

CYCLE COUNTRY ACCESSORIES CORP  
Form 10-Q/A  
May 17, 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/A**

(Amendment No. 1)

(Mark one)

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

For the quarterly period ended March 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 March 31, 2009 was 6,072,307

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Explanatory Note

This amendment to our quarterly report on Form 10-Q/A (this Amendment) is being filed to amend our quarterly report on Form 10-Q for the quarter ended March 31, 2009, which was originally filed on May 15, 2009 (the Original Filing). The consolidated financial statements for the three and six months ended March 31, 2009 and related disclosures in this Amendment have been restated in accordance with the changes described below. The principal reason for the restatement is the correction and reclassification of information due to the previously discovered and disclosed misappropriation by the former Chairman of the Company's Board. In the process of completing the restatement, the Company has made some additional changes to correct certain small mathematical errors, as well as correcting the disclosure regarding inventory made in Note 3 to our condensed consolidated financial statements to reflect comments received from the staff of the SEC. All of the changes to the financial statements as a result of this restatement are more fully reflected in the tables included at Note 2 to our condensed consolidated financial statements included in Part 1, Item 1 Unaudited Financial Statements of this Amendment.

The Company originally reported the acquisition by the Company of 747,250 shares of its own stock at an average cost of \$.72 per share price for a total cost of \$570,000 in cash (the Stock Buyback) during the fiscal quarter ending December 31, 2008 of fiscal 2009. In the process of completing the audit of its 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. 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.

The funds reported as used for the Stock Buyback have been re-characterized as fraud expense. 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, including the Original Filing, and have been corrected in this Amendment.

In addition, during the fiscal 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 prepaid expense, and were purportedly 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 determined that the \$50,000 in prepaid expenses also should be recharacterized as fraud expense.

In this Amendment, the Company also has reclassified some stock-based compensation to its outside directors. 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. Consequently, we corrected the

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stock-based compensation by correcting the additional paid-in capital and accrued expense accounts, each by the amount of \$6,000, to correct the previous misstatement.

With this Form 10-Q/A, we are amending the following items in the Original Filing:

- Part I, Item 1 Financial Statements (Unaudited);
- Part I, Item 2 Management's Discussion and Analysis of Financial Condition and Results of Operations;
- Part II, Item 6 Exhibits.

All of the adjustments made as a result of the restatement are more fully described in Note 2 to our condensed consolidated financial statements included in Part 1, Item 1 Unaudited Financial Statements of this Form 10 Q/A.

No attempt has been made in this Amendment to modify or update any other disclosures in the Original Filing. Except for the amended and restated information as discussed above, this Amendment continues to describe conditions as of the date of the Original Filing, and the disclosures contained herein have not been updated to reflect events, results or developments that have occurred after the Original Filing, or to modify or update those disclosures affected by subsequent events unless otherwise indicated in this Amendment. Among other things, forward-looking statements made in the Original Filing have not been revised to reflect events, results or developments that have occurred or facts that have become known to us after the date of the Original Filing, and such forward-looking statements should be read in their historical context. This Amendment should be read in conjunction with our filings made with the Securities and Exchange Commission subsequent to the Original Filing, including any amendments to those filings.

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Cycle Country Accessories Corp.

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Cycle Country Accessories Corp. and Subsidiaries

Condensed Consolidated Balance Sheet

	March 31, 2009 (Unaudited)	September 30, 2008 (Audited)
<b>Assets</b>		
Current Assets:		
Cash and cash equivalents	\$ 477,571	\$ 194,576
Accounts receivable, net	362,393	2,935,647
Inventories	4,609,729	5,110,499
Income taxes receivable	204,490	14,780
Deferred income taxes	759,933	345,920
Prepaid expenses and other	118,288	209,617
Total current assets	6,532,404	8,811,039
Property, plant, and equipment, net	11,132,214	11,449,369
Intangible assets, net	184,491	177,812
Goodwill	4,890,146	4,890,146
Other assets	44,375	48,363
Total assets	\$ 22,783,630	\$ 25,376,729
<b>Liabilities and Stockholders Equity</b>		
Current Liabilities:		
Accounts payable	\$ 194,695	\$ 577,278
Accrued interest payable	5,220	3,871
Accrued expenses	516,607	721,211
Bank line of credit		1,000,000
Current portion of bank notes payable	848,095	811,053
Current portion of deferred gain	166,524	166,524
Total current liabilities	1,731,141	3,279,937
Long-Term Liabilities:		
Bank notes payable, less current portion	3,535,246	3,971,525
Deferred gain, less current portion	111,016	194,278
Deferred income taxes	2,558,002	2,360,812
Total long term liabilities	6,204,264	6,526,615
Total liabilities	7,935,405	9,806,552
Stockholders Equity:		
Common stock, \$.0001 par value; 100,000,000 shares authorized; 6,072,307 shares issued and outstanding as of March 31, 2009 and September 30, 2008 net of treasury stock	748	743
Additional paid-in capital	14,783,836	14,729,338
Retained Earnings	2,645,277	3,421,732

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Treasury stock, at cost, 1,410,730 shares	(2,581,636)	(2,581,636)
Total stockholders' equity	14,848,225	15,570,177
Total liabilities and stockholders' equity	\$ 22,783,630	\$ 25,376,729

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 March 31,</b>	
	<b>2009</b>	<b>2008</b>
	<b>(Unaudited)</b>	<b>(Unaudited)</b>
<b>Revenues:</b>		
Net sales	\$ 1,583,236	\$ 3,891,738
Freight income	28,016	19,946
<b>Total revenues</b>	<b>1,611,252</b>	<b>3,911,684</b>
Cost of goods sold	(1,692,352)	(2,374,966)
<b>Gross profit</b>	<b>(81,100)</b>	<b>1,536,718</b>
Selling, general, and administrative expenses	(936,936)	(1,162,675)
Goodwill impairment		
Fraud expense	(50,000)	
<b>Income from operations</b>	<b>(1,068,036)</b>	<b>374,043</b>
<b>Other Income (Expense):</b>		
Interest expense	(101,634)	(80,111)
Interest income	829	7,686
Gain on sale of assets	41,498	42,157
Miscellaneous	3,092	34,189
<b>Total other income (expense)</b>	<b>(56,216)</b>	<b>3,921</b>
<b>Income (Loss) before provision for (benefit from) income taxes</b>	<b>(1,124,252)</b>	<b>377,964</b>
Provision for (benefit from) income taxes	(341,692)	146,064
<b>Net income (loss)</b>	<b>\$ (782,560)</b>	<b>\$ 231,900</b>
<b>Weighted average shares of common stock outstanding:</b>		
Basic	6,072,307	6,006,415
Diluted	6,072,307	6,006,415
<b>Earnings per common share:</b>		
Basic	\$ (0.13)	\$ 0.04
Diluted	\$ (0.13)	\$ 0.04

See accompanying notes to the condensed consolidated financial statements.



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Cycle Country Accessories Corp. and Subsidiaries

Condensed Consolidated Statements of Operations

	Six Months Ended March 31,	
	2009	2008
	(Unaudited)	(Unaudited)
<b>Revenues:</b>		
Net sales	\$ 5,892,289	\$ 8,869,932
Freight income	52,578	43,310
<b>Total revenues</b>	<b>5,944,867</b>	<b>8,913,242</b>
<b>Cost of goods sold</b>	<b>(4,609,930)</b>	<b>(5,361,194)</b>
<b>Gross profit</b>	<b>1,334,937</b>	<b>3,552,048</b>
<b>Selling, general, and administrative expenses</b>	<b>(1,820,919)</b>	<b>(2,187,927)</b>
Fraud Expense	(620,000)	
<b>Income from operations</b>	<b>(1,105,982)</b>	<b>1,364,121</b>
<b>Other Income (Expense):</b>		
Interest expense	(187,194)	(169,395)
Interest income	1,512	17,318
Gain on sale of assets	79,714	280,589
Miscellaneous	3,067	35,981
<b>Total other income (expense)</b>	<b>(102,901)</b>	<b>164,493</b>
<b>Income before provision for (benefit from) income taxes</b>	<b>(1,208,883)</b>	<b>1,528,614</b>
<b>Provision for (benefit from) income taxes</b>	<b>(432,428)</b>	<b>(562,157)</b>
<b>Net income (loss)</b>	<b>\$ (776,455)</b>	<b>\$ 966,457</b>
<b>Weighted average shares of common stock outstanding:</b>		
Basic	6,047,307	6,328,471
Diluted	6,047,307	6,328,471
<b>Earnings per common share:</b>		
Basic	\$ (.13)	\$ 0.15
Diluted	\$ (.13)	\$ 0.15

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>Six Months Ended March 31,</b>	
	<b>2009</b>	<b>2008</b>
	<b>(Unaudited)</b>	<b>(Unaudited)</b>
<b>Cash Flows from Operating Activities:</b>		
Net income (loss)	\$ (776,455)	\$ 966,457
Adjustments to reconcile net income (loss) to net cash provided by operating activities:		
Depreciation	415,931	385,649
Amortization	2,951	2,906
Inventory reserve	9,000	18,000
Share-based expense	54,500	127,495
Gain on sale of equipment	(79,714)	(280,046)
Change in:		
Accounts receivable, net	2,573,255	1,070,412
Inventories	491,770	(1,482,548)
Taxes receivable	(189,710)	
Prepaid expenses and other	95,317	(228,640)
Accounts payable	(382,583)	472,538
Deferred income taxes	(216,823)	
Accrued expenses	(204,604)	(80,312)
Income taxes payable		365,434
Accrued interest payable	1,349	(971)
<b>Net cash provided by operating activities</b>	<b>1,794,184</b>	<b>1,336,373</b>
<b>Cash Flows from Investing Activities:</b>		
Purchase of equipment	(109,813)	(250,642)
Purchase of intangible assets	(9,630)	
Proceeds from sale of equipment	7,491	9,120
<b>Net cash used in investing activities</b>	<b>(111,952)</b>	<b>(241,522)</b>
<b>Cash Flows from Financing Activities:</b>		
Payments on bank notes payable	(399,237)	(306,621)
Bank Line of Credit, net	(1,000,000)	
<b>Net cash used in financing activities</b>	<b>(1,399,237)</b>	<b>(306,621)</b>
<b>Net change in cash and cash equivalents</b>	<b>282,995</b>	<b>788,230</b>
Cash and cash equivalents, beginning of period	194,576	454,848
Cash and cash equivalents, end of period	\$ 477,571	\$ 1,243,078

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

	Six Months Ended March 31,	
	2009	2008
	(Unaudited)	(Unaudited)
Supplemental disclosures of cash flow information:		
Cash paid during the period for:		
Interest	\$ 158,099	\$ 170,366
Income taxes	\$	\$ 196,722
Supplemental schedule of non-cash investing and financing activities:		
Fixed assets in accounts payable	\$	\$ 759,491
Acquisition of common stock from sale of property, plant, and equipment	\$	\$ 2,581,636
Issuance of common stock for payment of CEO bonus	\$	\$ 25,000
Issuance of stock and Options for payment of CEO	\$ 32,000	\$
Issuance of common stock for payment of consultant fees	\$ 22,500	\$ 91,500
Issuance of common stock for payment of director fees	\$	\$ 11,000

See accompanying notes to the condensed consolidated financial statements.

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**1. Basis of Presentation:**

The accompanying unaudited condensed consolidated financial statements for the three months and six months ended March 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. Except as otherwise noted in Item 4T., Controls and Procedures, (see below), 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 March 31, 2009 and 2008 are not necessarily indicative of the results to be expected for the full year. These interim consolidated financial statements should be read in conjunction with the September 30, 2008 consolidated financial statements and related notes included in the Company's Annual Report on Forms 10-K and 10-K/A for the year ended September 30, 2008.

**2. Restatement**

In January 2010, the Company determined it would need to restate its condensed consolidated financial statements for the three months and six months ended March 31, 2009. The Company originally reported the acquisition by the Company of 747,250 shares of its own stock at an average cost of \$.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 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. 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.

The funds reported as used for the Stock Buyback have been re-characterized as fraud expense in this Amendment. 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, including the Original Filing, and have been corrected in this Amendment.

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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 prepaid expense, and were purportedly 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 determined that the \$50,000 in prepaid expenses also should be treated as fraud expense.

In this amendment, the Company has reclassified some stock-based compensation to its outside directors. 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. Consequently, we corrected the stock-based compensation by correcting the additional paid-in capital and accrued expense accounts, each by the amount of \$6,000, to correct the previous misstatement.

The following tables show the specific effects of the restatement on the consolidated financial statements as of and for the three and six month period ended March 31, 2009:



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## Cycle Country Accessories Corp. and Subsidiaries

## Condensed Consolidated Balance Sheet

	March 31, 2009 (Unaudited) ORIGINAL	ADJUSTMENTS	March 31, 2009 (Unaudited) RESTATED
<b>Assets</b>			
Current Assets:			
Cash and cash equivalents	\$ 477,571	\$	\$ 477,571
Accounts receivable, net	362,393		362,393
Inventories	4,609,729		4,609,729
Income taxes receivable	204,490		204,490
Deferred income taxes	548,933	211,000	759,933
Prepaid expenses and other	168,288	(50,000)	118,288
Total current assets	6,371,404	161,000	6,532,404
Property, plant, and equipment, net	11,132,214		11,132,214
Intangible assets, net	184,491		184,491
Goodwill	4,890,146		4,890,146
Other assets	44,375		44,375
Total assets	\$ 22,622,630	\$ 161,000	\$ 22,783,630
<b>Liabilities and Stockholders Equity</b>			
Current Liabilities:			
Accounts payable	\$ 194,695	\$	\$ 194,695
Accrued interest payable	5,220		5,220
Accrued expenses	510,607	6,000	516,607
Bank line of credit			
Current portion of bank notes payable	848,095		848,095
Current portion of deferred gain	166,524		166,524
Total current liabilities	1,725,141	6,000	1,731,141
Long-Term Liabilities:			
Bank notes payable, less current portion	3,535,246		3,535,246
Deferred gain, less current portion	111,016		111,016
Deferred income taxes	2,558,002		2,558,002
Total long term liabilities	6,204,264		6,204,264
Total liabilities	7,929,405	6,000	7,935,405
Stockholders Equity:			
Common stock, \$.0001 par value; 100,000,000 shares authorized; 6,072,307 shares issued and outstanding net of treasury stock	748		748
Additional paid-in capital	14,789,836	(6,000)	14,783,836
Retained Earnings	3,054,277	(409,000)	2,645,277
Treasury stock, at cost, 1,410,730 shares	(3,151,636)	570,000	(2,581,636)
Total stockholders equity	14,693,225	155,000	14,848,225
Total liabilities and stockholders equity	\$ 22,622,630	\$ 161,000	\$ 22,783,630

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Cycle Country Accessories Corp. and Subsidiaries

Condensed Consolidated Statements of Operations

	<b>Three Months Ended March 31, 2009 (Unaudited) ORIGINAL</b>		<b>ADJUSTMENTS</b>	<b>2009 (Unaudited) RESTATED</b>
<b>Revenues:</b>				
Net sales	\$	1,583,236	\$	\$ 1,583,236
Freight income		28,016		28,016
<b>Total revenues</b>		<b>1,611,252</b>		<b>1,611,252</b>
Cost of goods sold		(1,692,352)		(1,692,352)
<b>Gross profit</b>		<b>(81,100)</b>		<b>(81,100)</b>
Selling, general, and administrative expenses		(936,936)		(936,936)
Fraud expense			(50,000)	(50,000)
<b>Income from operations</b>		<b>(1,018,036)</b>	<b>(50,000)</b>	<b>(1,068,036)</b>
<b>Other Income (Expense):</b>				
Interest expense		(101,634)		(101,634)
Interest income		829		829
Gain on sale of assets		41,498		41,498
Miscellaneous		3,092		3,092
<b>Total other income (expense)</b>		<b>(56,216)</b>		<b>(56,216)</b>
<b>Income before provision for (benefit from) income taxes</b>		<b>(1,074,252)</b>	<b>(50,000)</b>	<b>(1,124,252)</b>
Provision for (benefit from) income taxes		(324,692)	(17,000)	(341,692)
<b>Net income (loss)</b>	<b>\$</b>	<b>(749,560)</b>	<b>\$ (33,000)</b>	<b>\$ (782,560)</b>
<b>Weighted average shares of common stock outstanding:</b>				
Basic		5,327,143	745,164	6,072,307
Diluted		5,327,143	745,164	6,072,307
<b>Earnings per common share:</b>				
Basic	\$	(0.14)	\$ 0.01	\$ (0.13)
Diluted	\$	(0.14)	\$ 0.01	\$ (0.13)

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Cycle Country Accessories Corp. and Subsidiaries

Condensed Consolidated Statements of Operations

	<b>Six Months Ended March 31, 2009 (Unaudited) ORIGINAL</b>		<b>ADJUSTMENTS</b>	<b>2009 (Unaudited) RESTATED</b>
<b>Revenues:</b>				
Net sales	\$	5,892,289	\$	\$ 5,892,289
Freight income		52,578		52,578
<b>Total revenues</b>		<b>5,944,867</b>		<b>5,944,867</b>
Cost of goods sold		(4,609,930)		(4,609,930)
<b>Gross profit</b>		<b>1,334,937</b>		<b>1,334,937</b>
Selling, general, and administrative expenses		(1,820,919)		(1,820,919)
Fraud expense			(620,000)	(620,000)
<b>Income from operations</b>		<b>(485,982)</b>	<b>(620,000)</b>	<b>(1,105,982)</b>
<b>Other Income (Expense):</b>				
Interest expense		(187,194)		(187,194)
Interest income		1,512		1,512
Gain on sale of assets		79,714		79,714
Miscellaneous		3,067		3,067
<b>Total other income (expense)</b>		<b>(102,901)</b>		<b>(102,901)</b>
<b>Income before provision for (benefit from) income taxes</b>		<b>(588,883)</b>	<b>(620,000)</b>	<b>(1,208,883)</b>
Provision for (benefit from) income taxes		(221,428)	(211,000)	(432,428)
<b>Net income (loss)</b>	<b>\$</b>	<b>(367,455)</b>	<b>\$</b>	<b>(409,000)</b>
			<b>\$</b>	<b>(776,455)</b>
<b>Weighted average shares of common stock outstanding:</b>				
Basic		5,510,255	537,052	6,047,307
Diluted		5,510,255	537,052	6,047,307
<b>Earnings per common share:</b>				
Basic	\$	(0.07)	\$	(0.06)
			\$	(0.13)
Diluted	\$	(0.07)	\$	(0.06)
			\$	(0.13)

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Cycle Country Accessories Corp. and Subsidiaries

Condensed Consolidated Statements of Cash Flows

	<b>Six Months Ended March 31, 2009 (Unaudited) ORIGINAL</b>	<b>ADJUSTMENTS</b>	<b>2009 (Unaudited) RESTATED</b>
<b>Cash Flows from Operating Activities:</b>			
Net income	\$ (367,455)	\$ (409,000)	\$ (776,455)
Adjustments to reconcile net income (loss) to net cash provided by operating activities:			
Depreciation	415,931		415,931
Amortization	2,951		2,951
Inventory reserve	9,000		9,000
Share-based Expense	60,500	(6,000)	54,500
Gain on sale of equipment	(79,714)		(79,714)
Goodwill impairment			
Change in:			
Accounts receivable, net	2,573,255		2,573,255
Inventories	491,770		491,770
Taxes receivable	(189,710)		(189,710)
Prepaid expenses and other	45,317	50,000	95,317
Accounts payable	(382,583)		(382,583)
Deferred income taxes	(5,823)	(211,000)	(216,823)
Accrued expenses	(210,604)	6,000	(204,604)
Income taxes payable			
Accrued interest payable	1,349		1,349
Net cash provided by operating activities	2,364,184	(570,000)	1,794,184
<b>Cash Flows from Investing Activities:</b>			
Purchase of equipment	(109,813)		(109,813)
Purchase of intangible assets	(9,630)		(9,630)
Proceeds from sale of equipment	7,491		7,491
Net cash used in investing activities	(111,952)		(111,952)
<b>Cash Flows from Financing Activities:</b>			
Payments on bank notes payable	(399,237)		(399,237)
Bank Line of Credit, net	(1,000,000)		(1,000,000)
Purchase of treasury stock	(570,000)	570,000	
Net cash used in financing activities	(1,969,237)	570,000	(1,399,237)
Net change in cash and cash equivalents	282,995		282,995
Cash and cash equivalents, beginning of period	194,576		194,576
Cash and cash equivalents, end of period	\$ 477,571	\$	\$ 477,571



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Cycle Country Accessories Corp. and Subsidiaries

Condensed Consolidated Statements of Cash Flows

	2009 (Unaudited) ORIGINAL	Six Months Ended March 31, ADJUSTMENTS	2009 (Unaudited) RESTATED
Supplemental disclosures of cash flow information:			
Cash paid during the period for:			
Interest	\$ 158,099		\$ 158,099
Supplemental schedule of non-cash investing and financing activities:			
Issuance of stock and Options for payment of CEO	\$ 32,000		\$ 32,000
Issuance of common stock for payment of consultant fees	\$ 22,500		\$ 22,500
Issuance of common stock for payment of director fees	\$ 6,000	\$ (6,000)	\$

**3. Inventories:**

Inventories are valued at the lower of cost or market. Cost is determined using the weighted average method. The major components of inventories, net of the Inventory Reserve, as of March 31, 2009 are summarized as follows:

Raw materials	\$ 1,730,642
Work in progress	149,449
Finished goods	2,729,638
Total inventories	\$ 4,609,729

Table of Contents**4. Earnings Per Share:**

Basic earnings per share ( EPS ) is calculated by dividing net income by the weighted-average number of common 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 warrants to issue common stock were exercised. The following is a reconciliation of the numerators and denominators of the basic and diluted EPS computations for the three months and six months ended March 31, 2009 and 2008:

	<b>For the three months ended March 31, 2009</b>		
	<b>Income (Loss) (numerator)</b>	<b>Shares (denominator)</b>	<b>Per-share amount</b>
<b>Basic EPS</b>			
Income (loss) available to common stockholders	\$ (782,560)	6,072,307	\$ (0.13)
Effect of Dilutive Securities Warrants			
<b>Diluted EPS</b>			
Income (loss) available to common stockholders	\$ (782,560)	6,072,307	\$ (0.13)

	<b>For the six months ended March 31, 2009</b>		
	<b>Income(Loss) (numerator)</b>	<b>Shares (denominator)</b>	<b>Per-share amount</b>
<b>Basic EPS</b>			
Income (loss) available to common stockholders	\$ (776,455)	6,047,307	\$ (0.16)
Effect of Dilutive Securities Warrants			
<b>Diluted EPS</b>			
Income (loss) available to common stockholders	\$ (776,455)	6,047,307	\$ (0.16)

**5. Segment Information:**

Segment information has been presented on a basis consistent with how business activities are reported internally to management. Management solely evaluates operating profit by segment by 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, and sell a variety of products: ATV Accessories, Plastic Wheel Covers, Weekend Warrior, and Contract Manufacturing.

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-KSB for the year ended September 30, 2008.

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

ATV ACCESSORIES - Three Months Ended March 31, 2009 and 2008

	<b>Three Months Ended Mar 31, 2009</b>	<b>Three Months Ended Mar 31, 2008</b>	<b>Increase (Decrease) \$</b>	<b>Increase (Decrease) %</b>
Revenue	\$ 1,175,325	\$ 3,050,823	\$ (1,875,498)	(61.48)%
Cost of goods sold	\$ 905,881	\$ 1,231,108	\$ (325,227)	(26.42)%
Gross profit	\$ 269,444	\$ 1,819,715	\$ (1,550,271)	(85.19)%
Gross profit %	22.9%	59.6%		



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PLASTIC WHEEL COVERS - Three Months Ended March 31, 2009 and 2008

	<b>Three Months Ended Mar 31, 2009</b>	<b>Three Months Ended Mar 31, 2008</b>	<b>Increase (Decrease) \$</b>	<b>Increase (Decrease) %</b>
Revenue	\$ 180,042	\$ 400,770	\$ (220,728)	(55.08)%
Cost of goods sold	\$ 75,386	\$ 200,479	\$ (125,093)	(62.40)%
Gross profit	\$ 104,656	\$ 200,291	\$ (95,635)	(47.74)%
Gross profit %	58.1%	49.9%		

WEEKEND WARRIOR - Three Months Ended March 31, 2009 and 2008

	<b>Three Months Ended Mar 31, 2009</b>	<b>Three Months Ended Mar 31, 2008</b>	<b>Increase (Decrease) \$</b>	<b>Increase (Decrease) %</b>
Revenue	\$ 25,134	\$ 37,139	\$ (12,005)	(32.33)%
Cost of goods sold	\$ 21,991	\$ 9,689	\$ 12,302	126.97%
Gross profit	\$ 3,143	\$ 27,450	\$ (24,305)	(88.55)%
Gross profit %	12.5%	73.9%		

CONTRACT MANUFACTURING - Three Months Ended March 31, 2009 and 2008

	<b>Three Months Ended Mar 31, 2009</b>	<b>Three Months Ended Mar 31, 2008</b>	<b>Increase (Decrease) \$</b>	<b>Increase (Decrease) %</b>
Revenue	\$ 276,415	\$ 657,919	\$ (381,504)	(57.99)%
Cost of goods sold	\$ 190,016	\$ 401,215	\$ (211,199)	(52.64)%
Gross profit	\$ 86,399	\$ 256,704	\$ (170,305)	(66.34)%
Gross profit %	31.2%	39.0%		

ATV ACCESSORIES - Six Months Ended March 31, 2009 and 2008

	<b>Six Months Ended Mar 31, 2009</b>	<b>Six Months Ended Mar 31, 2008</b>	<b>Increase (Decrease) \$</b>	<b>Increase (Decrease) %</b>
Revenue	\$ 5,269,787	\$ 7,275,502	\$ (2,005,715)	(27.57)%
Cost of goods sold	\$ 2,831,067	\$ 2,982,983	\$ (151,916)	(5.10)%
Gross profit	\$ 2,438,720	\$ 4,292,519	\$ (1,853,799)	(43.19)%
Gross profit %	46.2%	58.9%		

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PLASTIC WHEEL COVERS - Six Months Ended March 31, 2009 and 2008

	Six Months Ended Mar 31, 2009	Six Months Ended Mar 31, 2008	Increase (Decrease) \$	Increase (Decrease) %
Revenue	\$ 289,159	\$ 821,458	\$ (532,299)	(64.80)%
Cost of goods sold	\$ 115,035	\$ 369,672	\$ (254,635)	(68.88)%
Gross profit	\$ 174,124	\$ 451,786	\$ (277,662)	(61.46)%
Gross profit %	60.2%	54.9%		

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WEEKEND WARRIOR - Six Months Ended March 31, 2009 and 2008

	<b>Six Months Ended Mar 31, 2009</b>	<b>Six Months Ended Mar 31, 2008</b>	<b>Increase (Decrease) \$</b>	<b>Increase (Decrease) %</b>
Revenue	\$ 98,963	\$ 117,207	\$ (18,244)	(15.57)%
Cost of goods sold	\$ 82,379	\$ 51,487	\$ 30,892	60.00%
Gross profit	\$ 16,584	\$ 65,720	\$ (49,136)	(74.76)%
Gross profit %	16.7%	56.0%		

CONTRACT MANUFACTURING - Six Months Ended March 31, 2009 and 2008

	<b>Six Months Ended Mar 31, 2009</b>	<b>Six Months Ended Mar 31, 2008</b>	<b>Increase (Decrease) \$</b>	<b>Increase (Decrease) %</b>
Revenue	\$ 573,014	\$ 1,113,812	\$ (540,798)	(48.55)%
Cost of goods sold	\$ 382,629	\$ 594,195	\$ (211,566)	(35.60)%
Gross profit	\$ 190,385	\$ 519,617	\$ (329,232)	(63.36)%
Gross profit %	33.2%	46.6%		

GEOGRAPHIC REVENUE

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

GEOGRAPHIC REVENUE - Three Months Ended March 31, 2009 and 2008

<b>Country</b>	<b>Three Months Ended Mar 31, 2009</b>	<b>Three Months Ended Mar 31, 2008</b>	<b>Increase (Decrease) \$</b>	<b>Increase (Decrease) %</b>
United States	\$ 1,537,668	\$ 3,622,688	\$ (2,085,020)	(57.5)%
All Other Countries	\$ 73,584	\$ 288,996	\$ (215,412)	(74.5)%

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

GEOGRAPHIC REVENUE - Six Months Ended March 31, 2009 and 2008

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Country	Six Months Ended Mar 31, 2009	Six Months Ended Mar 31, 2008	Increase (Decrease) \$	Increase (Decrease) %
United States	\$ 5,425,273	\$ 7,412,972	\$ (1,987,699)	(26.8)%
All Other Countries	\$ 519,594	\$ 1,164,872	\$ (645,278)	(55.3)%

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

ATV Accessories sales to major customers which exceeded 10% of net revenues, accounted for approximately 15% of net revenue for three months ending March 31, 2009 and approximately 17% and 13% of revenue for three months ending March 31, 2008.

Plastic Wheel Covers, Weekend Warrior, and Contract Manufacturing did not have sales to any individual customer greater than 10% of net revenues during the three months ended March 31, 2009 or 2008.

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**6. Stock Based Compensation:**

During the quarter ended December 31, 2008, the Company adopted Statement on Financial Accounting Standards ( SFAS ) No. 123(R), Share-Based Payment, 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. SFAS No. 123(R) allows companies to choose one of two transition methods: the modified prospective transition method or the modified retrospective transition method.

The Company adopted SFAS No. 123(R) using the modified prospective method of transition which requires compensation expense related to share based payments to be recognized beginning on the adoption date over the requisite service period, generally the vesting period, and over the remaining service period for the unvested portion of awards granted prior.

The June 2008 President's Executive Employment Agreement 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 President shall become vested in and receive 16,666 shares of stock each year. At the completion of the President's third full year of employment, he shall become vested in and receive the final 16,668 shares of stock. Total compensation expense recognized during the three month period ended March 31, 2009 was \$6,875. As of March 31, 2009, there was \$55,000 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.

The President is further offered stock options to acquire an additional 500,000 shares of stock in the Corporation at the closing price on the date employment commenced at \$1.68 per share, which option shall run for a period of 3 years. This option may be exercised by the President paying to the Corporation the exercise price multiplied by the number of shares he wishes to exercise at that time. At any time during the first 3 years of employment, this option may be exercised in full or in part. Any portion of this option which has not been exercised on the third anniversary of the commencement date of the Executive Employment Agreement will lapse and no longer be an obligation of the Corporation. Stock shall be restricted and contain the appropriate legend noting its restriction.

Under the provisions of SFAS No. 123(R), stock-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 requisite service period of the award. The fair value of non-vested stock awards was determined by reference to the fair market value of the Company's common stock on the date of the grant. Consistent with the valuation method the Company used for disclosure-only purposes under the provisions of SFAS No. 123(R), Accounting for Stock-Based Compensation, the Company uses the lattice 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, forfeiture rates and expected terms.

The following assumptions were utilized to estimate the fair value of the Company's stock option awards during the three-month periods ended March 31, 2009 and 2008:

<b>Three months ended March 31,</b>	
<b>2009</b>	<b>2008</b>

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Expected stock price volatility	40%
Risk-free interest rate	3%
Expected life of options	3 yrs
Expected annual dividends	0%

The expected volatility rate was based on the historical volatility, for the last 3 years, of the Company's common stock. The expected life represents the average time options that vest are expected to be outstanding based on the vesting provisions and the Company's historical exercise, cancellation and expiration patterns.

The risk-free rate was based on U.S. Treasury zero-coupon issues with a maturity approximating the expected life as of the week of the grant date. There was no annual dividend rate assumed as a cash dividend is not expected to be declared and paid in the foreseeable future. The Company updates these assumptions at least on an annual basis and on an interim basis if significant changes to the assumptions are warranted.

With the adoption of SFAS No. 123(R), the Company recorded stock-based employee compensation expense related to stock options of approximately \$6,200, net of a tax benefit in the amount of \$2,900, and net of estimated forfeitures, for the three-month period ended March 31, 2009. The Company recognized the full amount of the stock-based employee compensation expense of its equity incentive plans in the consolidated statements of operations for the three-month period ended March 31, 2009 and did not capitalize any such costs in the condensed consolidated balance sheets other than in the general overhead pool for inventory costs. The

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weighted-average grant-date fair value per share of options granted during the three-month period ended March 31, 2009 was \$.219 per share. No options were granted for the three month period ended March 31, 2008.

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

	Options	Price	Extended Value
Outstanding at December 31, 2008			
Granted	500,000	\$ 1.68	\$ 840,000
Exercised		\$	\$
Canceled		\$	\$
Outstanding at March 31, 2009	500,000	\$ 1.68	\$ 840,000
Options vested and exercisable at March 31, 2009	500,000	\$ 1.68	\$ 840,000

As of March 31, 2009, there was \$38,000 of total unrecognized compensation cost related to this stock option arrangement granted under the plan. The cost is expected to be recognized over the next two year period.

Prior to the adoption of SFAS No. 123(R), the Company maintained an employment agreement with their former CEO which provides for \$100,000 in restricted Company common stock with 25% issued upon the first day of employment and 25% issued each anniversary date for the next three years as an employment bonus. The value of the entire restricted stock award was determined by the closing price, \$2 per share, on the Presidents first day of employment. As of March 31, 2009, there were no remaining compensation costs to be recognized under the plan due to his leaving the Company. There are however 12,500 shares to be issued on September 18, 2009.

Stock-based compensation expense related to stock options and restricted shares recorded in the Company's condensed consolidated statements of operations was allocated as follows:

	2009	Three months ended March 31, 2008
Cost of Sales	\$	\$
Selling, General and Administrative Expense	\$ 16,000	\$
Research and Development Expense	\$	\$
Stock-Based Compensation Expense before Income Tax	\$ 16,000	\$
Less: Income Tax Benefit	\$ 5,760	\$
Net Stock-Based Compensation Expense after Income Tax	\$ 10,240	\$

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

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, 2008, 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 and 10-K/A for the year ended September 30, 2008.



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We intend for this discussion to provide the reader with information that will assist in understanding our financial statements, the changes in certain key items in those 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 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.

**Critical Accounting Policies and Estimates**

The Company's discussion and analysis of its financial condition and results of operations are based upon its 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 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.

The Company believes the following critical accounting policies affect the more significant judgments and estimates used in the preparation of the Consolidated Financial Statements:

**Accounts Receivable** - Trade credit is 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 30 days past due. Trade accounts receivable are carried on the books at their estimated collectible value. 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.

**Allowance for Doubtful Accounts** - The Company maintains an allowance for doubtful accounts for estimated losses resulting from the inability of its customers to make required payments. If the financial condition of the Company's customers were to deteriorate, resulting in an impairment of their ability to make payments, additional allowance may be required.

**Inventories** - The Company values its inventory at the lower of cost or market. Cost is determined using the weighted average cost method.

**Reserve for Inventory** - The Company records valuation reserves on its inventory for estimated excess and obsolete inventory equal to the difference between the cost of inventory and the estimated market value based upon assumptions about future product demand and market conditions. If future product demand or market conditions are less favorable than those projected by management, additional inventory reserves may be required.

**Depreciation of Long-Lived Assets** - The Company assigns useful lives for long-lived assets based on periodic studies of actual asset lives and the intended use for those assets. Any change in those assets lives would be reported in the statement of operations as soon as any change in estimate is determined.

**Goodwill and Other Intangibles** - Goodwill represents the excess of the purchase price over the fair value of the assets acquired. The Company accounts for goodwill in accordance with Statement of Financial Accounting Standard (SFAS) no. 142, Goodwill and Other Intangible Assets. SFAS No. 142 requires the use of a non-amortization approach to account for purchased goodwill and certain intangibles. Under the non-amortization approach, goodwill and certain intangibles are not amortized into results of operations, but instead are reviewed for impairment at least annually and written down and charged to results of operations in the periods in which the recorded value is determined to be greater than the fair value. The Company has reviewed the goodwill recorded at March 31, 2009 and found no impairment.

**Accrued Warranty Costs** - The Company records a liability for the expected cost of warranty-related claims as its products are sold. The Company provides a one-year warranty on all of its products except the snowplow blade, which has a limited lifetime warranty. The amount of the warranty liability accrued reflects the Company's estimate of the expected future costs of honoring its obligations under the warranty plan. The estimate is based on historical experiences and known current events. If future estimates of expected costs were to be less favorable, an increase in the amount of the warranty liability accrued may be required.

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**Accounting for Income Taxes** - The Company is required to estimate income taxes in each of the jurisdictions in which it operates. This process involves estimating actual current tax exposure for the Company together with assessing temporary differences resulting from differing treatment of items, such as property, plant and equipment depreciation, for tax and accounting purposes. Actual income taxes could vary from these estimates due to future changes in income tax law or results from final tax exam reviews. At March 31, 2009, the Company assessed the need for a valuation allowance on its deferred tax assets. A valuation allowance is provided when it is more likely than not that some portion or all of the deferred tax assets will not be realized. Based upon the historical operating profits and the near certainty regarding sufficient near term taxable income, management believes that there is no need to establish a valuation allowance. Should the Company determine that it would not be able to realize all or part of its net deferred tax assets in the future, a valuation allowance may be required.

In July 2006, the Financial Accounting Standards Board (FASB) issued FASB Interpretation No. 48 (FIN 48), Accounting for Uncertainty in Income Taxes, an interpretation of FASB Statement No. 109. FIN 48 prescribes a comprehensive model for how companies should recognize, measure, present and disclose in their financial statements uncertain tax positions taken or expected to be taken on a tax return. Under FIN 48, tax positions are recognized in the Company's financial statements as the largest amount of tax benefit that has a greater than 50% likelihood of being realized upon ultimate settlement with tax authorities assuming full knowledge of the position and all relevant facts. These amounts are subsequently reevaluated and changes are recognized as adjustments to current period tax expense. FIN 48 also revised disclosure requirements to include an annual tabular roll forward of unrecognized tax benefits.

The Company adopted the provisions of FIN 48 on October 1, 2007. At March 31, 2009, no uncertain positions were identified. To the extent interest and penalties would be assessed by taxing authorities on any underpayment of income taxes, such amounts would be accrued and classified as a component of income tax expense on the condensed consolidated statement of income.

**OVERALL RESULTS OF OPERATIONS**

	Three Months Ended Mar. 31, 2009	Three Months Ended Mar. 31, 2008	Increase (Decrease) \$	Increase (Decrease) %
Revenue	\$ 1,611,252	\$ 3,911,684	\$ (2,300,432)	(58.81)%
Cost of goods sold	\$ 1,692,352	\$ 2,374,966	\$ (682,614)	(28.74)%
Gross profit	\$ (81,100)	\$ 1,536,718	\$ (1,617,818)	(105.28)%
Gross profit %	(.05)%	39.3%		

**OVERALL RESULTS OF OPERATIONS**

	Six Months Ended Mar 31, 2009	Six Months Ended Mar 31, 2008	Increase (Decrease) \$	Increase (Decrease) %
Revenue	\$ 5,944,867	\$ 8,913,242	\$ (2,968,375)	(33.30)%
Cost of goods sold	\$ 4,609,930	\$ 5,361,194	\$ (751,264)	(14.01)%
Gross profit	\$ 1,334,937	\$ 3,552,048	\$ (2,217,111)	(62.41)%
Gross profit %	22.5%	39.9%		

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The decrease in revenues for the six months ended March 31, 2009 was attributable to a broad decline in revenue from all of our segments and most all of our customers. The decline was most significant in the second quarter, with the sales decline in the first quarter of 13.4% and the second quarter of 58.81%. The general economic climate left a significant impact on our revenues. While the economy in general strongly contributed to the decline, the second quarter ending March 31, 2009 is also typically the tail-end of our seasonal sales cycle, exaggerating the decline. With the decline in the general economy, our distributors and dealers reduced their level of inventory during this seasonally slow sales period, pushing the carrying of that late-season inventory on to us. The decrease in overall gross profit as a percentage of revenue was attributable to high purchased material costs that carried over in our inventory from the spike last year in our raw material costs, as discussed in the September 30, 2008 Consolidated Financial Statements and related notes included in the Company's Annual Report on Form 10-K and 10-K/A for the year ended September 30, 2008. Further, we took a substantial inventory adjustment identified in the physical inventory count at January 31, 2009. This was charged to cost of goods sold in the quarter ending March 31, 2009, resulting in an additional deterioration of our Gross Profit.

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	Three Months Ended Mar. 31, 2009	Three Months Ended Mar. 31, 2008	Increase (Decrease) \$	Increase (Decrease) %
Selling, general and administrative expenses	\$ 936,936	\$ 1,162,675	\$ (225,739)	(19.4)%

Though the selling, general and administrative expenses decreased 19.4% overall compared to the prior year, as a percentage of revenue, these expenses were 58% for the three months ended March 31, 2009 compared to 30% for the three months ended March 31, 2008.

In addition to the selling, general and administrative expenses, the Company recorded \$50,000 in fraud expense for the three months ending March 31, 2009, due to the misappropriation of funds as discussed in Note 2 to the condensed consolidated financial statements, which includes \$50,000 that was previously characterized as prepaid expenses.

The significant changes in operating expenses for the second quarter of fiscal 2009 as compared to the second quarter of fiscal 2008 were:

	Increase (Decrease) \$	Increase (Decrease) %
Salaries	\$ (28,709)	(9.3)%
Advertising	\$ (105,845)	(81.2)%
Commissions	\$ (29,278)	(68.2)%
Warranty	\$ 6,079	31.5%
Other professional fees	\$ 25,501	37.5%

Salaries decreased for the three months ended March 31, 2009, as compared to the three months ended March 31, 2008. Advertising was cut substantially, dropping 81.2% for the quarter. The decrease in commission expense was a result of the decrease in revenues during the second quarter of fiscal 2009. Warranty expense increased for the three months ended March 31, 2009, as compared to the three months ended March 31, 2008. Other professional fees increased for the three months ended March 31, 2009, as compared to the three months ended March 31, 2008.

	Three Months Ended Mar 31, 2009	Three Months Ended Mar 31, 2008	Increase (Decrease) \$	Increase (Decrease) %
Interest and miscellaneous income	\$ 3,920	\$ 41,874	\$ (37,954)	(90.06)%
Gain on sale of assets	\$ 41,498	\$ 42,157	\$ (659)	(1.56)%
Interest expense	\$ 101,634	\$ 80,111	\$ 21,523	(26.87)%

The decrease in interest and miscellaneous income was due to a decrease in interest income of approximately \$7,000 and a decrease in other income of approximately \$31,000. The interest expense increase of approximately \$21,523 for the three months ended March 31, 2009 as compared to the three months ended March 31, 2008 was due to the Company receiving a loan for new manufacturing equipment.

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	Six Months Ended Mar 31, 2009	Six Months Ended Mar 31, 2008	Increase (Decrease) \$	Increase (Decrease) %
Selling, general and administrative expenses	\$ 1,820,919	\$ 2,187,927	\$ (367,008)	(16.8)%

Though the selling, general and administrative expenses decreased 16.8% overall compared to the prior year, as a percentage of revenue, these expenses were 31% for the six months ended March 31, 2009 compared to 25% for the three months ended March 31, 2008. The significant changes in operating expenses for the first two quarters of fiscal 2009 as compared to the same period of fiscal 2008 were:

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In addition to the selling, general and administrative expenses, the Company recorded \$620,000 in fraud expense for the six months ending March 31, 2009, due to the misappropriation of funds as discussed in Note 2 to the consolidated financial statements.

	Increase (Decrease) \$	Increase (Decrease) %
Salaries	\$ (39,974)	(6.7)%
Advertising	\$ (190,325)	(82.5)%
Commissions	\$ (56,527)	(67.2)%
Warranty	\$ 2,204	5.4%
Other professional fees	\$ (49,099)	(27.7)%
Lease expense	\$ 21,239	30.6%

Salaries decreased for the six months ended March 31, 2009, as compared to the six months ended March 31, 2008. Advertising was cut substantially, dropping 82.5% for the six month period. The decrease in commission expense was a result of the decrease in revenues during the first two quarters of fiscal 2009 in the ATV Accessories business segment. Warranty expense increased for the six months ended March 31, 2009, as compared to the six months ended March 31, 2008. Other professional fees decreased for the six months ended March 31, 2009, as compared to the six months ended March 31, 2008, due to the removal of consulting work related to the Company's Sarbanes-Oxley Act compliance initiatives. The increase in lease expense was due to the sale and subsequent leasing back of the Company's Milford facility, as described elsewhere in this filing.

	Six Months Ended Mar 31, 2009	Six Months Ended Mar 31, 2008	Increase (Decrease) \$	Increase (Decrease) %
Interest and miscellaneous income	\$ 4,579	\$ 53,299	\$ (48,720)	(91.41)%
Gain on sale of assets	\$ 79,714	\$ 280,589	\$ (200,875)	(71.59)%
Interest expense	\$ 187,194	\$ 169,395	\$ 17,799	10.51%

The decrease in interest and miscellaneous income was primarily due to a decrease in interest income of approximately \$15,000 and a decrease in other income of approximately \$31,000. The gain on sale of assets decrease of approximately \$200,000 for the six months ended March 31, 2009 as compared to the six months ended March 31, 2008 was due to the Company having sold its Milford facility and certain other assets in the prior year. Interest expense increased as the Company received a loan for new manufacturing equipment.

Interest expense on our long-term debt will decrease in the third quarter of fiscal 2009 as the principal balances continue to decrease under fixed rate notes going forward. However, management anticipates the seasonal use of our line of credit will increase our interest expense on a quarter-to-quarter basis, but not on a year-over-year basis.

Looking ahead to the third and fourth quarters of fiscal 2009, management is cautiously projecting a 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 and will pass as much of the net input costs increases on to its customers as possible. Remaining competitive in the markets we are in and maintaining our strong market shares within those markets may hinder management's ability to pass on the full amount of our net input costs increases. We project selling, general and administrative expenses during the remainder of fiscal

2009 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 consistent level of administrative support.

**BUSINESS SEGMENTS**

As more fully described in Note 5 to the Condensed Consolidated Financial Statements included elsewhere in this filing, the Company operates four reportable business segments: ATV Accessories, Plastic Wheel Covers, Weekend Warrior, and Contract Manufacturing. ATV accessories is vertically integrated and utilizes a two-step distribution method, we are vertically integrated in our Plastic Wheel Cover segment and utilize both direct and two-step distribution methods, Weekend Warrior utilizes a single-step distribution method, and our Contract Manufacturing segment deals directly with other OE manufacturers and businesses in various industries.



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## ATV ACCESSORIES

## ATV ACCESSORIES - Three Months Ended March 31, 2009 and 2008

	<b>Three Months Ended Mar 31, 2009</b>	<b>Three Months Ended Mar 31, 2008</b>	<b>Increase (Decrease) \$</b>	<b>Increase (Decrease) %</b>
Revenue	\$ 1,175,325	\$ 3,050,823	\$ (1,875,498)	(61.48)%
Cost of goods sold	\$ 905,881	\$ 1,231,108	\$ (325,227)	(26.42)%
Gross profit	\$ 269,444	\$ 1,819,715	\$ (1,550,271)	(85.19)%
Gross profit %	22.9%	59.6%		

## ATV ACCESSORIES - Six Months Ended March 31, 2009 and 2008

	<b>Six Months Ended Mar 31, 2009</b>	<b>Six Months Ended Mar 31, 2008</b>	<b>Increase (Decrease) \$</b>	<b>Increase (Decrease) %</b>
Revenue	\$ 5,269,787	\$ 7,275,502	\$ (2,005,715)	(27.57)%
Cost of goods sold	\$ 2,831,067	\$ 2,982,983	\$ (151,916)	5.10%
Gross profit	\$ 2,438,720	\$ 4,292,519	\$ (1,853,799)	(43.19)%
Gross profit %	46.2%	58.9%		

The decrease in ATV Accessories revenue for the second quarter of fiscal 2009 reflects the general decline in sales of our industry compared to the prior year, as has been previously discussed. The decrease in gross profit as a percentage of revenue, which was mainly attributable to an increase in raw material costs as has been previously discussed. Remaining competitive in the ATV Accessory market and maintaining our strong market share within this market may hinder management's ability to pass on the full amount of our net input costs increases. Year-to-date, our ATV Accessories revenue for the combined two quarters of fiscal 2009 showed less of a decline than the second quarter alone, as discussed above. We averaged a 27.57% decline in revenues for both quarters.

## PLASTIC WHEEL COVERS

## PLASTIC WHEEL COVERS - Three Months Ended March 31, 2009 and 2008

	<b>Three Months Ended Mar 31, 2009</b>	<b>Three Months Ended Mar 31, 2008</b>	<b>Increase (Decrease) \$</b>	<b>Increase (Decrease) %</b>
Revenue	\$ 180,042	\$ 400,770	\$ (220,728)	(55.08)%

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Cost of goods sold	\$	75,386	\$	200,479	\$	(125,093)	(62.40)%
Gross profit	\$	104,656	\$	200,291	\$	(95,635)	(47.74)%
Gross profit %		58.1%		49.9%			

PLASTIC WHEEL COVERS - Six Months Ended March 31, 2009 and 2008

		Six Months Ended Mar 31, 2009		Six Months Ended Mar 31, 2008		Increase (Decrease) \$	Increase (Decrease) %
Revenue	\$	289,159	\$	821,458	\$	(532,299)	(64.80)%
Cost of goods sold	\$	115,035	\$	369,672	\$	(254,637)	(68.88)%
Gross profit	\$	174,124	\$	451,786	\$	(277,662)	(61.46)%
Gross profit %		60.2%		54.9%			

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The decrease in Wheel Cover 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.

WEEKEND WARRIOR

WEEKEND WARRIOR - Three Months Ended March 31, 2009 and 2008

	Three Months Ended Mar 31, 2009	Three Months Ended Mar 31, 2008	Increase (Decrease) \$	Increase (Decrease) %
Revenue	\$ 25,134	\$ 37,139	\$ (12,005)	(32.33)%
Cost of goods sold	\$ 21,991	\$ 9,689	\$ 12,302	126.97%
Gross profit	\$ 3,143	\$ 27,450	\$ (24,305)	(88.55)%
Gross profit %	12.5%	73.9%		

WEEKEND WARRIOR - Six Months Ended March 31, 2009 and 2008

	Six Months Ended Mar 31, 2009	Six Months Ended Mar 31, 2008	Increase (Decrease) \$	Increase (Decrease) %
Revenue	\$ 98,963	\$ 117,207	\$ (18,244)	(15.57)%
Cost of goods sold	\$ 82,379	\$ 51,487	\$ 30,892	60.00%
Gross profit	\$ 16,584	\$ 65,720	\$ (49,136)	(74.76)%
Gross profit %	16.7%	56.0%		

The decrease in revenues was attributable to a decrease in sales to national retail customers. The decrease in gross profit is due to higher input costs and inventory adjustments.

CONTRACT MANUFACTURING

CONTRACT MANUFACTURING - Three Months Ended March 31, 2009 and 2008

	Three Months Ended Mar 31, 2009	Three Months Ended Mar 31, 2008	Increase (Decrease) \$	Increase (Decrease) %
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Revenue	\$	276,415	\$	657,919	\$	(381,504)	(57.99)%
Cost of goods sold	\$	190,016	\$	401,215	\$	(211,199)	(52.64)%
Gross profit	\$	86,399	\$	256,704	\$	(170,305)	(66.34)%
Gross profit %		31.2%		39.0%			

CONTRACT MANUFACTURING - Six Months Ended March 31, 2009 and 2008

		Six Months Ended Mar 31, 2009		Six Months Ended Mar 31, 2008		Increase (Decrease) \$	Increase (Decrease) %
Revenue	\$	573,014	\$	1,113,812	\$	(540,798)	(48.55)%
Cost of goods sold	\$	382,629	\$	594,195	\$	(211,566)	(35.60)%
Gross profit	\$	190,385	\$	519,617	\$	(329,232)	(63.36)%
Gross profit %		33.2%		46.6%			

The decrease in revenue was due to a decrease in business with current customers. With the economy tightening overall, many of our contract manufacturing customers demand dropped off substantially. In particular, our largest contract manufacturing customer overbought a significant quantity of product in the previous fiscal year, in anticipation of cancelling their relationship with us, due to a deterioration in the relationship with the previous management of Cycle Country. The current management and sales team were able

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to resurrect the relationship, but the customer will still need most of, if not all of, our fiscal year to work off the excess inventory before needing more. This customer is now developing additional products for us to manufacture, in addition to the already approved products. With ample production capacity and unique fabrication and painting capabilities, management believes that increasing the fabrication of parts and the manufacture of products to other OE manufacturers and businesses will provide the Company with a significant source of revenue in quarters traditionally slow for our main ATV Accessories business segment. Gross margin decreased as a percentage of revenue as significant increases in the costs of raw steel impacted the cost of materials for the quarter ended March 31, 2009.

## GEOGRAPHIC REVENUE

## GEOGRAPHIC REVENUE - Three Months Ended March 31, 2009 and 2008

Country	Three Months Ended Mar 31, 2009	Three Months Ended Mar 31, 2008	Increase (Decrease) \$	Increase (Decrease) %
United States	\$ 1,537,668	\$ 3,622,688	\$ (2,085,020)	(57.5)%
All Other Countries	\$ 73,584	\$ 288,996	\$ (215,412)	(74.5)%

## GEOGRAPHIC REVENUE - Six Months Ended March 31, 2009 and 2008

Country	Six Months Ended Mar 31, 2009	Six Months Ended Mar 31, 2008	Increase (Decrease) \$	Increase (Decrease) %
United States	\$ 5,425,273	\$ 7,412,972	\$ (1,987,699)	(26.8)%
All Other Countries	\$ 519,594	\$ 1,164,872	\$ (645,278)	(55.3)%

For the six months ended March 31, 2009, the Company experienced decreased revenue in both the U.S. markets, as well as internationally. The decrease in revenue in the U.S. was discussed above, and the decrease in other countries was primarily due to a decrease of sales in Europe, which is experiencing the same general economic climate as is the United States.

Liquidity and Capital ResourcesOverview

Cash flows provided by operating activities of continuing operations, built-up cash balances, and borrowings under our bank line of credit provided us with a significant source of liquidity during the first six months of Fiscal 2009.

Cash and cash equivalents were \$477,571 as of March 31, 2009, compared to \$194,577 as of September 30, 2008. 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.

In the six months ended March 31, 2009, we made approximately \$110,000 in capital expenditures, received approximately \$7,000 from the sale of capital equipment, and paid approximately \$399,000 of long-term debt principal. By the end of fiscal 2009, management expects total capital expenditures to approximate \$200,000.

**Working Capital**

Net working capital was \$4,801,263 at March 31, 2009, compared to \$5,531,103 at September 30, 2008. The decrease in working capital was primarily due to the net change in sales and gross margins.

Table of ContentsLiquidity and Capital Resources

	Balance Mar 31, 2009	Balance Sep 30, 2008	Increase/ (Decrease)	Percent Change
Cash and cash equivalents	\$ 477,571	\$ 194,576	\$ 282,995	145.4%
Accounts receivable	\$ 362,393	\$ 2,935,647	\$ (2,573,254)	(87.7)%
Inventories	\$ 4,609,729	\$ 5,110,499	\$ (500,770)	( 9.7)%
Prepaid expenses	\$ 118,288	\$ 209,617	\$ (91,329)	(43.6)%
Deferred income tax	\$ 759,933	\$ 345,920	\$ 414,013	119.68%
Accounts payable	\$ 194,695	\$ 577,278	\$ (382,583)	(66.2)%
Accrued expenses	\$ 516,608	\$ 721,211	\$ (204,603)	(28.3)%
Bank line of credit	\$	\$ 1,000,000	\$ (1,000,000)	(100.0)%
Current portion of Bank notes payable	\$ 848,095	\$ 811,053	\$ 37,042	4.5%
Current portion of deferred gain	\$ 166,524	\$ 166,524	\$	0.0%

Long-Term Debt

On May 13, 2008, the Company and its commercial lender modified the original secured credit agreement dated August 21, 2001. Under the terms of the modification agreement to the secured credit agreement, Note One and Note Two were modified to change their fixed interest rates from 7.375% per annum to 6.125% per annum. Under the terms of the new amendment to the secured credit agreement, Note One and Note Two were amended. The Notes, going forward, are payable in monthly installments from May 2008 until April 2018, for Note One and until April 2011, for Note Two, which include principal and interest (6.125% as of March 31, 2009) for Note One and principal and interest (6.125% as of March 31, 2009) for Note Two, with a final payment upon maturity on April 25, 2017, for Note One and April 25, 2011 for Note Two. The interest rate is fixed for Note Two and is fixed for Note One until April 2011, after which the interest rate will be reset to prime + 0.50% every 60 months. However, the interest rate for Note One can never exceed 10.5% or be lower than 5.5%. The monthly payment is \$33,449 and \$42,049 for Note One and Note Two, respectively. At March 31, 2009 and 2008, \$2,775,950 and \$2,998,806, respectively, were outstanding for Note One and \$979,601 and \$1,412,030 respectively, were outstanding for Note Two. Additionally, any 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 March 31, 2009, the Company failed to meet one of its debt covenants with its lender. The Company fell below the covenant for term debt coverage. The Company has received a waiver of default from the lender.

On May 13, 2008, the Company and its commercial lender entered into a note payable agreement. Under the terms of the Note, the Note is payable in monthly installments from May 2008 until April 2013, which includes principal and interest (6.125% as of March 31, 2009), with a final payment upon maturity on April 25, 2013. The interest rate is fixed for the term of the Note. The monthly payment is \$14,567. At March 31, 2009, \$627,789 was outstanding. The Note is collateralized by specific equipment acquired at that time.

Line of Credit

On April 28, 2006, the Company and its commercial lender amended the original secured credit agreement dated August 21, 2001. Under the terms of the amended secured credit agreement, 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. The Line of Credit bears interest at prime plus 0.50% (5.5% at March 31, 2009) and is collateralized by all of the Company's assets. The variable interest rate can never exceed 10.5% or be lower than 5.5%. At March 31, 2009, there was no

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outstanding amount due on the Line of Credit and there was \$750,000 outstanding on the Line of Credit as of December 31, 2008. The Line of Credit matured on December 31, 2008, but was extended until June 1, 2009. A new, permanent loan renewal is under negotiation and is anticipated to be in place prior to June 30, 2009.

The secured credit agreement contains 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.



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**Warrants**

The Company has 40,000 previously issued warrants outstanding to purchase one share of the Company's common stock per warrant at \$4.00 per share which do not expire until June 9, 2010. For the three months ended March 31, 2009, none of the 40,000 warrants were exercised. The proceeds, if exercised, are to be applied to the outstanding balance on the Notes.

**Capital Resources**

Consistent with normal practice, management believes that the Company's operations are not expected to require significant capital expenditures during fiscal year 2009. Management believes that existing cash balances, cash flow to be generated from operating activities 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 six months. At this time management is not aware of any factors that would have a materially adverse impact on cash flow during this period.

**Part II - Other Information**

**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 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 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 17, 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 17 , 2010
/s/ Robert Davis Robert Davis	Interim Chief Financial Officer, Treasurer, Secretary and Director (principal financial and accounting officer)	May 17, 2010
/s/ Paul DeShaw Paul DeShaw	Director	May 17, 2010
/s/ Daniel Thralow Daniel Thralow	Director	May 17, 2010