Deer Consumer Products:
"DEER in the Headlights"

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Introduction

In this detailed report, I show that Deer Consumer Products Inc., (NASDAQ: DEER), a producer of small kitchen appliances located in China, has substantially inflated both its sales and profit margins and failed to disclose direct competition from entities related to its chairman. Additionally, management recently announced two major land purchases at prices that are at least 50% above closely comparable sales that occurred in the same month on the same street. The timing, nature and lack of documentation and disclosure regarding these land purchases make it very likely DEER management misappropriated over $12 million in company funds. Furthermore, since the reverse-merger DEER has been a major client of Benjamin Wey's New York Global Group, which has been questioned by the media. I have organized my findings into eight sections as set forth below.

1. Management misappropriated over $12 million on two recent land purchases
2. High profit margins are impossible
3. Extensive 10-city, 60-store channel check confirms very weak domestic retail sales
4. Questionable revenue recognition inflates sales and accounts receivables
5. 2009 SAIC filing shows a much smaller and less profitable business
6. Direct competition from Chairman He's unconsolidated related party - 50Hz Electric
7. Benjamin Wey and his New York Global associates maintain substantial ownership and involvement
8. Auditor Goldman Kurland & Mohidin, LLP and Audit Committee Chairman Arnold Staloff serve several of the same New York Global clients

1. Management misappropriated over $12 million on two recent land purchases

In its 10K filed on March 10th 2011 (here), DEER disclosed it purchased 660 Mu (or 亩, a unit area measure commonly used by the Chinese, 1 Mu = 0.167 acres) of land (use rights), through two very suspicious transactions, in the Wuhu area of Anhui province, stating:

> In 2010, we entered into contracts to acquire land use rights in the Wuhu area of AnHui Province for approximately 439,640 square meters (660 Mu or 43.96396 hectares) in two parcels of land at a total cost of approximately $37 million, including transfer taxes and other closing fees. We have received a land certificate covering 289,415.79 square meters (435 Mu or 28.9416 hectares) in the first parcel of land, on which we anticipate building a new production facility. We will receive another land certificate covering 150,223.81 square meters (225 Mu or 15.022381 hectares). The public notice relating to these 15.022381 hectares is available on the website of PRC Ministry of Land and Resources.

$37 million divided by 660 Mu equals approximately $56,000 per Mu. Then multiply by the roughly 6.7 RMB/USD exchange rate to get an average purchase price of 375,000 RMB per Mu. This amount is extraordinarily high for land in this area as I will show.

First, through my lawyer, I contacted the Wuhu Economic & Technological Development Zone (the Zone where the land is located) and spoke to Mr. Liu (柳) in the Investment Services Department (投资服务中心) regarding the possibility of my company buying 200+ Mu of land to build a small appliance factory. Liu explained that there is a section of the Zone designated for appliance makers (including Midea and Elec-tech) and immediately quoted me RMB 250,000 per Mu and verbally mentioned the possibility of reducing the price to RMB 150,000 per Mu, if certain conditions are met. Liu's prices are before transfer taxes and other closing fees.

Not satisfied that Liu's quotations are sufficient to prove DEER inflated its land purchase price, I consulted an official, Mr. Xu, from the Wuhu Municipal Land & Resources Bureau. Mr. Xu that it is commonly known that recent average selling prices in the park of 150,000 – 200,000 per Mu, depending on the location. (Note: Mr. Xu's contact is private but I will share it with any serious analysts or investors covering DEER.)

Comparable Sales Comparison shows DEER overpaid by 46%

Mr. Xu referred me to the Anhui Province Land & Mining Market Portal (here) where I could look up recent comparable land sales in the Zone. I created a spreadsheet (download by clicking here) detailing 17 comparable land sales from the Portal. I calculated that 242,000 RMB per Mu is the average comparable land sales price. In particular, two land sales highlighted in the spreadsheet occurred on approximately the same dates as DEER's purchases and share the exact same location. The average of these two sales is only 226,000 RMB per Mu. DEER's two land purchases are shown on the site as costing 329,600 RMB per Mu (before transfer taxes and other closing fees). Compared to these two comps DEER overpaid by 46%. The spreadsheet can be downloaded (here).

Furthermore, the timing, nature and lack of documentation and disclosure regarding these land purchases make it very likely DEER management misappropriated over $12 million in company funds.

In its 2010 third quarter 10-Q filing page 17 (here) when discussing its plans to build a new factory in Wuhu, DEER merely disclosed:

> We paid approximately $22.2 million in the third quarter of 2010 to secure the land use rights for our new factory.

That was the extent of the disclosure. No details of the date of the purchase or the size of the land. In its 3rd Quarter conference call held on November 10th, 2010, DEER's head of Asia pacific James Chiu explained that:

> For this year we used $22 million to buy **a piece of land** and we would divide the land into, I mean we will build the facility in a multiple phases. For the first phase we are going to invest roughly $15 million on the facility and if you're talking about the land that is being used, I should say that should be **one-third of land will be used for the first phase.**
>
> **… we also expecting that the total capacity of the (inaudible) completing the first phase will be $250 million for the additional capacity.** (Emphasis added)

According to DEER's explanation, they only need 1/3 of the land to build their new 1.3 million square foot multi-story factory. Analysts and investors repeatedly questioned DEER management regarding the size of the land purchase. In the 10-K just filed, management finally disclosed the size of the land bought in the 3rd quarter was 435 Mu. Therefore 1/3 of 435 Mu is only 145 Mu (about 1 million square feet) leaving 290 Mu unused.

Additionally, on the November 10th conference call management made no mention of their plan to buy another 225 Mu of land, which was only disclosed in the 10-K only after I questioned management and circulated my draft report on these issues.

Based on management's statements, following the expected December, 2011 completion of the first phase of its planned Wuhu factory, the company will own 290+225 = 515 Mu or 3.7 million square feet of vacant land. The first stage of the expansion will thus utilize only 22% of the land purchased.

The amount of land purchased is totally illogical

Why did DEER buy 660 Mu of land in the first place? Its existing Yangjiang facility has capacity to support $320 million in revenue and its first phase Wuhu expansion will add another $250 million in sales capacity.

With 2011 revenue guidance of $220 million (the high end of DEER's guidance), the capacity utilization rate at its existing facility will be 68.7% during 2011, and only 38.5% of DEER's $570 million total capacity following its first phase Wuhu expansion. What is the point of DEER holding another 3.7 million square feet of vacant land? Such development zone land is generally required to be built-out on a strict timeline or the owner could face penalties, including losing the land. Additionally, such development zone land is plentiful and does not experience high rates of price appreciation. Thus due to the development rules such land is not suitable for investment. So why did DEER sink $37 million into these unnecessary land purchases at prices nearly 50% above the comps?

Land purchases are undocumented and unverifiable

One more problem with this land purchase is that despite DEER claiming in its 2010 10K that:

> We have received a land certificate covering 289,415.79 square meters (435 Mu or

28.9416 hectares) in the first parcel of land, on which we anticipate building a new production facility.

My legal team could find no such land certificate. Nor could Mr. Xu from the Wuhu Municipal Land & Resources Bureau find it anywhere on their record. It is worth noting that only the municipal level Land & Resources Bureau has the authority to issue such a certificate. I challenge DEER management to produce a copy of the certificate they claimed they already received. Until such certificate is provided, I shall remain skeptical this 435 Mu land use rights purchase was properly closed and accounted for.

Once again, as I have shown in my documentation of previous Chinese RTO frauds, a common way management steals from shareholders or conceals phony profits is through inflated or nonexistent land purchases. DEER management needs to quickly prove otherwise.

2. High profit margins are impossible

My survey and conversations with DEER's large, publicly listed and well-known domestic competitors let me conclude that DEER is merely one of numerous smaller players in the low end of the Chinese small kitchen appliance market. The top brands such as Midea, Joyoung, and Supor dominate a large chunk of the market share in DEER's product categories such as soymilk maker, blender, juicer and rice cookers. Outside the market leaders, the low end of the market is fragmented among hundreds of small, weak competitors including DEER.

Searching on Alibaba for "juicer" and "blender" under the product category in mainland China yields over 4,000 and nearly 6,000 results, coming from a long list of manufacturers who compete with DEER. There are no barriers to entry in the low end of the domestic branded business, while the barrier to success (i.e. becoming the market leaders) is quite high, requiring large amount of capital to build a brand and years of working relationships to build a national distribution channel. Failure abounds, with the recent example of BBK (002251.SH), a large Chinese player with fair amount of brand recognition that nevertheless exited the small appliance market due to difficulty of effectively competing against the top brands in the category (link to the story here).

Yet somehow, DEER claims it generates higher profit margins than even the market leaders, despite DEER's very recent market entrance and very limited brand equity in this intensely competitive industry.

	Joyoung	Supor	Elec-tech	Tsann Kuen	Deer
LTM Revs (as of Q3 '10)	778.0	793.4	381.7	498.5	146.2
Gross Margin (1)	36.7%	27.9%	23.3%	12.5%	28.7%
Operating Margin (1)	15.3%	9.4%	4.7%	2.5%	20.4%

(1) Margins are the average from 1Q 2010 - 3Q 2010

DEER does not break out its domestic gross margins in its filings, but according to analysts and investor relations, DEER boasts an unjustifiable 40%+ gross margin in the domestic business, and reports operating margins 46% higher than its strongest competitor, which is over 8x DEER's size. With all of the major competitors being much larger publicly traded companies with manufacturing facilities and cost structure similar or superior to DEER, I see no validity to DEER's explanation of its high margins due to its purportedly lower cost base and greater economy of scale. In fact, I suspect DEER's competitors certainly have lower cost structures by having wisely established their production bases in the lower cost labor zones of the interior provinces of China, such as Anhui, Shandong and Hubei. DEER operates its plant employing 2000 workers in the coastal province of Guangdong that has suffered rampant wage inflation pressure. In its 10-K DEER further attributes its abnormally high margins to its exceptional "vertically integrated and automated manufacturing capabilities". DEER's automation claim is laughable when you review the pictures from the BMO Capital Markets' "Field Trip Slide Show" published on February 9th, 2011 (link here or download here), which show typical Chinese assembly-line labor-intensive manufacturing facilities. A factory manager from a competitor who reviewed the slide show was not impressed by DEER's automation claims.

Joyoung and Supor, by contrast, are very strong brands in China with a lot of retail stores indicating them as the top selling small kitchen appliance brands, as shown in the Channel Check section below. As a comparison, these two competitors spend massive amounts of money advertising their brands to Chinese consumers and placing their own employees or sales reps in retail stores to promote their products. Selling & Marketing expenses consume 16% to 17% of their revenues. By contrast, DEER in the most recent 10-Q filing states that "Advertising costs for the nine months ended September 30, 2010 and 2009, were not significant." Nor did DEER place any promotional reps in the 60 Gome and Suning stores surveyed in the Channel Check section below. I conclude that it is impossible for DEER's unusually high gross margin and low selling expenses to exist at the same time. DEER's 20%+ operating margins simply must be fabricated.

Another way to tackle this same issue is to evaluate DEER's ROI on its new manufacturing facility. With $22 million invested in land, another $20 million estimated for construction and equipment, the company believes it will generate $250 million revenue with $50 million EBIT (based on 20% operating margin) when the plant reaches full utilization. With a 15% tax rate, the after tax profit of $42.5 million can pay back the entire investment within a year alone! This kind of ROI isn't just suspicious; it is impossible. If this kind of profitability were true, given the lack of any barriers to entry, speculative capital would have long ago flooded the industry and further glutted the market with blenders and juicers. None of the explanations of DEER's margins add up. I encourage investors and analysts to seek comments on DEER's unusually high margins from its larger publicly traded competitors.

3. Extensive 10-city, 60-store channel check confirms very weak domestic sales

As of December 2010, DEER claims its products are available in 730 Suning locations (out of a possible 941), and 530 Gome locations (out of a possible 1,170). I engaged an independent 3rd party research group in China to conduct an extensive channel-checking operation, visiting 60 stores (26 Gome and 34 Suning) in Beijing, Qingdao, Xi'an, Chongqing, Chengdu, Shanghai, Xiamen, Zhengzhou, Shenzhen, and Guangzhou. In each location, the investigators were instructed to count the number of small kitchen appliance brands, note the prices each brand was selling for, and ask the store/department managers and at least two different sales clerks a short list of questions about their experience selling products manufactured by DEER and its competitors. For purpose of verification, the investigators were also instructed to record the name, address, phone # of the stores, as well as the name and cell phone # of the managers they spoke to. The entire channel check report is available for downloading (here).

The report summary is as follows:

- Overview
    - A typical store carries 7-8 small kitchen appliance brands, with biggest stores in any city carrying 10-12 brands.
    - The best selling brands for blenders, juicers, and soymilk makers are Midea, Joyoung, Supor, and occasionally Philips.
    - In 86% of stores, sales clerks salaried by manufacturers and distributors were available to promote their own products.
    - None of the stores have designated promotional personnel for DEER products. Only one Gome store had one of its own sales clerk showcasing DEER brand products.
- Gome
    - 19 out of 26 stores carried DEER products.
    - The average store appeared to sell no more 5 DEER products per week.
    - Some managers said they have only sold 2-3 DEER items per month.
    - Only 2 stores had DEER products prominently displayed.
    - Clerks and managers attributed weak sales to a lack of brand recognition and a lack of dedicated sales personnel.
    - 5 stores explicitly listed DEER as the toughest brand to sell.
    - 3 stores said they had experienced unusually high return rates with DEER.

- Suning
    - No stores carried DEER products, but 33 out of 34 carried Mazuba brand appliances, for which DEER is merely one of the non-exclusive OEMs or ODMs.
    - Managers and store clerks have generally never heard of the DEER brand, with one exception of one store giving out DEER kettles as free gifts in the past.
    - Mazuba is not listed as a top selling brand in any category.
    - On the bottom of the price tag of each Mazuba appliance, there is a location of manufacturing. Mazuba products are manufactured in Foshan, Zhongshan, and Yangjiang. DEER only has manufacturing facilities in Yangjiang, verifying that DEER is not the exclusive manufacturer of Mazuba.
    - Clerks and managers attributed weak Mazuba sales to a lack of brand recognition, a lack of dedicated sales personnel, and uncompetitive pricing.
    - 7 stores explicitly listed Mazuba as the toughest brand to sell.
    - 1 store mentioned an unusually high return rate with Mazuba.

Here are some typical comments from the store employees:

Mr. Ma, the small appliance department manager of Gome in Ma Dian Qiao Beijing,

> the biggest Gome store in Bejing, said DEER product doesn't sell well here. They're hard to promote due to very few and narrow range of product selection.
>
> Store employee from Hua Qiang North Gome store in Shenzhen said they are able to sell only a couple of DEER items every month. DEER has no after-sale service station. In the store, DEER doesn't have its own shelf and its product were put on the TCL shelf. The best selling brand is Midea.
>
> Store manager from Pujian Road Flagship Gome store in Shanghai said they could not sell even 5 DEER items per day. Our investigator found out DEER products were put on the lowest shelf and people can barely notice them.
>
> Ms. Li, the small appliance manager of Gome Rengong Store in Xiamen, said her store had only sold out 3 electric kettles so far since DEER products got in the store in Dec 2010. There's very low brand recognition for the DEER brand. DEER's products have no special functions compared to the besting selling Midea, Joyoung, Supor and Philips products there, and need to improve in quality.
>
> The small appliance manager of Suning Pudong Store in Shanghai said they've never sold any DEER product here. A store clerk said she has heard of DEER because they used to give out DEER kettle as free gifts.

Mr. Qiu, the store manager of Suning Zijing Store in Chengdu, said Mazuba branded blenders have a lot of quality issues and returns. It's hard to sell and the store had to do a lot of discounting on them.

Clearly the report shows terrible sales volumes, poor brand image and low quality and uncompetitive pricing. Alarmingly, the report clearly shows that contrary to what has been communicated to U.S. investors, DEER branded products are not available at Suning stores. DEER's Suning contract filed in an 8-K on December 4, 2009 clearly states it expects to sell 200 million RMB of its products including "a wide variety of DEER's product lines of small home kitchen appliances under the 'DEER' brand for 2010 product delivery to Suning's stores". However, the store survey showed that DEER was merely one of the several OEMs for Suning's low-end private label products. Furthermore, the investor relations department of Suning estimated that small appliance sales for 2010 would be approximately 10 billion RMB, of which 5.5 billion would be kitchenware. He also said that Suning's Mazuba brand appliances would represent only 1-2% of small appliance sales. If this is true, at best there will be 200 million RMB sales, at retail prices, certainly much less than that at wholesale prices, to split between all Mazuba manufacturers, of which DEER is only one. DEER's recently filed 10-K disclosed sales to Song Qiao (Mazuba's Chinese name is Song Qiao) to be 13% of 2010 revenue, or 153 million RMB ($22.85 million at exchange rate of 6.7). This highly questionable wholesale revenue figure is almost 76.5% of all estimated Mazuba products sales **at retail prices,** which further indicates either significant channel stuffing or fabricated wholesale sales. It is also worth mentioning that Mazuba has other categories of products outside small kitchenware, including vacuum cleaners, shower heaters etc, that DEER does not produce.

In conclusion, the channel checks conclusively shows very low sell-through of DEER's products, that combined with DEER's ballooning receivables shows that either 1) DEER is stuffing the channel, which in the medium term this may lead to an accounts receivable write down or a significant slowdown in orders; or 2) DEER could have fabricated its sales volume to Gome and Suning. Furthermore the channel check confirms that DEER exaggerates its margins, since its products are clearly low-end and low-price. Also since Gome and Suning are not supported by DEER in the retail promotion (i.e. no in-store sales support) it's natural for the retailers to squeeze DEER on pricing of its generic brand.

4. Questionable Revenue Recognition inflates sales and accounts receivables

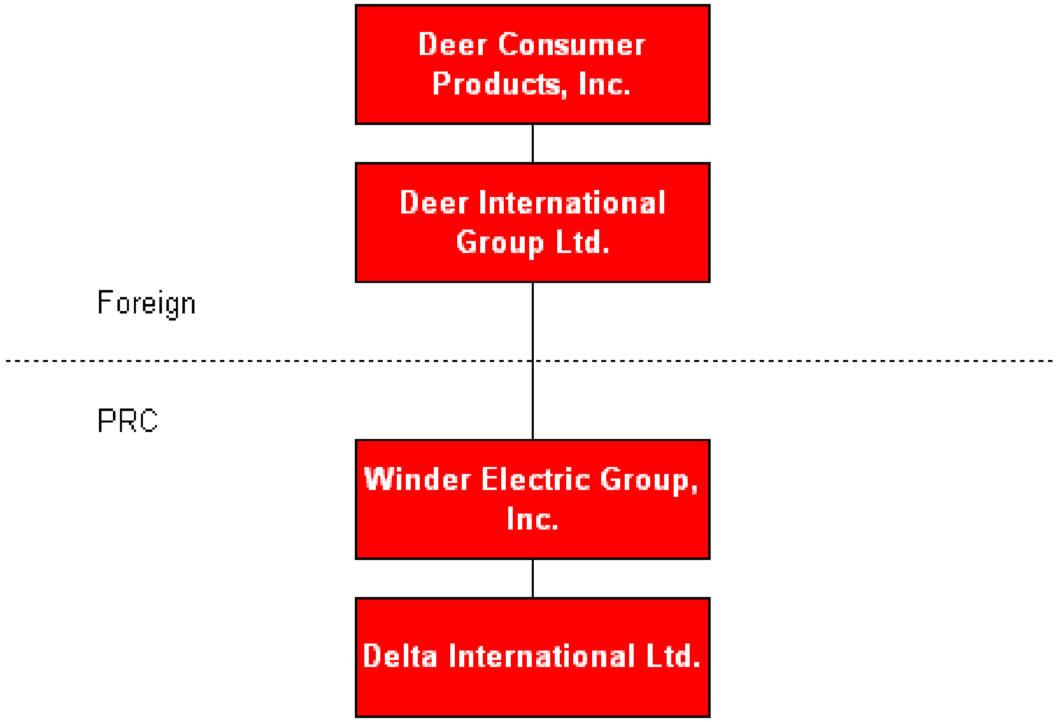
The typical retail distribution model in China involves a distributor paying a manufacturer upfront for inventory, and then selling its inventory into retail outlets like Gome or Suning on a consignment basis, recognizing revenue upon the ultimate sale of products. Both manufacturers and distributors share in the cost for hiring sales clerks to promote products directly to consumers. According to distributors I interviewed, Gome and Suning is to pay vendors 60 days only after the product is sold at retail. DEER's DSO's with Gome and Suning appear to be more than 60 days.

DEER's contracts with Suning and Gome can be found in two 8-Ks filed on December 4, 2009 (here) and April 30, 2010 (here). Both of these agreements state that sales will be made by the retailers on a "commission basis". Although the channel checks have confirmed DEER sells directly into Gome/Suning without distributors, the language of "commission basis", in my opinion, indicates the consignment nature of the arrangement. Most importantly, if the sales are consignment, DEER's accounting practice of recognizing revenue upon shipment is improper given the products on the store shelves have not yet been sold. Moreover, as the channel checks have shown DEER products have little brand equity and are selling very slowly. As a result, DEER's accounts receivable and DSO's continue to balloon and according to management on the year-end earnings conference DEER has extended 180 day payments terms to Gome and Suning. According to my conversations with competitors 180 day credit terms are impossible. Again, I think DEER is using the 180 day payment terms as an excuse for the weak retail sales.

Although the contracts permit DEER to stuff the channel, it is clear that effective sell-through of products is low. In the medium term this may lead to an accounts receivable write down or a significant slowdown in orders. Unless DEER can find more channels to stuff, its revenue growth will be unsustainable. Even worse, if the nature of the relationship is proven to be a consignment model similar to the ones given to other competitors, DEER's revenue recognition policy is not allowed under U.S. GAAP and its financials will have to be restated.

5. 2009 SAIC filing shows a much smaller and less profitable business

DEER's corporate structure disclosed by its 10K is straightforward and can be seen in the chart below:



Management claims that Winder is "responsible for research, production, and delivery of goods" of the **whole company (domestic and export)** and that Delta "has transferred all of its material former operations to Winder". However, the SAIC record of Delta filed with PRC government still reports sizeable operations in sharp contrast to the statement in the 10K. In fact, the SAIC record of Winder shows very minimal revenue and earnings. For purpose of comparing SAIC to SEC records, I combined the financial statements of Winder and Delta as below:

	Winder Electric	Deer Consumer
Source:	SAIC	10-K/A '09
	All amount in million USD	
Revenues	31,603	81,343
COGS	-27,020	-61,177
Gross Profit	4,583	20,166
Gross Margin	14.5%	24.8%
Sales Expense	-1,888	-3,556
Management Exp	-1,434	-2,381
Operating Income	1,261	14,230
Operating Margin	4.0%	17.5%

Based on the opinion of the industry experts and competitors I surveyed, the margins and profitability shown in DEER's SAIC filing is much more reasonable given DEER's position in the industry. Based on the records, it appears DEER may have overstated its 2009 revenue and operating income by 2.5x and 14x, respectively. Such discrepancies should not be easily dismissed due to accounting differences between U.S. GAAP and Chinese standards. Investors should demand a thorough explanation, especially since the SAIC amounts seem quite reasonable.

As noted before, DEER's very aggressive revenue recognition is creating a large disconnect between DEER's reported earnings and actual cash flow as shown below:

in $	2007	2008	2009	2010	Cumulative
Net Income	3,421,592	3,356,784	12,369,062	30,349,037	49,496,475
Op Cash Flow	432,890	3,037,566	384,221	11,076,019	14,930,696
Difference	(2,988,702)	(319,218)	(11,984,841)	(19,273,018)	(34,565,779)
Free Cash Flow	(1,809,178)	(1,158,277)	(3,920,008)	(45,032,741)	(51,920,204)
*Free cashflow defined as Net Operating Cashflow - Acquisition of Plant and Property - Acquisition of Intangible Assets - Construction in Progress					

In summary, DEER accumulated earnings of $49.5 million since 2006 while only generating cash from operations of $14.9 million and producing negative free cash flow of ($51.9) million over the four year period and raising $94 million from the public to support this tremendous cash burn. Even if DEER's earnings were real, they are of a very poor and questionable quality.

6. Direct competition from Chairman He's unconsolidated related party - 50Hz Electric

Ying He, the founder and CEO, and his brother own a separate company in Hong Kong, "50HZ Electric" (http://www.windelec.com/). This business is not consolidated into DEER Consumer Products. It is only mentioned a few times in the annual report, which notes that 50HZ transferred patents, IP, etc. to Winder, DEER's main operating entity in China.

50Hz's website alarmingly makes it sound like 50Hz is the parent to two operating subsidiaries: DEER's own Winder Electric and another unconsolidated entity called Shenzhen De Mei Long (DML). 50HZ's website also states that the company is located in Shenzhen, but the company is actually registered in Hong Kong. A visit to 50Hz's registered address in Hong Kong found no evidence of the business's existence. The investigator was informed by an employee of the company occupying the location, that 50HZ uses their address for correspondence, but its operations are located in Shenzhen – at the same address as DML. Despite being presented by DEER as an orphaned entity, 50HZ has clearly been shipping product to the U.S. under its own name to the same customers as DEER as shown in the recent container data files which can be downloaded (here). Below is a snapshot of the data. It is quite obvious 50HZ is still operating as of the most recent quarter.

So it appears the CEO's other company, 50Hz, is directly engaged in the same or similar business competing with DEER. Investors and regulators should question why this serious conflict of interest was not disclosed as a risk factor as required by SEC rules.

Likewise, the DML company is a related party owned by Xu Qiyuan (51%) and He Xianping (49%) with He Ying (DEER's CEO) as a registered supervisor. Given what I have discovered above regarding 50Hz, investors should be wary of the possibility both 50HZ and DML could help DEER understate expenses or book phony revenues.

7. Benjamin Wey and his New York Global associates maintain substantial ownership and involvement

According to a press release (here), from New York Global Group's ("NYGG") Chinese website, with an English translation on page 3, NYGG states that it advised and raised over $94 million in several rounds of financing in just one year for the company since its RTO. From the translated document:

> December 11, 2009, New York - Since June 2009 New York Global Group (NYGG), a Wall Street investment bank, began acting as the exclusive advisor to Guangdong Deer Electric Group (NASDAQ:DEER). NYGG led DEER to set the record for a Chinese company uplisting to NASDAQ's main board in 47 working days and then advised on DEER's second round financing on the NASDAQ in September, 2009 at a P/E ratio of **26x**, bringing the cumulative amount raised to $18 million. On December 10, 2009, NYGG help DEER to complete a third round financing at a P/E ratio of **40x**, on a funding amount of $76 million. **Since it went public in the US under the direction of NYGG, DEER has since completed financings amounting to $94 million in one year.** (Emphasis added)

Last year when I spoke to Wey claimed he had invested over $30 million in DEER. But recently Wey denies his investment and association with DEER. He removed the article and pictures from his Chinese website. He denies control or beneficial interest in shares held by his sister (Sarah Tianyi Wei, holder of 2.2 million shares, 6.3%, worth about $24 million) or Ming Lee, both who I confirmed work in NYGG's Beijing office.

The New York Post documented the involvement of Benjamin Wey in Bodisen Biotech (here). Herb Greenberg explained Benjamin Wey's suspension from the NASD (here). Bruce Marsh prepared a comprehensive summary of Benjamin Wey's history of litigation that can be downloaded (here). It is definitely worth checking out.

Why did DEER retain NYGG? In the article above, Wey answers this question when he points out that the $94 million NYGG raised for DEER was at multiples of **26x** to **40x** earnings. What a great deal for DEER! I am certain that no U.S. investor would ever willingly pay such a valuation for DEER. But, if I am correct that DEER is dramatically overstating its earnings, 26x-40x earnings may not be far off its real valuation.

8. Auditor Goldman Kurland & Mohidin, LLP (GKM) and Audit Committee Chairman Arnold Staloff serve several of the same New York Global clients

GKM historically audited several NYGG clients, including Bodisen Biotech (BBCZ, -95% from its high), Agfeed Industries (FEED, -90%), Smartheat (HEAT, -78%) and most recently Cleantech (CTEK.PK, already -52% from its high and delisted from NASDAQ on March 1, 2011 for a serious disclosure violation related to a December financing). Arnold Staloff, DEER's audit committee chairman, is also the audit committee chairman of FEED, HEAT, and CTEK. Investors should be very concerned when several collapsed companies share the same weak auditor, audit committee chairman and stock promoter.

DEER management has thus far refused to address any of the issues raised in this report, despite numerous attempts by myself and other investors to contact them. Most recently on their 2010 annual earnings release conference call, management only answered questions from the official research analysts covering the company, ignoring questions from myself and other investors in the queue. Investors should continue to demand a detailed response to the issues raised in this report.

Note: I am short DEER

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About the Author

Mr. Little has over 35 years investing experience having begun his career as an accountant at Deloitte. He spent 10 years in China, from 1994 to 2004, representing various foreign investors including Coke, P&G, and Budweiser as they established beachheads in the world's fastest growing economy. Today he lives in New York and Shanghai and spends his time researching Chinese and other high growth companies. Having built a very successful track record investing the last decade, he now shares all his investing ideas in his financial blog "Little Al's Big Emerging Market Picks". Mr. Little is also a leading contributor in the China sector on Seeking Alpha.

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