

CYCLE COUNTRY ACCESSORIES CORP

Form 10-Q

May 28, 2010

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QUARTERLY REPORT FOR CYCLE COUNTRY ACCESSORIES CORP.

**UNITED STATES**  
**SECURITIES AND EXCHANGE COMMISSION**

Washington, D.C. 20549

**FORM 10-Q**

(Mark one)

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

For the quarterly period ended December 31, 2009

OR

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

For the transition period from                      to

Commission file number: 001-31715

## Cycle Country Accessories Corp.

(Exact name of registrant as specified in its charter)

**Nevada**

(State or other jurisdiction of incorporation or organization)

**42-1523809**

(IRS Employer Identification No.)

**1701 38th Ave W, Spencer, Iowa 51301**

(Address of principal executive offices)

**P: (712) 262-4191**

**F: (712) 262-0248**

**www.cyclecountry.com**

(Registrant's telephone number, facsimile number, and Corporate Website)

Check whether the issuer (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act during the past 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  No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (Section 232.405 of this chapter) during the preceding 12 months (or such shorter period that the registrant was required to submit and post such files). 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 definition of "large accelerated filer" and "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act.

(Check one):

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Large accelerated filer

Accelerated filer

Non-accelerated filer

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

The number of shares of the registrant's common stock, par value \$0.0001 per share, outstanding as of May 26, 2010 was 5,876,891.

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Cycle Country Accessories Corp. and Subsidiaries

Condensed Consolidated Balance Sheet

	December 31, 2009 (Unaudited)	September 30, 2009
Assets		
Current Assets:		
Cash and cash equivalents	\$ 40,759	\$ 27,490
Accounts receivable, net	1,811,153	1,819,552
Inventories	3,361,185	3,588,880
Income taxes receivable	1,000,859	997,413
Deferred income taxes	198,000	448,000
Prepaid expenses and other	30,598	77,397
Total current assets	6,442,554	6,958,732
Property, plant, and equipment, net	10,644,215	10,803,308
Intangible assets, net	178,497	178,547
Other assets	38,394	40,388
Total assets	\$ 17,303,660	\$ 17,980,975
Liabilities and Stockholders Equity		
Current Liabilities:		
Disbursements in excess of bank balance	\$ 171,963	\$ 438,636
Accounts payable	364,348	562,689
Accrued expenses	586,901	747,044
Bank line of credit	1,035,078	1,030,000
Current portion of bank notes payable	875,460	863,160
Current portion of deferred gain	152,647	166,524
Total current liabilities	3,186,397	3,808,053
Long-Term Liabilities:		
Bank notes payable, less current portion	2,891,727	3,111,783
Deferred gain, less current portion		27,754
Deferred income taxes	2,100,000	2,142,000
Total long term liabilities	4,991,727	5,281,537
Total liabilities	8,178,124	9,089,590
Stockholders Equity:		
Common stock, \$.0001 par value; 100,000,000 shares authorized; 7,482,677 shares issued and 6,072,307 outstanding at December 31, 2009 and September 30, 2009	748	748
Additional paid-in capital	14,856,208	14,849,334
Accumulated deficit	(3,149,784)	(3,377,061)
Treasury stock, at cost, 1,410,730 shares	(2,581,636)	(2,581,636)
Total stockholders equity	9,125,536	8,891,385

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Total liabilities and stockholders' equity	\$	17,303,660	\$	17,980,975
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See accompanying notes to the condensed consolidated financial statements.

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Cycle Country Accessories Corp. and Subsidiaries

Condensed Consolidated Statements of Operations

	<b>Three Months Ended December 31,</b>	
	<b>2009</b>	<b>2008</b>
	<b>(Unaudited)</b>	<b>(Unaudited)</b>
<b>Revenues:</b>		
Net sales	\$ 4,128,681	\$ 4,309,053
Freight income	24,567	24,561
<b>Total revenues</b>	<b>4,153,248</b>	<b>4,333,614</b>
<b>Cost of goods sold</b>	<b>(2,895,712)</b>	<b>(2,917,578)</b>
<b>Gross profit</b>	<b>1,257,536</b>	<b>1,416,036</b>
<b>Selling, general, and administrative expenses</b>	<b>(891,995)</b>	<b>(883,982)</b>
<b>Fraud expense</b>		<b>(570,000)</b>
<b>Income (loss) from operations</b>	<b>365,541</b>	<b>(37,946)</b>
<b>Other Income (Expense):</b>		
Interest expense	(82,388)	(85,560)
Interest income	2	684
Gain on sale of assets	34,411	38,216
Miscellaneous	34,488	(25)
<b>Total other income (expense)</b>	<b>(13,487)</b>	<b>(46,685)</b>
<b>Income before provision for (benefit from) income taxes</b>	<b>352,054</b>	<b>(84,631)</b>
<b>Provision for (benefit from) income taxes</b>	<b>124,777</b>	<b>(90,737)</b>
<b>Net income</b>	<b>\$ 227,277</b>	<b>\$ 6,106</b>
<b>Weighted average shares of common stock outstanding:</b>		
Basic	6,072,307	6,023,065
Diluted	6,097,307	6,023,065
<b>Earnings per common share:</b>		
Basic	\$ 0.04	\$ 0.00
Diluted	\$ 0.04	\$ 0.00

See accompanying notes to the condensed consolidated financial statements.

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Cycle Country Accessories Corp. and Subsidiaries

Condensed Consolidated Statements of Cash Flows

	<b>Three Months Ended December 31,</b>	
	<b>2009</b>	<b>2008</b>
	<b>(Unaudited)</b>	<b>(Unaudited)</b>
<b>Cash Flows from Operating Activities:</b>		
Net income (loss)	\$ 227,277	\$ 6,106
Adjustments to reconcile net income (loss) to net cash provided by operating activities:		
Depreciation	203,099	205,235
Amortization	1,475	1,475
Inventory reserve		9,000
Share-based expense	6,874	38,500
Gain on sale of assets	(34,411)	(23,236)
Change in:		
Accounts receivable, net	8,399	411,270
Inventories	227,695	348,763
Taxes receivable	(3,446)	(5,961)
Prepaid expenses and other	46,799	116,241
Accounts payable	(198,341)	(397,249)
Deferred income taxes	250,000	(84,776)
Accrued expenses	(160,143)	(95,154)
Income taxes payable	(42,000)	
Other assets	1,994	
Accrued interest payable		(1,304)
<b>Net cash provided by operating activities</b>	<b>535,271</b>	<b>528,910</b>
<b>Cash Flows from Investing Activities:</b>		
Purchase of equipment	(51,725)	(59,343)
Purchase of intangible assets	(1,426)	(4,295)
Proceeds from sale of equipment	500	(7,000)
<b>Net cash used in investing activities</b>	<b>(52,651)</b>	<b>(70,638)</b>
<b>Cash Flows from Financing Activities:</b>		
Payments on bank notes payable	(207,756)	(196,338)
Disbursements in excess of bank balance	(266,673)	
Proceeds from (payments on) line of credit	5,078	(250,000)
<b>Net cash used in financing activities</b>	<b>(469,351)</b>	<b>(446,338)</b>
<b>Net change in cash and cash equivalents</b>	<b>13,269</b>	<b>11,934</b>
Cash and cash equivalents, beginning of period	27,490	194,576
<b>Cash and cash equivalents, end of period</b>	<b>\$ 40,759</b>	<b>\$ 206,510</b>

See accompanying notes to the condensed consolidated financial statements.



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Cycle Country Accessories Corp. and Subsidiaries

Condensed Consolidated Statements of Cash Flows

	<b>Three Months Ended December 31,</b>	
	<b>2009</b>	<b>2008</b>
	<b>(Unaudited)</b>	<b>(Unaudited)</b>
<b>Supplemental disclosures of cash flow information:</b>		
<b>Cash paid during the period for:</b>		
Interest	\$ 82,351	\$ 86,864
<b>Supplemental schedule of non-cash investing and financing activities:</b>		
Issuance of stock and Options for payment of CEO	\$	\$ 16,500
Issuance of common stock for payment of consultant fees	\$	\$ 22,500

See accompanying notes to the condensed consolidated financial statements.

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**1. Summary of Significant Accounting Policies:**

**Basis of Presentation** -The accompanying unaudited condensed consolidated financial statements for the three months ended December 31, 2009 and 2008 have been prepared in accordance with accounting principles generally accepted in the United States of America for interim financial information and pursuant to the rules and regulations of the Securities and Exchange Commission for Form 10-Q. Accordingly, they do not include all the information and footnotes required by accounting principles generally accepted in the United States of America for complete financial statements. It is the opinion of management that the accompanying unaudited condensed consolidated financial statements contain all adjustments, consisting only of normal recurring accruals, considered necessary for a fair presentation of the Company's financial position, results of operations, and cash flows for the periods presented.

The results of operations for the interim periods ended December 31, 2009 and 2008 are not necessarily indicative of the results to be expected for the full year. These interim condensed consolidated financial statements should be read in conjunction with the September 30, 2009 consolidated financial statements and related notes included in the Company's Annual Report on Forms 10-K for the year ended September 30, 2009.

**Reporting Entity and Principles of Consolidation** - Cycle Country Accessories Corp. ( Cycle Country ) a Nevada corporation, has a wholly-owned subsidiary, Cycle Country Accessories Corp. ( Cycle Country Iowa ), an Iowa Corporation, which in turn has a wholly-owned subsidiary, Cycle Country Accessories Subsidiary Corp ( Cycle Country Sub ), a Nevada Corporation. During the year ended September 30, 2004, the operations of Cycle Country Sub were merged into Cycle Country - Iowa, leaving a corporate shell that is a direct subsidiary of the Iowa subsidiary.

The entities are collectively referred to as the Company for these financial statements. All significant intercompany balances and transactions have been eliminated in consolidation.

**Nature of the Business** - The Company has four distinct divisions engaged in the design, manufacture, sale and distribution of products. Three of the divisions have branded, proprietary products, and the other is a contract manufacturing division. The largest division, Cycle Country ATV Accessories, designs, manufactures and sells a popular selection of branded accessories for vehicles in the powersports industry which are sold to various wholesale distributors and retail dealers throughout the United States of America, Canada, Mexico, South America, Europe, and Asia. Plazco manufactures, sells, and distributes injection-molded plastic products for vehicles such as golf cars, lawn mowers, and low-speed vehicles (LSVs). Perf-Form manufactures, sells, and distributes oil filters for the powersports industry, including ATVs, UTVs and Motorcycles. Additionally, Imdyne is engaged in the design, manufacture and assembly of an array of parts for original equipment manufacturers (OEMs) and other customers. The Company has offices in Minnetonka, MN and Spencer, IA, and has approximately 260,000 square feet of modern manufacturing facilities in Spencer and leased space in Milford, IA.

**Revenue Recognition** - The Company primarily ships products to its customers by third party carriers. The Company recognizes revenues from product sales when title and risk of loss to the products is passed to the customer, which occurs at the point of shipping.

Certain costs associated with the shipping and handling of products to customers are billed to the customer and included as freight income in the accompanying consolidated statements of operations. Sales were recorded net of sales discounts and allowances.



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Cost of Goods Sold - The components of cost of goods sold in the accompanying consolidated statements of operations include all direct materials and direct labor associated with the assembly and/or manufacturing of the Company's products.

Cash and Cash Equivalents - The Company considers all highly liquid investments with an original maturity of three months or less to be cash equivalents. The Company maintains its accounts primarily at one financial institution. At times throughout the year, the Company's cash and cash equivalent balances may exceed amounts insured by the Federal Deposit Insurance Company.

Accounts Receivable - Credit terms are generally extended to customers on a short-term basis. These receivables do not bear interest, although a finance charge may be applied to balances more than thirty days past due. Trade accounts receivable are carried on the books at their net realizable value. The Company performs ongoing credit evaluations of its customers to reduce credit risk.

Individual trade accounts receivable are periodically evaluated for collectability based on past credit history and their current financial condition. Trade accounts receivable are charged against the allowance for doubtful accounts when such receivables are deemed to be uncollectible. While the Company has a large customer base that is geographically dispersed, a slowdown in markets in which the Company operates may result in higher than expected uncollectible accounts, and therefore, the need to revise estimates for bad debts. To the extent historical experience is not indicative of future performance or other assumptions used by management do not prevail, the provision for uncollectible accounts could differ significantly, resulting in either higher or lower future provisions for uncollectible accounts. The allowance for doubtful accounts was \$15,000 at December 31, 2009 and 2008, respectively. It is at least reasonably possible that the Company's estimate will change in the future.

Inventories Inventory is stated at the lower of cost or market. Inventory consists of raw material, work in process, and finished goods.

Property, Plant, and Equipment - Property, Plant and Equipment is stated at cost. Depreciation is provided over the estimated useful lives of the assets by using the straight-line and accelerated methods. Long-lived assets, such as Property, Plant, and Equipment, are reviewed for possible impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Recoverability of assets to be held and used is measured by a comparison of the carrying amount of an asset to future net cash flows (undiscounted and without interest charges) expected to be generated by the asset. If these projected cash flows are less than the carrying amount, impairment is recognized to the extent that the carrying value exceeds its fair value. Fair value is determined through various valuation techniques, including discounted cash flow models, quoted market values and third party appraisals, as considered necessary. In accordance with ASC 360, the Company evaluated its long-lived assets using an undiscounted cash flow analysis. This analysis supported the carrying value of the long-lived assets and, therefore, no impairment was recorded. The Company's analysis uses significant estimates in its evaluation. It is reasonably possible that its estimates and assumptions could change in the near future, which could lead to further impairment of long-lived assets. The estimated useful lives are as follows:

Asset Description	Years
Land Improvements	15-20
Building	15-40
Plant Equipment	7-10
Tooling and Dies	3-7
Vehicles	3-7

Office Equipment

3-10

Maintenance and repairs are expensed as incurred; major improvements and betterments are capitalized. Construction in progress expenditures will be depreciated using the straight-line and accumulated method over their useful lives once the assets are placed into service.

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Investments - In 2000, the Company invested in Golden Rule (Bermuda) Ltd., a captive insurance company from which the Company purchased some of its insurance needs. The investment is not an investment of excess cash, but rather a mechanism to provide insurance. In 2009, the current management determined that the program is no longer providing sufficient benefits to warrant continued participation and therefore cancelled the insurance plan provided by Golden Rule. The Company is in the process of exiting this program during fiscal year 2010. This stock is recorded at cost, due to the Company having less than 20% ownership of Golden Rule (Bermuda) Ltd.

Warranty Costs - Estimated future costs related to product warranties are accrued as products are sold based on prior experience and known current events and are included in accrued expenses in the accompanying consolidated balance sheets. Accrued warranty costs have historically been sufficient to cover actual costs incurred.

Distributor Rebate Payable - In prior years, the Company has offered a quarterly rebate program for its North American ATV accessory distributors. The program rebate was paid quarterly to the applicable distributors as a credit against future purchases of the Company's products. The program rebate liability was calculated and recognized as ATV accessory products were purchased within a quarter and was included in accrued expenses in the accompanying consolidated balance sheets for fiscal years 2009 and 2008. This program was discontinued during the year ended September 30, 2009, and all expenses related to the program have been included in the accompanying consolidated financial statements.

Income Taxes - Income taxes are provided for the tax effects of transactions reported in the consolidated financial statements and consist of taxes currently due plus deferred taxes related primarily to differences between the basis for financial and income tax reporting. Deferred taxes also are recognized for operating losses that are available to offset future taxable income and tax credits that are available to offset future income taxes payable.

On October 1, 2008, the Company adopted newly issued authoritative guidance which clarified requirements for accounting for income taxes relating to the recognition of income tax benefits and liabilities. The guidance provides a two-step approach to recognizing and measuring tax benefits and liabilities when realization of the tax position is uncertain. The first step is to determine whether the tax positions meet the more-likely-than-not condition for recognition and the second step is to determine the amount to be recognized based on the cumulative probability that exceeds 50%.

The Company adopted the guidance, which requires that the Company recognize in its consolidated financial statements only those tax positions that are more-likely-than-not of being sustained upon examination by taxing authorities, based on the technical merits of the position. As a result of the implementation, the Company performed a comprehensive review of its material tax positions in accordance with recognition and measurement standards.

The Company files income tax returns in the U.S. federal jurisdiction and various state jurisdictions. With a few exceptions, the Company is no longer subject to U.S. federal, state, or local income tax examinations by tax authorities for years before 2006. The Company's policy is to recognize interest and penalties related to uncertain tax benefits in income tax expense. The Company has no significant accrued interest or penalties related to uncertain tax positions as of October 1, 2008 or December 31, 2009 and such uncertain tax positions as of each reporting date are insignificant.

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Earnings (Loss) Per Share - Basic earnings (loss) per share ( EPS ) is calculated by dividing net income (loss) by the weighted-average number of shares outstanding during the period. Diluted EPS is computed in a manner consistent with that of basic EPS while giving effect to the potential dilution that could occur if stock options or other share-based awards were exercised, by dividing net income (loss) by the weighted average number of shares and share equivalents during the period. See note 4 below for more detail.

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Legal - The Company is subject to legal proceedings and claims which arise in the ordinary course of its business. While the ultimate outcome of these matters is not presently determinable, it is in the opinion of management that the resolution of outstanding claims will not have a material adverse effect on the financial position or results of operations of the Company. Due to the uncertainties in the settlement process, it is at least reasonably possible that management's view of outcomes will change in the near term.

Advertising - Advertising consists primarily of trade magazine advertisements, product brochures and catalogs, and trade shows. Advertising expense totaled approximately \$33,000 and \$16,000 in the three month period ended December 31, 2009 and 2008, respectively, and is included in selling, general, and administrative expenses in the accompanying consolidated statements of operations.

Research and Development Costs - Research and development costs are expensed as incurred. Research and development costs totaled approximately \$86,000 and \$106,000 in the three month period ended December 31, 2009 and 2008, respectively, and is included in selling, general & administrative expenses and cost of goods sold in the accompanying consolidated statements of operations.

Shipping and Handling Costs - Shipping and handling costs represent costs associated with shipping products to customers and handling finished goods. Shipping and handling costs totaled approximately \$68,000 and \$53,000 in the three month period ended December 31, 2009 and 2008, respectively, and are included in selling, general, and administrative expenses and cost of goods sold in the accompanying consolidated statements of operations.

Use of Estimates - The preparation of consolidated financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, and operating results, the disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses. Significant items subject to such estimates include the useful lives and assumptions used in the impairment analysis of property, plant, and equipment; valuation of intangible assets; allowance for doubtful accounts; and allowance for inventory reserves. Actual results could differ significantly from those estimates.

Fair Value of Financial Instruments - On October 1, 2008, the Company adopted FASB ASC 820 - Fair Value Measurements - which defines fair value, outlines a framework for measuring fair value (although it does not expand the required use of fair value) and details the required disclosures about fair value measurements. At the present time, the Company does not have any financial or nonfinancial assets or liabilities that would require fair value recognition or disclosures under ASC 820.

The carrying value of cash and cash equivalents, accounts receivable, prepaid expenses, accounts payable, accrued liabilities and debt approximates fair value. The Company estimates that the fair value of all financial instruments at December 31, 2009 approximates their carrying values in the accompanying balance sheet. The estimated fair value amounts have been determined by the Company using appropriate valuation methodologies.

Recently Adopted Accounting Pronouncements - In June 2009, the FASB issued Topic 105 - Generally Accepted Accounting Principles (GAAP) Amendments Based on Statement of Financial Accounting Standards Number 168 - the FASB Accounting Standards Codification and the Hierarchy of Generally Accepted Accounting Principles (Accounting Standards Update (ASU Number 2009 - 01)). The topic modifies the GAAP hierarchy by establishing only two levels of GAAP, authoritative and non-authoritative accounting literature. Effective July 2009, the

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FASB Accounting Standards Codification ( ASC ), also known collectively as the Codification , is considered the single source of authoritative U.S. accounting and reporting standards, except for additional authoritative rules and interpretive releases issued by the SEC. Non-authoritative guidance and literature would include, among other things, FASB Concepts Statements, American Institute of Certified Public Accountants Issue Papers and Technical Practice Aids and accounting textbooks. The Codification was developed to organize the GAAP pronouncements by topic so that users can more easily access authoritative accounting guidance. It is organized by topic, sub topic, section, and paragraph, each of which is identified by a numerical designation. All

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accounting references have been updated, and therefore SFAS references have been replaced with ASC references where applicable. The Company adopted the provisions of the authoritative accounting guidance for the reporting period ended September 30, 2009, the adoption of which did not have a material effect on the Company's financial statements.

Reclassifications - The classifications of certain items in the 2009 consolidated balance sheet, consolidated statement of operations and consolidated statements of cash flows have been changed to conform to the classifications used in fiscal year 2010. These reclassifications had no effect on net income (loss) or retained earnings (deficit) as previously reported.

**2. Misappropriation of Funds**

The Company previously reported the acquisition by the Company of 747,250 shares of its own stock at an average cost of \$0.72 per share price for a total cost of \$570,000 in cash during the first fiscal quarter ending December 31, 2008 (the Stock Buyback) of fiscal 2009. In the process of completing the audit of its consolidated financial statements for the fiscal year ended September 30, 2009, the Company was unable to obtain satisfactory documentation confirming the Stock Buyback.

Mr. L.G. (Bob) Hancher, Jr. the then-Chairman of the Company's Board of Directors and Audit Committee had recommended the Stock Buyback and had undertaken to complete it on the Company's behalf. Mr. Hancher had previously reported to the Company and its auditors that he had completed the Stock Buyback on the terms disclosed in the Company's filings.

In the process of investigating matters relating to the Stock Buyback, a number of irregularities surrounding the purported transactions surfaced. In response to ongoing inquiries from management for appropriate documentation on the use of \$570,000 in cash provided by the Company to complete the Stock Buyback, on January 6, 2010, the Company received a letter from Mr. Hancher that stated \$400,000 of the funds advanced to him by the Company were not used to purchase shares of Company stock.

The Company continues to work to recover all of the amounts misappropriated, but any such recoveries will impact subsequent periods and will be reported for the periods in which such recoveries occur. Since the period covered by this report, the Company has recovered 195,416 shares of Company stock, which will be reflected in its report on Form 10-Q for its second fiscal quarter of 2010.

The funds reported as used for the Stock Buyback have been re-characterized as fraud expense in the affected periods. Also, as a result of the misappropriation, the number of outstanding shares was incorrectly reported in each of the Company's quarterly reports on Form 10-Q for fiscal 2009 which have been amended, and the information in this report reflects the corrected information.

In addition, during the quarter ended March 31, 2009, as part of this purported Stock Buyback transaction, Mr. Hancher directed the Company to pay \$50,000 to a consulting brokerage firm. These funds were originally recorded as a pre-paid expense, and were to be used to pay future legal and other advisory costs. As a result of the Company's investigation of this entire matter, management has adjusted the \$50,000 in prepaid expenses to fraud expense.

Furthermore, the Company has reclassified some stock-based compensation to its outside directors reported in prior periods. Mr. Hancher was responsible for issuing stock-based compensation to the other directors in accordance with the Company's approved plan. However, as part of the investigation, it was discovered that some of the shares that Mr. Hancher was to issue were not in fact issued.

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The major components of inventories, as of December 31 and September 30, 2009 are as follows:

	<b>December 31, 2009</b>		<b>September 30, 2009</b>	
Raw materials	\$	1,387,896	\$	1,522,838
Work in progress		120,220		160,160
Finished goods		2,003,069		2,055,882
Inventory reserve		(150,000)		(150,000)
Total inventories	\$	3,361,185	\$	3,588,880

Inventories are stated at the lower of cost or market using the weighted average cost method. Inventory consists of raw materials, work in process, and finished goods. Management has evaluated the Company's inventory reserve based on historical experience and current economic conditions and determined that an inventory reserve of approximately \$150,000 at December 31, 2009 and September 30, 2009 was appropriate. It is reasonably possible the inventory reserve will change in the near future.

**4. Earnings (Loss) Per Share:**

Basic earnings (loss) per share is computed by dividing net income (loss) by the weighted average number of shares outstanding during the period. Diluted earnings (loss) per share is computed by dividing net income (loss) by the weighted average number of shares and share equivalents outstanding during the period. For the three months ended December 31, 2009, the Company had 25,000 share equivalents outstanding related to outstanding share-based awards. As of December 31, 2008, the Company had no share equivalents outstanding. For the three months ended December 31, 2009 the effects of the share-based awards were used in the computation of diluted shares outstanding.

The Company's 40,000 outstanding warrants and 500,000 employee common stock options at December 31, 2009 and 2008 are not considered common stock equivalents as the exercise price is significantly greater than the average market value during both reporting periods.

The following is a reconciliation of the numerators and denominators of the basic and diluted EPS computations:

	<b>For the Three Months Ended December 31, 2009</b>		
	<b>Income(Loss) (numerator)</b>	<b>Shares (denominator)</b>	<b>Per-share amount</b>
Basic EPS			
Income available to common stockholders	\$ 227,277	6,072,307	\$ 0.04

Diluted EPS

Income available to common

stockholders	\$	227,277	6,097,307	\$	0.04
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**For the Three Months Ended  
December 31, 2008**

	<b>Income(Loss) (numerator)</b>	<b>Shares (denominator)</b>	<b>Per-share amount</b>
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Basic EPS

Income available to common

stockholders	\$	6,106	6,023,065	\$	0.00
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Diluted EPS

Income available to common

stockholders	\$	6,106	6,023,065	\$	0.00
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**5. Segment Information:**

Segment information has been presented on a basis consistent with how business activities are reported internally to management. Management solely evaluates the operating profit of each segment by using the direct costs of manufacturing its products without an allocation of indirect costs. In determining the total revenues by segment, freight income and sales discounts are not allocated to each of the segments for internal reporting purposes.

The Company has four operating segments that assemble, manufacture, or sell a variety of products.

Effective April 1, 2009, the Company changed its financial segment reporting to reflect management and organizational changes made by the Company. Periods prior to April 1, 2009 have been restated to reflect the basis of segmentation presented below. Effective April 1, 2009, each operating segment is separately managed and has separate financial information evaluated regularly by the Company's Chief Executive Officer and Interim Chief Financial Officer in determining resource allocation and assessing performance.

The Company's financial reporting segments consolidated two previously reported segments into one, while also segregating a small product line into a new segment for better clarification and reporting.

Cycle Country ATV Accessories was created by consolidating the former ATV Accessories and Weekend Warrior segments, while at the same time removing our oil filter product line from the ATV accessories segment and creating the Perf-Form segment.

Our Plastic Wheel Cover segment was renamed Plazco, with no change to the data in that segment.

We have similarly renamed our Contract Manufacturing segment which is now called Imdyne, again with no change to the data in that segment.

The significant accounting policies of the operating segments are the same as those described in Note 1 to the consolidated financial statements of the Company's annual report on Form 10-K for the fiscal year ended September 30, 2009.

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The following is a summary of certain financial information related to the four segments during the three months ended December 31, 2009 and 2008:

CYCLE COUNTRY ATV ACCESSORIES - Three Months Ended December 31, 2009 and 2008 (Unaudited):

	Three Months Ended December 31,		Increase (Decrease)	
	2009	2008	\$	%
Revenue	\$ 3,626,972	\$ 4,135,777	\$ (508,805)	(12.30)%
Cost of goods sold	1,558,388	1,898,925	(340,537)	(17.93)%
Gross profit	2,068,584	2,236,852	(168,268)	(7.52)%
Gross profit %	57.03%	54.09%		

PLAZCO - Three Months Ended December 31, 2009 and 2008 (Unaudited):

	Three Months Ended December 31,		Increase (Decrease)	
	2009	2008	\$	%
Revenue	\$ 77,890	\$ 109,117	\$ (31,227)	(28.62)%
Cost of goods sold	35,979	44,162	(8,183)	(18.53)%
Gross profit	41,911	64,955	(23,044)	(35.48)%
Gross profit %	53.81%	59.53%		

PERF-FORM - Three Months Ended December 31, 2009 and 2008 (Unaudited):

	Three Months Ended December 31,		Increase (Decrease)	
	2009	2008	\$	%
Revenue	\$ 22,184	\$ 32,514	\$ (10,330)	(31.77)%
Cost of goods sold	12,670	14,604	(1,934)	(13.24)%
Gross profit	9,514	17,910	(8,396)	(46.88)%
Gross profit %	42.89%	55.08%		

IMDYNE - Three Months Ended December 31, 2009 and 2008 (Unaudited):

	Three Months Ended December 31,		Increase (Decrease)	
	2009	2008	\$	%

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Revenue	\$	778,681	\$	296,599	\$	482,082	162.54%
Cost of goods sold		508,420		192,613		315,807	163.96%
Gross profit		270,261		103,986		166,275	159.90%
Gross profit %		34.71%		35.06%			

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## GEOGRAPHIC REVENUE

The following is a summary of the Company's revenue in different geographic areas during the three months ended December 31, 2009 and 2008:

## GEOGRAPHIC REVENUE - Three Months Ended December 31, 2009 and 2008 (Unaudited)

Country	Three Months Ended December 31, 2009	Three Months Ended December 31, 2008	Increase (Decrease) \$	Increase (Decrease) %
United States	\$ 3,908,481	\$ 3,887,605	\$ 20,876	0.54%
All Other Countries	244,767	446,009	(201,242)	(45.12)%

As of December 31, 2009, all of the Company's long-lived assets are located in the United States of America.

In the three months ended December 31, 2009 and 2008, two of Cycle Country ATV Accessories' major customers exceeded 10% of net sales and represented approximately 39% and 40% of the total sales, respectively.

Plazco, Perf-Form, and Imdyne did not have sales to any individual customer greater than 10% of net revenues during the three months ended December 31, 2009 or 2008.

**6. Stock Based Compensation:**

The Company accounts for share-based payments using the related accounting guidance, which requires share-based payment transactions to be accounted for using a fair value based method and the recognition of the related expense in the results of operations.

The Company's Employment Agreement with its chief executive officer, Jeffrey M. Tetzlaff, provides for the grant of 50,000 shares of stock in the Company, vesting over a three year period. At the end of the first and second full year of employment, the chief executive officer becomes vested in and receives 16,666 shares of stock each year. At the completion of the chief executive officer's third full year of employment, he shall become vested in and receive the final 16,668 shares of stock. For the three months ended December 31, 2009, \$6,875 was recognized as compensation expense. Total compensation expense recognized during the three month period ended December 31, 2008 was \$6,600. As of December 31, 2008, there was \$61,875 of total unrecognized compensation cost related to the non-vested share-based compensation arrangement under the plan. The cost is expected to be recognized over a three year period. As of December 31, 2009, there was \$48,125 of total unrecognized compensation cost related to the non-vested share-based compensation arrangement under the plan. The cost is expected to be

recognized over a three year period.

Under the Employment Agreement, Mr. Tetzlaff also received an option to purchase up to an additional 500,000 shares of the Company's common stock. The exercise price is the closing price on April 8, 2008, which was \$1.68 per share. This option may be exercised at any time during the first 3 years of employment, and this option may be exercised in full or in part. Any portion of this option that has not been exercised on April 7, 2011 will lapse and no longer be an obligation of the Corporation.

Share-based compensation cost is estimated at the grant date based on the fair value of the award and compensation cost is recognized as an expense over the vesting period in the condensed consolidated financial statements. The Company uses the Black-Scholes valuation model to estimate the fair value of option awards. Determining the appropriate fair value model and related assumptions requires judgment, including estimating stock price volatility, expected terms, risk-free rate, and fair value of common stock at the grant date.

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The following table lists stock option activity for the three-month period ended December 31, 2009:

	Options	Price	Extended Value	Intrinsic Value	Weighted Average Remaining Contract Term
Outstanding at September 30, 2009	500,000	1.68	840,000	\$	1.52
Granted		\$	\$		
Exercised		\$	\$		
Canceled		\$	\$		
Outstanding at December 31, 2009	500,000	\$ 1.68	\$ 840,000	\$	1.27
Options vested and exercisable at December 31, 2009	500,000	\$	\$ 840,000		

**Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations****Executive-Level Overview**

This discussion relates to Cycle Country Accessories Corp. and its consolidated subsidiaries (the Company) and should be read in conjunction with our consolidated financial statements as of September 30, 2009, and the year then ended, and Management's Discussion and Analysis of Financial Condition and Results of Operations, both contained in our Annual Report on Form 10-K for the fiscal year ended September 30, 2009.

We intend for this discussion to provide the reader with information that will assist in understanding our condensed consolidated financial statements, the changes in certain key items in those condensed consolidated financial statements from period to period, and the primary factors that accounted for those changes, as well as how certain accounting principles affect our financial statements. The discussion also provides information about the financial results of the various segments of our business to provide a better understanding of how those segments and their results affect the condensed consolidated financial condition and results of operations of the Company as a whole. To the extent that our analysis contains statements that are not of a historical nature, these statements are forward-looking statements, which involve risks and uncertainties. See Special Note Regarding Forward-Looking Statements included elsewhere in this filing.

Net income for the three months ended December 31, 2009 was \$227,277, or \$0.04 per share on a diluted basis compared to \$6,106 for the three months ended December 31, 2008 or \$0.00 per share on a diluted basis. The difference in net income of approximately \$221,000 is due, primarily, to the recognition of fraud expense for the three months ended December 31, 2008 of \$570,000. This impact is offset by a slight decrease in gross profit of approximately \$158,000. As noted elsewhere in this document, we continue to encounter economic challenges but are implementing increased efficiencies in purchasing, processing, and shipping to improve profit margins.



Table of Contents**Overview for the Three Months Ended December 31, 2009 and 2008 (Unaudited)**

	Three Months Ended December 31,			
	2009 (Unaudited)		2008 (Unaudited)	
	\$	%	\$	%
Total revenue	4,153,248	100.00%	4,333,614	100.00%
Cost of goods sold	(2,895,712)	(69.72)%	(2,917,578)	(67.32)%
<b>Gross profit</b>	<b>1,257,536</b>	<b>30.28%</b>	<b>1,416,036</b>	<b>32.68%</b>
Selling, general, and administrative expenses	(891,995)	(21.48)%	(883,982)	(20.40)%
Fraud expense and collections		0.00%	(570,000)	(13.15)%
Income (loss) from operations	365,541	8.80%	(37,946)	(0.87)%
Other income (expense)	(13,487)	(0.32)%	(46,685)	(1.08)%
<b>Net income (loss) before tax</b>	<b>352,054</b>	<b>8.48%</b>	<b>(84,631)</b>	<b>(1.95)%</b>
Income tax expense (benefit)	124,777	3.00%	(90,737)	(2.09)%
<b>Net Income</b>	<b>227,277</b>	<b>5.48%</b>	<b>6,106</b>	<b>0.14%</b>

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	Three Months Ended December 31		Increase (Decrease)	Increase (Decrease)
	2009	2008	\$	%
<b>Total Revenue by Segment</b>				
CCAC ATV	\$ 3,626,972	\$ 4,135,777	\$ (508,805)	(12.3)%
Plazco	77,890	109,117	(31,227)	(28.6)%
Perf-Form	22,184	32,514	(10,330)	(31.8)%
Imdyne	778,681	296,599	482,082	162.5%
<b>Total Revenue by Segment</b>	<b>4,505,727</b>	<b>4,574,007</b>	<b>(68,280)</b>	<b>(1.5)%</b>
Freight Income	24,567	24,561	6	0.0%
Sales Discounts & Allowances	(377,046)	(264,954)	(112,092)	42.3%
<b>Total Combined Revenue</b>	<b>4,153,248</b>	<b>4,333,614</b>	<b>(180,366)</b>	<b>(4.2)%</b>
<b>Operating profit by Segment</b>				
CCAC ATV	2,068,584	2,236,852	(168,268)	(7.5)%
Plazco	41,911	64,955	(23,044)	(35.5)%
Perf-Form	9,514	17,910	(8,396)	(46.9)%
Imdyne	270,261	103,986	166,275	159.9%
<b>Total Profit By Segment</b>	<b>2,390,270</b>	<b>2,423,703</b>	<b>(33,433)</b>	<b>(1.4)%</b>
Freight Income	24,567	24,561	6	0.0%
Sales Disc. & Allow.	(377,046)	(264,954)	(112,092)	42.3%
Factory Overhead	(780,255)	(767,274)	(12,981)	1.7%
<b>Gross Profit</b>	<b>1,257,536</b>	<b>1,416,036</b>	<b>(158,500)</b>	<b>(11.2)%</b>
Sales, Gen. & Admin.	(891,995)	(883,982)	(8,013)	0.9%
Fraud Expense		(570,000)	570,000	(100.0)%
Interest Income/Exp.	(82,386)	(84,876)	2,490	(2.9)%
Other Inc/Exp, Net	68,899	38,191	30,708	80.4%
Income Tax (Expense) Benefit	(124,777)	90,737	(215,514)	(237.5)%
<b>Net Income</b>	<b>\$ 227,277</b>	<b>\$ 6,106</b>	<b>\$ 221,171</b>	<b>3,622.4%</b>

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The economic environment is showing signs of improvement but continues to be a challenge. The Company remains and has remained focused on strategy and working hard to execute its business plans. The changes we have implemented in response to those challenges have taken time to show their effect. The internal reorganization and cost-cutting initiatives started by the new management team continue and have substantially reduced our overhead and breakeven point. The Company is positioned to weather the current economic environment and to take advantage of any improvements, although the timing and consistency of the recovery remains unpredictable. Our new product initiatives are providing us with new products that we anticipate enhancing our competitive position as the dominant player in the power sports accessories market.

Looking ahead to the balance of fiscal 2010, management is cautiously projecting a slight rebound in revenues and margins as new products and effective marketing initiatives continue to be the focus of management and the entire Company. The Company anticipates gross profit margins will be within the range of 20% to 25% of revenue.

Management has, and will continue to seek out and implement production efficiencies and cost reduction initiatives wherever possible. We project selling, general and administrative expenses during the remainder of fiscal 2010 to be 25-30% of total revenue as we continue our focus on cost reduction initiatives, launching new products and maximizing internal efficiencies, all while maintaining a responsive level of customer and administrative support.

**Critical Accounting Policies and Estimates**

The Company's discussion and analysis of its financial condition and results of operations are based upon its condensed consolidated financial statements, which have been prepared in accordance with accounting principles generally accepted in the United States of America. The preparation of these financial statements requires the Company to make estimates and judgments that affect the reported amounts of assets, liabilities, revenues and expenses, and related disclosure of contingent assets and liabilities. On an on-going basis, the Company evaluates the estimates including those related to bad debts and inventories. The Company considers its most sensitive estimates to include the useful lives and assumptions used in the impairment analysis of property, plant, and equipment, valuation of intangible assets, allowance for doubtful accounts, and allowance for inventory reserves. The Company bases its estimates on historical experiences and on various other assumptions that are believed 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.

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**OVERALL RESULTS OF OPERATIONS**

**Revenue**

Revenues for the three months ended December 31, 2009 declined 4% compared to revenues for the three months ended December 31, 2008. The second and third fiscal quarters are typically our seasonally slowest periods.

With the decline in the general economy, our distributors and dealers have continued to reduce their level of inventory during this seasonally slow sales period, pushing the carrying of inventory on to us. Sales of all discretionary consumer products have fallen off hard this past year. Since our products are discretionary purchases, we have experienced a similar decline in sales. The economy is showing hopeful signs as evidenced by the increase in first quarter 2010 sales versus fourth quarter 2009.

**Cost of Goods Sold**

Cost of goods sold as a percentage of total revenue increased to 69.72% for the three months ended December 31, 2009 as compared to 67.32% for the three months ended December 31, 2008. The gross profit margin for our largest segment, ATV improved with increased efficiencies in both purchasing and production. We saw decreases in the gross profits for the other three segments as we continue to strive for improvement in efficiencies in production and purchasing in those segments.

**Expenses**

Our selling, general and administrative expenses remained relatively constant quarter over quarter and were \$891,995 and \$883,983 for the three months ended December 31, 2009 and 2008, respectively. As a percentage of revenue, sales, general and administrative expenses were 21.48% for the three months ended December 31, 2009 and 20.40% for the three months ended December 31, 2008.

The significant changes in operating expenses for the three months ended December 31, 2009 as compared to the three months ended December 31, 2008 were:

Decreases:

- Expenses related to investor relations decreased approximately \$40,000.

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- Insurance expense, specifically as it pertains to workers' compensation insurance, decreased from \$42,000 for the 1st quarter of fiscal 2009 to \$4,000 for the first quarter of fiscal 2010 due to new policies put into place.

Increases:

- Salaries and wages increased approximately \$31,000 for the quarter ended December 31, 2009 as compared to the quarter ended December 31, 2008.
- Advertising and promotions increased approximately \$18,000 as the Company implemented new marketing programs.
- Expenses related to travel and meals increased \$19,000.

### **Fraud Expense**

For the fiscal quarter ended December 31, 2008, the Company recognized \$570,000 of fraud expenses in relation to the misappropriation of funds further described in Note 2 to the condensed consolidated financial statements.

### **BUSINESS SEGMENTS**

As more fully described above in Note 5 to the condensed consolidated financial statements included elsewhere in this filing, the Company operates four reportable business segments.

Cycle Country ATV Accessories is vertically integrated and utilizes a two-step distribution method. We are vertically integrated in our Plazco segment and utilize both direct and two-step distribution methods. Perf-Form utilizes both direct and two-step distribution methods, and our Contract Manufacturing segment deals directly with other original equipment manufacturers (OEMs) and businesses in various industries.

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Revenues for our Cycle Country ATV Accessories segment for the three months ended December 31, 2009 decreased 12.3% as compared to the three months ended December 31, 2008 due to continued declines in the general economic conditions. However, for the same periods, gross profit margins increased to 57.0% of revenues from 54.1% of revenues due to the beginning of realization of efficiencies in purchasing, processing, and shipping.

The decrease in Plazco's revenues can be attributed to a decrease in sales to OEMs. Just as the ATV Accessory market is down across the industry, so too is the golf and the lawn & garden accessory sector. Management is also pursuing and evaluating new markets that our plastics division can produce parts for to further broaden and grow this business segments revenue.

The decrease in Perf-Form revenue was a result of supply chain challenges. The Company continues to improve relationships and to implement procedures and processes to improve this segment's profitability.

The increase in Imdyne's revenue was due to an increase in business with current customers. Prior period revenues had dropped as customers utilized inventory on hand as opposed to ordering new product. As the economy continued to tighten, many of our contract manufacturing customers' demand dropped off substantially. Demand has begun to rebound and we are starting to see new orders in this segment.

**Liquidity and Capital Resources**

**Overview**

Cash flows provided by operating activities of continuing operations and borrowings under our bank line of credit provided us with a significant source of liquidity during the first quarter of 2010 ended December 31, 2009.

Cash and cash equivalents were \$40,759 as of December 31, 2009, compared to \$27,490 as of September 30, 2009. Until required for operations, our policy is to invest any excess cash reserves in bank deposits, money market funds, and certificates of deposit after first repaying any built up balance on our bank line of credit.

**Working Capital**

Net working capital was \$3,256,157 at December 31, 2009, compared to \$3,150,679 at September 30, 2009.



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Cycle Country Accessories Corp. and Subsidiaries

Liquidity and Capital Resources

	Balance 12/31/09 (Unaudited)	Balance 09/30/09	Increase/ (Decrease)	Percent Change
Cash and cash equivalents	\$ 40,759	27,490	13,269	48.3%
Accounts receivable	1,811,153	1,819,552	(8,399)	(0.5)%
Inventories	3,361,185	3,588,880	(227,695)	(6.3)%
Income taxes receivable	1,000,859	997,413	3,446	0.3%
Prepaid expenses	30,598	77,397	(46,799)	(60.5)%
Deferred income tax	198,000	448,000	(250,000)	(55.8)%
	6,442,554	6,958,732	(516,178)	
Disbursement in excess of bank balance	171,963	438,636	(266,673)	(60.8)%
Accounts payable	364,348	562,689	(198,341)	(35.2)%
Accrued expenses	586,901	747,044	(160,143)	(21.4)%
Bank line of credit	1,035,078	1,030,000	5,078	0.5%
Current portion of bank notes payable	875,460	863,160	12,300	1.4%
Current portion of deferred gain	152,647	166,524	(13,877)	(8.3)%
	3,186,397	3,808,053	(621,656)	
	3,256,157	3,150,679	105,478	

Long-Term Debt

Term loan balances at December 31 and September 30, 2009 are as follows:

	December 31, 2009	September 30, 2009
Note 1 to commercial lender payable in equal monthly installments of \$42,049 including interest at 6.125%. The note matures April, 2011 and is secured by all Company assets.	\$ 640,401	\$ 755,094
Note 2 to commercial lender payable in equal monthly installments of \$33,449 including interest fixed at 6.125% until April 2011. Beginning April, 2011, the interest rate is reset every 60 months at 0.50% over prime not to exceed 10.5% or be less than 5.5%. The note matures in April, 2018 and is secured by all Company assets.	2,602,576	2,660,690
Note 3 to commercial lender payable in equal monthly installments of \$14,567 including interest at 6.125% until maturity of April, 2013 secured by specific equipment acquired.	524,210	559,159
Total	3,767,187	3,974,943
Less current maturities	(875,460)	(863,160)
Net	\$ 2,891,727	\$ 3,111,783

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Prime rate was 3.25% at December 31, 2009 and September 30, 2009.

The notes referred to in the table above contain conditions and covenants that prevent or restrict the Company from engaging in certain transactions without the consent of the commercial lender and require the Company to maintain certain financial ratios, including term debt coverage and maximum leverage. In addition, the Company is required to maintain a minimum working capital and shall not declare or pay any dividends or make any other distributions without the consent of the lender. Additionally, any

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proceeds from the sale of stock received from the exercise of warrants are to be applied to any outstanding balance on the Notes or the line of credit described below.

As of December 31, 2009, the Company failed to meet one of its debt covenants with its lender. Though the Company fell below the covenant for term debt coverage, the Company has received a waiver from its lender for this technical violation.

Lines of Credit

The Company has a line of credit for the lesser of \$1,000,000 or 80% of eligible accounts receivable and 35% of eligible inventory. This Line of Credit One bears interest at prime plus 0.50% not to exceed 10.5% or be less than 5.5%. As of December 31, 2009 and September 30, 2009, the rate was 5.5% and the line is collateralized by all of the Company's assets. The balance due on this Line of Credit One was \$1,000,000 at December 31 and September 30, 2009. Line of Credit One matured on December 31, 2009, but has been extended by the lender until June 1, 2010.

On September 30, 2009, the Company and its commercial lender entered into an additional secured credit agreement, Line of Credit Two dated September 30, 2009, as a temporary expansion of our credit facility while the Company and its lender completed a refinancing of its credit facilities. Under the terms of this new secured credit agreement, the Company had additional line of credit for the lesser of \$550,000 or 80% of eligible accounts receivable and 35% of eligible inventory. Line of Credit Two bears interest at 6.5%. The balance due on Line of Credit Two was \$35,078 and \$30,000 at December 31 and September 30, 2009, respectively. Line of Credit Two matures on February 1, 2010.

Line of Credit One and Line of Credit Two contain conditions and covenants that prevent or restrict the Company from engaging in certain transactions without the consent of the commercial lender and require the Company to maintain certain financial ratios, including term debt coverage and maximum leverage. In addition, the Company is required to maintain a minimum working capital and shall not declare or pay any dividends or any other distributions without the consent of the lender.

Warrants

The Company has previously issued warrants outstanding to purchase 40,000 shares of the Company's common stock at \$4.00 per share, which expire June 9, 2010. For the three months ended December 31, 2009, none of the 40,000 warrants were exercised. The proceeds, if exercised, are required to be applied to the outstanding balance on the Notes.

Capital Resources

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Consistent with normal practice, management believes that the Company's operations are not expected to require significant capital expenditures during fiscal year 2010. Management believes that existing cash balances, cash flow to be generated from operating activities, receipt of income taxes receivable, and available borrowing capacity under its line of credit agreement will be sufficient to fund normal operations and capital expenditure requirements, non-inclusive of any major capital investment that may be considered, for at least the next three months. At this time management is not aware of any factors that would have a materially adverse impact on cash flow during this period.

### **ITEM 4T. CONTROLS AND PROCEDURES.**

Our management, with the participation of our Chief Executive Officer and Interim Chief Financial Officer, has evaluated the effectiveness of our disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended (the Exchange Act)) as of the end of the period covered by this report. Based on that evaluation, our Chief Executive Officer and Interim Chief Financial Officer have concluded that, as of the end of such period, our disclosure controls and procedures were not effective because of the deficiencies discussed below.

There were adjustments to our financial statements and other factors during the period covered by this report which impacted our closing process and delayed the preparation of our consolidated financial statements, including all required disclosures, in a timely manner. The adjustments to our original trial balance impacted a number of balance sheet and income accounts. These deficiencies indicated that our disclosure controls were not effective. In addition, as reported in our September 30, 2009 Form 10-K, the Company disclosed a material weakness related to its internal control over financial reporting as discussed below

### **CHANGES IN INTERNAL CONTROLS OVER FINANCIAL REPORTING**

We are in the process of upgrading our systems, implementing additional financial and management controls, and reporting systems and procedures. We are currently undergoing a comprehensive effort in preparation for compliance with Section 404 of the Sarbanes-Oxley Act of 2002. This effort, under the direction of senior management, includes documentation, and testing of our general computer controls and business processes. We are currently in the process of formalizing an internal audit plan that includes performing a risk assessment, establishing a reporting methodology and testing internal controls and procedures over financial reporting.

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In connection with the material weakness described above, our auditors recommended that we continue to create and refine a structure in which critical accounting policies and estimates are identified, and together with other complex areas, are subject to multiple reviews by accounting personnel. Our auditors further recommended that we enhance and test our period-end financial close process.

Except as described above, there has been no change in our internal control over financial reporting (as defined in Rule 13a-15(f) under the Exchange Act) that occurred in the fiscal quarter ended March 31, 2010 that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

**Part II - Other Information**

**Item 1. Legal Proceedings**

**None**

**Item 6. Exhibits**

(31.1) Certification of Principal Executive Officer pursuant to Rule 13a-14 or 15d-14 of the Securities Exchange Act of 1934, as adopted pursuant to section 302 of the Sarbanes-Oxley Act of 2002.

(31.2) Certification of Interim Chief Financial Officer pursuant to Rule 13a-14 or 15d-14 of the Securities Exchange Act of 1934, as adopted pursuant to section 302 of the Sarbanes-Oxley Act of 2002.

(32.1) Certification of Principal Executive Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

(32.2) Certification of Interim Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

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Signatures

In accordance with Section 13 or 15(d) of the Exchange Act, the registrant caused this report to be signed on its behalf by the undersigned, thereunto duly authorized, on May 28, 2010.

CYCLE COUNTRY ACCESSORIES CORP.

By:                   /s/ Jeffrey M. Tetzlaff  
                          Jeffrey M. Tetzlaff  
                          President and Chief Executive Officer, and  
                          Director

In accordance with the requirements of the Exchange Act, this report has been signed by the following persons on behalf of the registrant and in the capacities indicated.

<b>Name and Signature</b>	<b>Title</b>	<b>Date</b>
/s/ Jeffrey M. Tetzlaff Jeffrey M. Tetzlaff	President, Chief Executive Officer and Director (principal executive officer)	May 28, 2010
/s/ Robert Davis Robert Davis	Interim Chief Financial Officer, Treasurer, Secretary and Director (principal financial and accounting officer)	May 28, 2010
/s/ Paul DeShaw Paul DeShaw	Director	May 28, 2010
/s/ Daniel Thralow Daniel Thralow	Director	May 28, 2010