 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.

When tax returns are filed, it is highly certain 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 are classified as interest expense and penalties are classified in selling, general and administrative expenses in the statements of income.

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Foreign Currency Transactions and Comprehensive Income

Accounting principles generally require that recognized revenue, expenses, gains and losses be included in net income. Certain statements, however, require entities to report specific changes in assets and liabilities, such as gain or loss on foreign currency translation, as a separate component of the equity section of the balance sheet. Such items, along with net income, are components of comprehensive income. The functional currency of the Company's Chinese subsidiaries is Chinese RMB. Translation gains of $2,340,270 and $2,345,698 at September 30, 2009 and December 31, 2008, respectively, are classified as an item of other comprehensive income in the stockholders' equity section of the consolidated balance sheet.

Currency Hedging

The Company entered into a forward exchange agreement with the Bank of China, whereby the Company agreed to sell US dollars to the Bank of China at a certain contractual rates. Since the contractual rate at which the Company sells US dollars to the Bank of China was greater than the exchange rate on the date of each exchange transaction, the Company recognized foreign exchange gains of $207,958 and $876,436 for the nine months ended September 30, 2009 and 2008, respectively. At September 30, 2009, the Company had no outstanding forward exchange contracts.

Basic and Diluted Earnings Per Share

Earnings per share is calculated in accordance with SFAS No. 128, "Earnings Per Share". SFAS No. 128 superseded Accounting Principles Board Opinion No.15 (APB 15) (codified in FASB ASC Topic 260). Net earnings per share for all periods presented has been restated to reflect the adoption of SFAS No. 128. Basic earnings per share is based upon the weighted average number of common shares outstanding. Diluted earnings per share is based on the assumption that all dilutive convertible shares and stock options were converted or exercised. Dilution is computed by applying the treasury stock method. Under this method, options and warrants are assumed to be exercised at the beginning of the period (or at the time of issuance, if later), and as if funds obtained thereby were used to purchase common stock at the average market price during the period.

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

Three months ended September 30,	2009		2008	
	Shares	Per Share Amount	Shares	Per Share Amount
Basic earnings per share	22,730,722	$ 0.18	16,856,898	$ 0.09
Effect of dilutive stock options	535,534	-	-	-
Diluted earnings per share	23,266,256	$ 0.18	16,856,898	$ 0.09

Deer Consumer Products, Inc. and Subsidiaries
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(unaudited)

Nine months ended September 30,	2009			2008		
	Shares	Per Share Amount		Shares	Per Share Amount	
Basic earnings per share	21,462,056	$	0.30	16,087,045	$	0.18
Effect of dilutive stock options	446,434		-	-		-
Diluted earnings per share	21,908,490	$	0.30	16,087,045	$	0.18

Statement of Cash Flows

In accordance with SFAS No. 95, “Statement of Cash Flows” (codified in FASB ASC Topic 230), cash flows from the Company’s operations are calculated based upon the local currencies. As a result, amounts related to assets and liabilities reported on the statement of cash flows will not necessarily agree with changes in the corresponding balances on the balance sheet.

Registration Rights Agreement

The Company accounts for payment arrangements under registration rights agreement in accordance with FASB Staff Position EITF 00-19-2 (codified in FASB ASC Topic 825), 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 SFAS No. 5, Accounting for Contingencies (codified in FASB ASC Topic 450).

Recent Pronouncements

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

In April 2009, the Financial Accounting Standards Board (“FASB”) issued FSP No. SFAS 157-4, “Determining Fair Value When the Volume and Level of Activity for the Asset or Liability Have Significantly Decreased and Identifying Transactions That Are Not Orderly” (“FSP No. SFAS 157-4”). FSP No. SFAS 157-4, which is codified in FASB ASC Topics 820-10-35-51 and 820-10-50-2, provides additional guidance for estimating fair value and emphasizes that even if there has been a significant decrease in the volume and level of activity for the asset or liability and regardless of the valuation technique(s) used, the objective of a fair value measurement remains the same. The Company adopted FSP No. SFAS 157-4 beginning April 1, 2009. This FSP had no material impact on the Company’s financial position, results of operations or cash flows.

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In April 2009, the FASB issued FSP No. FAS 115-2 and FAS 124-2, "Recognition and Presentation of Other-Than-Temporary Impairments," which is codified in FASB ASC Topic 320-10. This FSP modifies the requirements for recognizing other-than-temporarily impaired debt securities and changes the existing impairment model for such securities. The FSP also requires additional disclosures for both annual and interim periods with respect to both debt and equity securities. Under the FSP, impairment of debt securities will be considered other-than-temporary if an entity (1) intends to sell the security, (2) more likely than not will be required to sell the security before recovering its cost, or (3) does not expect to recover the security's entire amortized cost basis (even if the entity does not intend to sell). The FSP further indicates that, depending on which of the above factor(s) causes the impairment to be considered other-than-temporary, (1) the entire shortfall of the security's fair value versus its amortized cost basis or (2) only the credit loss portion would be recognized in earnings while the remaining shortfall (if any) would be recorded in other comprehensive income. FSP 115-2 requires entities to initially apply the provisions of the standard to previously other-than-temporarily impaired debt securities existing as of the date of initial adoption by making a cumulative-effect adjustment to the opening balance of retained earnings in the period of adoption. The cumulative-effect adjustment potentially reclassifies the noncredit portion of a previously other-than-temporarily impaired debt security held as of the date of initial adoption from retained earnings to accumulated other comprehensive income. The Company adopted FSP No. SFAS 115-2 and SFAS 124-2 beginning April 1, 2009. This FSP had no material impact on the Company's financial position, results of operations or cash flows.

In April 2009, the FASB issued FSP No. SFAS 107-1 and APB 28-1, "Interim Disclosures about Fair Value of Financial Instruments," which is codified in FASB ASC Topic 825-10-50. This FSP essentially expands the disclosure about fair value of financial instruments that were previously required only annually to also be required for interim period reporting. In addition, the FSP requires certain additional disclosures regarding the methods and significant assumptions used to estimate the fair value of financial instruments. These additional disclosures are required beginning with the quarter ending June 30, 2009.

In May 2009, the FASB issued SFAS No. 165, "Subsequent Events" ("SFAS 165") codified in FASB ASC Topic 855-10-05, which provides guidance to establish general standards of accounting for and disclosures of events that occur after the balance sheet date but before financial statements are issued or are available to be issued. SFAS 165 also requires entities to disclose the date through which subsequent events were evaluated as well as the rationale for why that date was selected. SFAS 165 is effective for interim and annual periods ending after June 15, 2009, and accordingly, the Company adopted this pronouncement during the second quarter of 2009. SFAS 165 requires that public entities evaluate subsequent events through the date that the financial statements are issued. The Company has evaluated subsequent events through the time of filing these financial statements with the SEC on November 5, 2009.

In June 2009, the FASB issued SFAS No. 166, "Accounting for Transfers of Financial Assets — an amendment of FASB Statement No. 140" ("SFAS 166"), codified as FASB Topic ASC 860, which requires entities to provide more information regarding sales of securitized financial assets and similar transactions, particularly if the entity has continuing exposure to the risks related to transferred financial assets. SFAS 166 eliminates the concept of a "qualifying special-purpose entity," changes the requirements for derecognizing financial assets and requires additional disclosures. SFAS 166 is effective for fiscal years beginning after November 15, 2009. The Company does not believe the adoption of SFAS 166 will have an impact on its financial condition, results of operations or cash flows.

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In June 2009, the FASB issued SFAS No. 167, “Amendments to FASB Interpretation No. 46(R)” (“SFAS 167”), codified as FASB ASC Topic 810-10, which modifies how a company determines when an entity that is insufficiently capitalized or is not controlled through voting (or similar rights) should be consolidated. SFAS 167 clarifies that the determination of whether a company is required to consolidate an entity is based on, among other things, an entity’s purpose and design and a company’s ability to direct the activities of the entity that most significantly impact the entity’s economic performance. SFAS 167 requires an ongoing reassessment of whether a company is the primary beneficiary of a variable interest entity. SFAS 167 also requires additional disclosures about a company’s involvement in variable interest entities and any significant changes in risk exposure due to that involvement. SFAS 167 is effective for fiscal years beginning after November 15, 2009. The Company does not believe the adoption of SFAS 167 will have an impact on its financial condition, results of operations or cash flows.

Note 3 – Inventories

Inventories consisted of the following:

	September 30, 2009	December 31, 2008
Raw material	$ 7,644,972	$ 3,960,022
Work in process	2,678,931	1,326,719
Finished goods	2,011,057	