

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 March 31, 2010

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)

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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):

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

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The number of shares of the registrant's common stock, par value \$0.0001 per share, outstanding as of May 28, 2010 was 5,876,891.

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Cycle Country Accessories Corp.

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Cycle Country Accessories Corp. and Subsidiaries

Condensed Consolidated Balance Sheet

| | March 31, 2010 (Unaudited) | September 30, 2009 |
|---|----------------------------------|-----------------------|
| Assets | | |
| Current Assets: | | |
| Cash and cash equivalents | \$ 66,747 | \$ 27,490 |
| Accounts receivable, net | 665,599 | 1,819,552 |
| Inventories | 3,422,239 | 3,588,880 |
| Income taxes receivable | 1,149,867 | 997,413 |
| Deferred income taxes | 170,000 | 448,000 |
| Prepaid expenses and other | 85,586 | 77,397 |
| Total current assets | 5,560,038 | 6,958,732 |
| Property, plant, and equipment, net | 10,433,949 | 10,803,308 |
| Intangible assets, net | 178,172 | 178,547 |
| Other assets | 36,400 | 40,388 |
| Total assets | \$ 16,208,559 | \$ 17,980,975 |
| Liabilities and Stockholders Equity | | |
| Current Liabilities: | | |
| Disbursements in excess of bank balances | \$ | \$ 438,636 |
| Accounts payable | 347,398 | 562,689 |
| Accrued expenses | 710,673 | 747,044 |
| Bank line of credit | 741,836 | 1,030,000 |
| Current portion of bank notes payable | 888,939 | 863,160 |
| Current portion of deferred gain | 111,016 | 166,524 |
| Total current liabilities | 2,799,862 | 3,808,053 |
| Long-Term Liabilities: | | |
| Bank notes payable, less current portion | 2,662,757 | 3,111,783 |
| Deferred gain, less current portion | | 27,754 |
| Deferred income taxes | 2,022,000 | 2,142,000 |
| Total long term liabilities | 4,684,757 | 5,281,537 |
| Total liabilities | 7,484,619 | 9,089,590 |
| Stockholders Equity: | | |
| Common stock, \$.0001 par value; 100,000,000 shares authorized; 7,483,037 shares issued and 5,876,891 and 6,072,307 outstanding, respectively | 748 | 748 |
| Additional paid-in capital | 14,863,083 | 14,849,334 |
| Accumulated deficit | (3,438,255) | (3,377,061) |
| Treasury stock, at cost, 1,606,146 and 1,410,730 shares respectively | (2,701,636) | (2,581,636) |

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| | | | | |
|--|----|------------|----|------------|
| Total stockholders' equity | | 8,723,940 | | 8,891,385 |
| Total liabilities and stockholders' equity | \$ | 16,208,559 | \$ | 17,980,975 |

See accompanying notes to the condensed consolidated financial statements.

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Cycle Country Accessories Corp. and Subsidiaries

Condensed Consolidated Statements of Operations

| | Three Months Ended March 31, | |
|--|-------------------------------------|---------------------|
| | 2010 | 2009 |
| | (Unaudited) | (Unaudited) |
| Revenues: | | |
| Net sales | \$ 2,308,264 | \$ 1,583,236 |
| Freight income | 29,138 | 28,016 |
| Total revenues | 2,337,402 | 1,611,252 |
| Cost of goods sold | (1,588,537) | (1,692,352) |
| Gross profit (loss) | 748,865 | (81,100) |
| Selling, general, and administrative expenses | (1,004,612) | (936,936) |
| Fraud (expense) recovery | (134,775) | (50,000) |
| Loss from operations | (390,522) | (1,068,036) |
| Other Income (Expense): | | |
| Interest expense | (70,857) | (101,634) |
| Interest income | 1 | 829 |
| Gain (loss) on sale of assets | (65,261) | 41,498 |
| Miscellaneous | 46,543 | 3,091 |
| Total other income (expense) | (89,574) | (56,216) |
| Loss before benefit from income taxes | (480,096) | (1,124,252) |
| Benefit from income taxes | (191,625) | (341,692) |
| Net loss | \$ (288,471) | \$ (782,560) |
| Weighted average shares of common stock | | |
| Basic | 5,992,919 | 6,072,307 |
| Diluted | 5,992,919 | 6,072,307 |
| Loss per common share: | | |
| Basic | \$ (0.05) | \$ (0.13) |
| Diluted | \$ (0.05) | \$ (0.13) |

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, | |
|--|----------------------------|---------------------|
| | 2010 (Unaudited) | 2009 (Unaudited) |
| Revenues: | | |
| Net sales | \$ 6,436,945 | \$ 5,892,289 |
| Freight income | 53,705 | 52,578 |
| Total revenues | 6,490,650 | 5,944,867 |
| Cost of goods sold | (4,484,249) | (4,609,930) |
| Gross profit | 2,006,401 | 1,334,937 |
| Selling, general, and administrative expenses | (1,896,607) | (1,820,919) |
| Fraud Expense | (134,775) | (620,000) |
| Loss from operations | (24,981) | (1,105,982) |
| Other Income (Expense): | | |
| Interest expense | (153,245) | (187,194) |
| Interest income | 3 | 1,512 |
| Gain on sale of assets | (30,850) | 79,714 |
| Miscellaneous | 81,031 | 3,067 |
| Total other income (expense) | (103,061) | (102,901) |
| Loss before benefit from income taxes | (128,042) | (1,208,883) |
| Benefit from income taxes | (66,848) | (432,428) |
| Net loss | \$ (61,194) | \$ (776,455) |
| Weighted average shares of common stock | | |
| Basic | 6,033,224 | 6,047,307 |
| Diluted | 6,033,224 | 6,047,307 |
| Loss per common share: | | |
| Basic | \$ (0.01) | \$ (0.13) |
| Diluted | \$ (0.01) | \$ (0.13) |

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, | |
|--|----------------------------|--------------------|
| | 2010 | 2009 |
| | (Unaudited) | (Unaudited) |
| Cash Flows from Operating Activities: | | |
| Net loss | \$ (61,194) | \$ (776,455) |
| Adjustments to reconcile net income (loss) to net cash provided by operating activities: | | |
| Depreciation | 407,224 | 415,931 |
| Amortization | 3,035 | 2,951 |
| Inventory reserve | | 9,000 |
| Share-based expense | 13,750 | 54,500 |
| (Gain) loss on sale of equipment | 114,112 | (79,714) |
| Fraud recovery | (120,000) | |
| Change in: | | |
| Accounts receivable, net | 1,153,953 | 2,573,255 |
| Inventories | 166,641 | 491,770 |
| Taxes receivable | (152,454) | (189,710) |
| Prepaid expenses and other | (8,189) | 95,317 |
| Disbursements in excess of bank balances | (438,636) | |
| Accounts payable | (215,291) | (382,583) |
| Deferred income taxes | 158,000 | (216,823) |
| Accrued expenses | (119,634) | (203,255) |
| Other assets | 3,988 | |
| Net cash provided by operating activities | 905,305 | 1,794,184 |
| Cash Flows from Investing Activities: | | |
| Purchase of equipment | (164,477) | (109,813) |
| Purchase of intangible assets | (2,660) | (9,630) |
| Proceeds from sale of equipment | 12,500 | 7,491 |
| Net cash used in investing activities | (154,637) | (111,952) |
| Cash Flows from Financing Activities: | | |
| Payments on bank notes payable | (423,247) | (399,237) |
| Bank Line of Credit, net | (288,164) | (1,000,000) |
| Net cash used in financing activities | (711,411) | (1,399,237) |
| Net change in cash and cash equivalents | 39,257 | 282,995 |
| Cash and cash equivalents, beginning of period | 27,490 | 194,576 |
| Cash and cash equivalents, end of period | 66,747 | 477,571 |

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 | |
|--|----------------------------------|--------------------|
| | 2010 | 2009 |
| | (Unaudited) | (Unaudited) |
| Supplemental disclosures of cash flow information: | | |
| Cash paid during the period for: | | |
| Interest | \$ 153,000 | \$ 158,099 |
| Income taxes | \$ | \$ |
| Supplemental schedule of non-cash investing and financing activities: | | |
| Recovery of Treasury Shares from Fraud | \$ 120,000 | \$ |
| Issuance of common stock for payment of consultant fees | \$ | \$ 22,500 |
| Issuance of common stock and options for payment of CEO | \$ | \$ 32,000 |

See accompanying notes to the condensed consolidated financial statements.

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CYCLE COUNTRY ACCESSORIES CORP. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

FOR THE THREE MONTHS AND SIX MONTHS ENDED MARCH 31, 2010 AND 2009 (UNAUDITED)

1. Summary of Significant Accounting Policies:

Basis of Presentation - The accompanying unaudited condensed consolidated financial statements for the three months and six months ended March 31, 2010 and 2009 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 March 31, 2010 and 2009 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.

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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.

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.

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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 March 31, 2010 and 2009, 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.

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.

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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 March 31, 2010 and such uncertain tax positions as of each reporting date are insignificant.

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.

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 \$31,000 and \$25,000 in the three month period ended March 31, 2010 and 2009, respectively, and totaled approximately \$65,000 and \$40,000 in the six month period ended March 31, 2010 and 2009, 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 \$91,000 and \$91,000 in the three month period ended March 31, 2010 and 2009, respectively, and totaled approximately

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\$177,000 and \$197,000 in the six month period ended March 31, 2010 and 2009, 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 \$67,000 and \$57,000 in the three month period ended March 31, 2010 and 2009, respectively, and totaled approximately \$135,000 and \$110,000 in the six month period ended March 31, 2010 and 2009, 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

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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; the valuation of the treasury stock recovered from fraud, 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 March 31, 2010 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 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 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.

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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 work to recover all of the amounts misappropriated. During the quarter ended March 31, 2010, the Company recovered 195,416 shares of Company stock, which shares have been designated as treasury stock and recorded at a value of \$120,000,. The Company has used this value because it represents the amount the Company provided for the purchase of shares to the third party that returned these shares to the Company and the price per share is consistent with the trading in the market at the time the Company believed that the shares were being purchased on its behalf. The Company has not received any documentation from the third party about the actual cost in the shares, so this value may not represent the amount paid for the shares, but, at present, the Company believes that any difference in price are not likely to be material. Additional recoveries, if any, will impact subsequent periods and will be reported for the periods in which such recoveries occur. The possibility of future recoveries and the amount of any such recovery remain uncertain, and the Company can have no assurance that any such recoveries can be achieved or that they can be achieved without significant cost to the Company.

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 have been amended.

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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 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 reclassified the \$50,000 in prepaid expenses as 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.

3. Inventories:

The major components of inventories, as of March 31, 2010 and September 30, 2009 are as follows:

| | March 31, 2010 | September 30, 2009 |
|-------------------|---------------------------|-------------------------------|
| Raw Materials | \$ 1,278,785 | \$ 1,522,838 |
| Work In Process | 131,615 | 160,160 |
| Finished Goods | 2,161,839 | 2,055,882 |
| Inventory Reserve | (150,000) | (150,000) |
| Total Inventories | \$ 3,422,239 | \$ 3,588,880 |

Inventories are stated at the lower of cost or market determined 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 March 31, 2010 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.

The Company incurred a net loss of \$288,471 for the three months ended March 31, 2010 and \$61,194 for the six months ended March 31, 2010. For the period ended March 31, 2010 and 2009, the Company had approximately 25,000 and zero share equivalents outstanding. A net loss causes all outstanding common stock equivalents, such as certain stock options, warrants, and restricted share awards to be antidilutive. As a result, the basic and dilutive losses per common share are the same. In addition, the Company's 40,000 outstanding warrants and 500,000 employee common stock options at March 31, 2010 and 2009 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:

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| | For the three months ended March 31, 2010 | | | For the three months ended March 31, 2009 | | |
|---------------------------------------|---|---------------------------------|---------------------|---|---------------------------------|---------------------|
| | Income (Loss) (numerator) | Average Shares (denominator) | Per share amount | Income (Loss) (numerator) | Average Shares (denominator) | Per share amount |
| Basic EPS | | | | | | |
| Loss available to common stockholders | \$ (288,471) | 5,992,919 | \$ (0.05) | \$ (782,560) | 6,072,307 | \$ (0.13) |
| Diluted EPS | | | | | | |
| Loss available to common stockholders | \$ (288,471) | 5,992,919 | \$ (0.05) | \$ (782,560) | \$ 6,072,307 | \$ (0.13) |

| | For the six months ended March 31, 2010 | | | For the six months ended March 31, 2009 | | |
|---------------------------------------|---|---------------------------------|---------------------|---|---------------------------------|---------------------|
| | Income (Loss) (numerator) | Average Shares (denominator) | Per share amount | Income (Loss) (numerator) | Average Shares (denominator) | Per share amount |
| Basic EPS | | | | | | |
| Loss available to common stockholders | \$ (61,194) | 6,033,224 | \$ (0.01) | \$ (776,455) | 6,047,307 | \$ (0.13) |
| Diluted EPS | | | | | | |
| Loss available to common stockholders | \$ (61,194) | \$ 6,033,224 | \$ (0.01) | \$ (776,455) | \$ 6,047,307 | \$ (0.13) |

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.

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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.

The 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.

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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.

The following is a summary of certain financial information related to the four segments during the three months ended March 31, 2010 and 2009:

CYCLE COUNTRY ATV ACCESSORIES

| | Three Months Ended March 31 | | Increase (Decrease) | |
|--------------------|--------------------------------|---------------------|------------------------|---------|
| | 2010 (Unaudited) | 2009 (Unaudited) | \$ | % |
| Revenues | \$ 1,475,316 | \$ 1,130,133 | \$ 345,183 | 30.5% |
| Cost of goods sold | 596,254 | 893,309 | (297,055) | (33.3)% |
| Gross profit | 879,062 | 236,824 | 642,238 | 271.2% |
| Gross profit % | 59.6% | 21.0% | | |

PLAZCO

| | Three Months Ended March 31 | | Increase (Decrease) | |
|--------------------|--------------------------------|---------------------|------------------------|---------|
| | 2010 (Unaudited) | 2009 (Unaudited) | \$ | % |
| Revenues | \$ 106,241 | \$ 180,042 | \$ (73,801) | (41.0)% |
| Cost of goods sold | 51,771 | 75,385 | (23,614) | (31.3)% |
| Gross profit | 54,470 | 104,657 | (50,187) | (48.0)% |
| Gross profit % | 51.3% | 58.1% | | |

PERF-FORM

| | Three Months Ended March 31 | | Increase (Decrease) | |
|--------------------|--------------------------------|---------------------|------------------------|---------|
| | 2010 (Unaudited) | 2009 (Unaudited) | \$ | % |
| Revenues | \$ 43,966 | \$ 70,326 | \$ (26,360) | (37.5)% |
| Cost of goods sold | 25,397 | 34,563 | (9,166) | (26.5)% |
| Gross profit | 18,569 | 35,763 | (17,194) | (48.1)% |
| Gross profit % | 42.2% | 50.9% | | |

IMDYNE

| | Three Months Ended March 31 | | | |
|--------------------|--------------------------------|---------------------|------------------------------|-----------------------------|
| | 2010 (Unaudited) | 2009 (Unaudited) | Increase (Decrease) \$ | Increase (Decrease) % |
| Revenues | \$ 775,678 | \$ 276,415 | \$ 499,263 | 180.6% |
| Cost of goods sold | 549,131 | 190,016 | 359,115 | 189.0% |
| Gross profit | 226,547 | 86,399 | 140,148 | 162.2% |
| Gross profit % | 29.2% | 31.3% | | |

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The following is a summary of certain financial information related to the four segments during the six months ended March 31, 2010 and 2009:

CYCLE COUNTRY ATV ACCESSORIES

| | Six Months Ended March 31 | | Increase (Decrease) | Increase (Decrease) |
|--------------------|------------------------------|---------------------|------------------------|------------------------|
| | 2010 (Unaudited) | 2009 (Unaudited) | \$ | % |
| Revenues | \$ 5,102,287 | \$ 5,265,909 | \$ (163,622) | (3.1)% |
| Cost of goods sold | 2,154,641 | 2,864,278 | (709,637) | (24.8)% |
| Gross profit | 2,947,646 | 2,401,631 | 546,015 | 22.7% |
| Gross profit % | 57.8% | 45.6% | | |

PLAZCO

| | Six Months Ended March 31 | | Increase (Decrease) | Increase (Decrease) |
|--------------------|------------------------------|---------------------|------------------------|------------------------|
| | 2010 (Unaudited) | 2009 (Unaudited) | \$ | % |
| Revenues | \$ 184,131 | \$ 289,159 | \$ (105,028) | (36.3)% |
| Cost of goods sold | 87,750 | 115,035 | (27,285) | (23.7)% |
| Gross profit | 96,381 | 174,124 | (77,743) | (44.6)% |
| Gross profit % | 52.3% | 60.2% | | |

PERF-FORM

| | Six Months Ended March 31 | | Increase (Decrease) | Increase (Decrease) |
|--------------------|------------------------------|---------------------|------------------------|------------------------|
| | 2010 (Unaudited) | 2009 (Unaudited) | \$ | % |
| Revenues | \$ 66,150 | \$ 102,841 | \$ (36,691) | (35.7)% |
| Cost of goods sold | 38,067 | 49,168 | (11,101) | (22.6)% |
| Gross profit | 28,083 | 53,673 | (25,590) | (47.7)% |
| Gross profit % | 42.5% | 52.2% | | |

IMDYNE

| Six Months Ended March 31 | Increase | Increase |
|------------------------------|----------|----------|
|------------------------------|----------|----------|

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| | 2010 (Unaudited) | | 2009 (Unaudited) | | (Decrease) \$ | (Decrease) % |
|--------------------|---------------------|----|---------------------|----|------------------|-----------------|
| Revenues | \$ 1,554,358 | \$ | 573,014 | \$ | 981,344 | 171.3% |
| Cost of goods sold | 1,057,550 | | 382,629 | | 674,921 | 176.4% |
| Gross profit | 496,808 | | 190,385 | | 306,423 | 160.9% |
| Gross profit % | 32.0% | | 33.2% | | | |

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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, 2010 and 2009.

The following is a summary of the Company's revenue in different geographic areas during the three months ended March 31, 2010 and 2009 (Unaudited):

| Country | Three Months Ended March 31 | | Increase (Decrease) \$ | Increase (Decrease) % |
|---------------------|--------------------------------|--------------|------------------------------|-----------------------------|
| | 2010 | 2009 | | |
| United States | \$ 2,210,590 | \$ 1,537,668 | \$ 672,922 | 43.8% |
| All Other Countries | \$ 126,812 | \$ 73,584 | \$ 53,228 | 72.3% |

The following is a summary of the Company's revenue in different geographic areas during the six months ended March 31, 2010 and 2009 (Unaudited):

| Country | Six Months Ended March 31 | | Increase (Decrease) \$ | Increase (Decrease) % |
|---------------------|------------------------------|--------------|------------------------------|-----------------------------|
| | 2010 | 2009 | | |
| United States | \$ 6,063,661 | \$ 5,425,273 | \$ 638,388 | 11.8% |
| All Other Countries | \$ 426,987 | \$ 519,594 | \$ (92,607) | (17.8)% |

As of March 31, 2010, all of the Company's long-lived assets are located in the United States of America.

The Company had sales to three major customers that were approximately 16%, 13% and 10% of total sales respectively for the three months ended March 31, 2010. During the three months ended March 31, 2009, sales to one major customer exceeded 10% of total sales. For the six months ended March 31, 2010, sales to two customers exceeded 10% of total sales and were 22% and 12% respectively. Sales to those same customers for the six months ended March 31, 2009 were 23% and 12% of total sales.

6. Stock Based Compensation:

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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. Total compensation expense recognized during the six month period ended March 31, 2010 was \$13,750. As of March 31, 2010 there were \$34,375 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 consolidated financial statements. The Company uses the Black-Scholes valuation model

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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.

The following table lists stock option activity for the three-month period ended March 31, 2010.

| | Options | Price | Extended Value | Intrinsic Value | Weighted Average Remaining Contract Term |
|--|----------------|--------------|-----------------------|------------------------|---|
| Outstanding at December 31, 2009 | 500,000 | \$ 1.68 | \$ 840,000 | \$ | 1.27 |
| Granted | | \$ | \$ | | |
| Exercised | | \$ | \$ | | |
| Canceled | | \$ | \$ | | |
| Outstanding at March 31, 2010 | 500,000 | \$ 1.68 | \$ 840,000 | \$ | 1.02 |
| Options vested and exercisable at March 31, 2010 | 500,000 | \$ 1.68 | \$ 840,000 | | |

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

Cautionary Note about Forward Looking Statements.

Certain matters discussed in this Form 10-Q are forward-looking statements, and the Company intends these forward-looking statements to be covered by the safe harbor provisions for forward-looking statements contained in the Private Securities Litigation Reform Act of 1995 and is including this statement for purposes of those safe harbor provisions. These forward-looking statements can generally be identified as such because they include phrases such as the Company expects, believes, anticipates or other words of similar meaning. Similarly, statements that describe the Company's future plans, objectives or goals are also forward-looking statements. Such forward-looking statements are subject to certain risks and uncertainties which could cause actual results or outcomes to differ materially from those currently anticipated. Factors that could affect actual results or outcomes include the matters described under the caption Risk Factors in Item 1A of Form 10-K for the year ended September 30, 2009. Shareholders, potential investors and other readers are urged to consider these factors in evaluating the forward-looking statements and are cautioned not to place undue reliance on such forward-looking statements. The forward-looking statements included herein are only made as of the date of this filing. The Company assumes no obligation, and disclaims any obligation, to update such forward-looking statements to reflect subsequent events or circumstances.

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 fiscal 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 year ended September 30, 2009.

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

The economic environment is showing signs of improvement but continues to be a challenge. The Company has remained focused on strategy and working hard to execute its business plans. The response to those challenges has 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. 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 to 30% of revenue as we continue our focus on cost reduction initiatives, launching new products and maximizing internal efficiencies, all while maintaining a responsive and courteous customer service standard.

Overview for the Three Months Ended March 31, 2010 and 2009 (Unaudited)

The following is a summary of the results of operations for the three months ended March 31, 2010 and March 31, 2009 (Unaudited):

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| | Three Months Ended March 31, | | | |
|---|------------------------------|-----------------|--------------------|-----------------|
| | 2010 | | 2009 | |
| | \$ | % | \$ | % |
| Total revenue | \$ 2,337,402 | 100.00% | \$ 1,611,252 | 100.00% |
| Cost of goods sold | 1,588,537 | 67.96% | 1,692,352 | 105.03% |
| Gross profit (loss) | 748,865 | 32.04% | (81,100) | (5.03)% |
| Selling, general, and administrative expenses | (1,004,612) | (42.98)% | (936,936) | (58.16)% |
| Fraud expense | (134,775) | (5.77)% | (50,000) | (3.10)% |
| Loss from operations | (390,522) | (16.71)% | (1,068,036) | (66.29)% |
| Other expense (net) | (89,574) | (3.83)% | (56,216) | (3.49)% |
| Net loss before tax benefit | (480,096) | (20.54)% | (1,124,252) | (69.78)% |
| Income tax benefit | 191,625 | 8.20% | 341,692 | 21.21% |
| Net loss | (288,471) | (12.34)% | (782,560) | (48.57)% |

For the three months ended March 31, 2010, Cycle Country Accessories Corp. reported a net loss of \$288,471, or 12.34% of total revenue. This compares favorably to the three months ending March 31, 2009 during which the Company recorded a loss of \$782,560 or 48.57% of total revenue. The improvement is due, in part, to improved margins and continued improvement in controlling operating expenses. Revenues for the period increased approximately 45% over the same period in fiscal year 2009 with an increase of 30.5% in the Cycle Country ATV Accessories segment and an increase of 180.6% in the Imdyne segment. For the same periods, Plazco and Perf-Form reported decreases in sales of 41.0% and 37.5% respectively. The largest variance in gross profit percentage by segment was reported by Cycle Country ATV Accessories which reported a gross profit percentage of 59.6% for the three months ended March 31, 2010 compared to a gross profit of 21.0% for the three months ended March 31, 2009. This change was due, primarily, to increased efficiencies during the three months ended March 31, 2010 as compared the three months ended March 31, 2009 and to process improvements. Further, the Company recognized losses on obsolete inventory in the first three months of fiscal year 2009.

Other expense (net), which includes interest expense, gains (losses) on assets disposals and miscellaneous income, increased from \$56,216 for the three months ended March 31, 2009 to \$89,574 for the three months ended March 31, 2009. This variance is due, in part, to a loss realized on the disposal of fixed assets. Interest expense decreased approximately \$30,000 on decreased debt balances and miscellaneous income increased period over period.

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The following is a summary of the results of operations by segment for the three months ended March 31, 2010 and March 31, 2009 (Unaudited):

| | Three Months Ended March 31 | | Increase (Decrease) \$ | Increase (Decrease) % |
|---|--------------------------------|------------------|------------------------------|-----------------------------|
| | 2010 | 2009 | | |
| Total Revenue by Segment | | | | |
| CCAC ATV | \$ 1,475,316 | \$ 1,130,133 | \$ 345,183 | 30.5% |
| Plazco | 106,241 | 180,042 | (73,801) | (41.0)% |
| Perf-Form | 43,966 | 70,326 | (26,360) | (37.5)% |
| Imdyne | 775,678 | 276,415 | 499,263 | 180.6% |
| Total Revenue by Segment | 2,401,201 | 1,656,916 | 744,285 | 44.9% |
| Freight Income | 29,138 | 28,016 | 1,122 | 4.0% |
| Sales Discounts & Allowances | (92,937) | (73,680) | (19,257) | 26.1% |
| Total Combined Revenue | 2,337,402 | 1,611,252 | 726,150 | 45.1% |
| Operating profit (loss) by Segment | | | | |
| CCAC ATV | 879,062 | 236,823 | 642,239 | 271.2% |
| Plazco | 54,470 | 104,657 | (50,187) | (48.0)% |
| Perf-Form | 18,569 | 35,763 | (17,194) | (48.1)% |
| Imdyne | 226,547 | 86,399 | 140,148 | 162.2% |
| Total Profit By Segment | 1,178,648 | 463,642 | 715,006 | 154.2% |
| Freight Income | 29,138 | 28,016 | 1,122 | 4.0% |
| Sales Disc. & Allow. | (92,937) | (73,679) | (19,258) | 26.1% |
| Factory Overhead | (365,984) | (499,079) | 133,095 | (26.7)% |
| Sales, Gen. & Admin. | (1,004,612) | (936,936) | (67,676) | 7.2% |
| Fraud Expense | (134,775) | (50,000) | (84,775) | 169.5% |
| Interest Income/Exp. | (70,856) | (100,805) | 29,949 | (29.7)% |
| Other Inc/Exp, Net | (18,718) | 44,589 | (63,307) | (142.0)% |
| Income Tax Benefit | 191,625 | 341,692 | (150,067) | (43.9)% |
| Net Loss | (288,471) | (782,560) | 494,089 | (63.1)% |

Table of Contents**Overview for the Six Months Ended March 31, 2010 and 2009 (Unaudited)**

The following is a summary of the results of operations for the six months ended March 31, 2010 and March 31, 2009 (Unaudited):

| | 2010 | | Six Months Ended March 31, | | 2009 | |
|---|------------------|----------------|----------------------------|-----------------|------|---|
| | \$ | % | \$ | % | \$ | % |
| Total revenue | \$ 6,490,650 | 100.00% | \$ 5,944,867 | 100.00% | | |
| Cost of goods sold | 4,484,249 | 69.09% | 4,609,930 | 77.54% | | |
| Gross profit | 2,006,401 | 30.91% | 1,334,937 | 22.46% | | |
| Selling, general, and administrative expenses | (1,896,607) | (29.21)% | (1,820,919) | (30.63)% | | |
| Fraud expense | (134,775) | (2.08)% | (620,000) | (10.43)% | | |
| Loss from operations | (24,981) | (0.38)% | (1,105,982) | (18.60)% | | |
| Other expense (net) | (103,061) | (1.59)% | (102,901) | (1.73)% | | |
| Net loss before tax benefit | (128,042) | (1.97)% | (1,208,883) | (20.33)% | | |
| Income tax benefit | 66,848 | 1.03% | 432,428 | 7.27% | | |
| Net loss | (61,194) | (0.94)% | (776,455) | (13.06)% | | |

For the six months ended March 31, 2010, Cycle Country Accessories Corp. reported a net loss of \$61,194 or 0.94% of total revenue. This compares favorably to the six months ending March 31, 2009 during which the Company recorded a loss of \$776,455 or 13.06% of total revenue. Revenues for the six months ended March 31, 2010 increased approximately \$540,000 or 9% as compared to the six months ended March 31, 2009. The increase is attributable to an increase of 141% in revenues for the Imdyne segment with decreases in the Cycle Country ATV Accessories, Plazco, and Perf-Form segments of approximately 3%, 36% and 36% respectively. Margins increased as well period over period and improved from 22.5% for the six months ended March 31, 2009 to 30.9% for the six months ended March 31, 2010. Sales for Imdyne were unusually low for the first six months of fiscal year 2009 and improved during fiscal year 2010 with increased marketing efforts and improved delivery service.

Fraud expense includes a \$620,000 charge in the six months ended March 31, 2009 for losses incurred related to the misappropriation of funds previously discussed in Note 2 to the condensed consolidated financial statements. Fraud expense for the six months ended March 31, 2010 includes \$254,775 of legal, accounting, and other costs incurred and associated with the misappropriation of funds less a recovery of 195,416 shares of treasury stock recorded at \$120,000.

Other expense (net) includes interest expense, gains and losses on the sale of fixed assets and miscellaneous income. Other expense (net) did not change materially for the six months ended March 31, 2010 as compared to the six months ended March 31, 2009. Interest expense was down period over period on decreased debt balances. The Company recorded gains of approximately \$80,000 on the sale of fixed assets for the six months ended March 31, 2009 compared to losses of approximately \$30,000 for the six months ended March 31, 2010. Miscellaneous income

increased from \$3,000 to \$81,000 for the six months ended March 31, 2009 and 2010 respectively.

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The following is a summary of the results of operations by segment for the six months ended March 31, 2010 and March 31, 2009 (Unaudited):

| | Six Months Ended March 31 | | Increase (Decrease) \$ | Increase (Decrease) % |
|---|------------------------------|------------------|------------------------------|-----------------------------|
| | 2010 | 2009 | | |
| Total Revenue by Segment | | | | |
| CCAC ATV | \$ 5,102,287 | \$ 5,262,698 | \$ (160,411) | (3.0)% |
| Plazco | 184,131 | 289,159 | (105,028) | (36.3)% |
| Perf-Form | 66,150 | 102,841 | (36,691) | (35.7)% |
| Imdyne | 1,554,358 | 643,755 | 910,603 | 141.5% |
| Total Revenue by Segment | 6,906,926 | 6,298,453 | 608,473 | 9.7% |
| Freight Income | 53,705 | 52,578 | 1,127 | 2.1% |
| Sales Discounts & Allowances | (469,981) | (406,164) | (63,817) | 15.7% |
| Total Combined Revenue | 6,490,650 | 5,944,867 | 545,783 | 9.2% |
| Operating profit (loss) by Segment | | | | |
| CCAC ATV | 2,947,646 | 2,464,017 | 483,629 | 19.6% |
| Plazco | 96,381 | 174,124 | (77,743) | (44.6)% |
| Perf-Form | 28,083 | 53,673 | (25,589) | (47.7)% |
| Imdyne | 496,808 | 195,532 | 301,276 | 154.1% |
| Total Profit By Segment | 3,568,918 | 2,887,346 | 681,571 | 23.6% |
| Freight Income | 53,705 | 52,578 | 1,127 | 2.1% |
| Sales Disc. & Allow. | (469,981) | (406,164) | (63,817) | 15.7% |
| Factory Overhead | (1,146,241) | (1,198,823) | 52,583 | (4.4)% |
| Sales, Gen. & Admin. | (1,896,607) | (1,820,919) | (75,688) | 4.2% |
| Fraud Expense | (134,775) | (620,000) | 485,225 | |
| Interest Income/Exp. | (153,242) | (185,682) | 32,440 | (17.5)% |
| Other Inc/Exp, Net | 50,181 | 82,781 | (32,600) | (39.4)% |
| Income Tax (Expense) Benefit | 66,848 | 432,428 | (365,580) | (84.5)% |
| Net Income (Loss) | (61,194) | (776,455) | 715,261 | (92.1)% |

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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 of intangible assets, allowance for doubtful accounts, allowance for inventory reserve, and the valuation of the treasury stock recovered from fraud. 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

The increase in revenues for the three months ended March 31, 2010 was a result of the continuation of the recovery of the steep decline we experienced in fiscal 2009 in spite of historically slower sales during the second and third fiscal quarters. 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 cost of inventory on to us. Sales of all discretionary consumer products fell significantly in fiscal 2009. Since our products are discretionary purchases for consumers, we had experienced a similar decline in sales but are starting to see a recovery. The economy is showing hopeful signs as evidenced by the 9% increase in sales the first half of fiscal year 2010 compared to the first half of fiscal year 2009.

Gross profit percentages for the three and six months ended March 31, 2010 showed improvement over the same periods in the prior year. We continue to take steps to reduce manufacturing costs which are and will continue to be reflected in our gross margins.

Cost of Goods Sold

Cost of goods sold as a percentage of total revenue improved to 68% for the three months ended March 31, 2010 as compared to 105% for the three months ended March 31, 2009. Cost of goods sold as a percentage of total revenue for the six months ended March 31, 2010 was approximately 69% as compared to approximately 77% for the six months ended March 31, 2009. The gross profit margin for our largest segment, ATV, improved with increased efficiencies in both purchasing and production. Additionally, during the three months ended March 31, 2009, 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. The improvements are primarily due to aggressive cost cutting and operational performance efficiencies.

Expenses

Our selling, general and administrative expenses were \$1,004,612 and \$1,896,607 for the three and six months ending March 31, 2010 compared to \$936,936 and \$1,820,919 for the three and six months ended March 31, 2009 all respectively. While these periods show dollar value increases, as a percentage of revenue, these expenses decreased from 58.15% to 42.98% for the three months ended March 2009 to the three months ended March 31, 2010. For the three months ended March 31, 2010 and 2009, other expenses (net) were \$89,574 and \$156,216 respectively.

The significant changes in expenses for the second quarter of fiscal 2010 as compared to the second quarter of fiscal 2009 were:

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- Salaries as a percentage of revenue decreased for the three months ended March 31, 2010, as compared to the three months ended March 31, 2009, from approximately 24% to approximately 18% as we continue to cut excess overhead.
- Commission expense increased approximately \$30,000 as a result of increased sales and new promotional programs.
- Legal and other professional fees increased for the three months ended March 31, 2010, as compared to the three months ended March 31, 2009, due, in part, to the transitional costs resulting from the change in both our legal and accounting professional service firms.
- Insurance expense decreased approximately \$60,000 due to decreased costs associated with, primarily, workers comp insurance.
- Lease expense increased approximately \$27,000 under the terms of the lease of the Company's Milford facility.
- Interest expense decreased approximately \$30,000 for the three months ended March 31, 2010 as compared to the three months ended March 31, 2009. This was due primarily to the decrease in the balances of our outstanding debt. We continue to aggressively pay down the outstanding balance.
- During the first quarter of fiscal year 2010, we recorded a loss on the disposal of fixed assets of approximately \$106,000 which related to the disposal of machine tools no longer used in the Company.

For the six months ending March 31, 2010, selling, general and administrative expenses were 29.21% of revenue or \$1,896,607 as compared to 30.63% of revenue or \$1,820,919 for the six months ended March 31, 2009. Other expenses (net) totaled \$103,061 for fiscal 2010 compared to \$102,901 for fiscal 2009.

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The significant changes in expenses for the six months ended March 31, 2010, as compared to the same period of fiscal 2009 were:

- Legal and other professional fees increased approximately \$11,000 for the six months ended March 31, 2010, as compared to the six months ended March 31, 2009, due, in part, to the transitional costs resulting from the change in both our legal and accounting professional service firms..
- Insurance expense decreased in the six months ended March 31, 2010 by approximately \$111,000 as compared to the six months ended March 31, 2009 due, primarily, to decreased costs of workers comp insurance.
- The increase in lease expense of approximately \$30,000 was due to the terms of the lease of the Company's Milford facility.
- Interest expense decreased for the six months ended March 31, 2010 as compared to the prior year because the Company continues to aggressively pay down its outstanding debt balances.
- Expenses related to investor relations decreased approximately \$67,000 as a result of cost cutting measures implemented in fiscal 2010.

BUSINESS SEGMENTS

As more fully described above in Note 4 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, Imdyne, deals directly with other original equipment manufacturers (OEMs) and businesses in various industries.

Sales in our Cycle Country ATV Accessories segment increased approximately 30% during the second quarter of fiscal year 2010 as compared to the second quarter of fiscal year 2009. This increase brought year to date sales for this segment to approximately \$5.1 million, \$100,000 down from the same period last year. This recovery is due to a general improvement in sales of our industry compared to the prior year as well as increased sales efforts. The gross profit percentage for this segment was extraordinarily low during the three months ended March 31, 2009 due to higher labor cost, inefficient processes and higher production costs. With improved process and procedures, gross profit margins improved to approximately 59% during the three months ended March 31, 2010 and to 58% for the six months ended March 31, 2010.

Plazco continues to experience decreases in sales which 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.

Sales for the Perf-Form segment were down on both a quarterly and year to date basis. For the six months ended March 31, 2010, this segment reported decreased sales of approximately 36%. Costs to produce these products increased which negatively affected the gross profit margin which decreased from approximately 52% for the six months ended March 31, 2009 to approximately 43% for the six months ended March 31, 2010. 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.

The increase in Imdyne s revenue was due to increased sales to one customer which had declined during the first six months of fiscal year 2009. Margins increased slightly to 32% for the six months ended March 31, 2010 compared to 30% for the 6 months ended March 31, 2009.

For the six months ended March 31, 2010, the Company experienced increased revenue in the U.S. markets but showed a slight decrease in international sales.

Table of ContentsLiquidity and Capital ResourcesOverview

Cash flows provided by operating activities of continuing operations and built-up cash balances provided us with a significant source of liquidity during the first six months of fiscal 2010.

Cash and cash equivalents were \$66,747 as of March 31, 2010 as 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.

In the six months ended March 31, 2010, we made approximately \$176,000 in capital expenditures, received approximately \$12,500 from the sale of capital equipment, and paid approximately \$711,000 of long-term debt principal.

Working Capital

Net working capital was \$2,760,176 as of March 31, 2010 compared to \$3,150,679 as of September 30, 2009. The decrease is due, primarily, to the decrease in accounts receivable.

Liquidity and Capital Resources

| | March 31, 2010 (Unaudited) | Balance | September 30, 2009 | Increase (Decrease) \$ | Increase (Decrease) % |
|--|----------------------------------|---------|-----------------------|------------------------------|-----------------------------|
| Cash and cash equivalents | \$ 66,747 | | \$ 27,490 | \$ 39,257 | 142.8% |
| Accounts receivable | 665,599 | | 1,819,552 | (1,153,953) | (63.4)% |
| Inventories | 3,422,239 | | 3,588,880 | (166,641) | (4.6)% |
| Prepaid expenses | 85,586 | | 77,397 | 8,189 | 10.6% |
| Deferred income tax | 170,000 | | 448,000 | (278,000) | (62.1)% |
| Income tax receivable | 1,149,867 | | 997,413 | 152,454 | 15.3% |
| Current Assets | 5,560,038 | | 6,958,732 | (1,398,694) | (20.1)% |
| Disbursements in excess of bank balances | | | 438,636 | (438,636) | (100.0)% |
| Accounts payable | 347,398 | | 562,689 | (215,291) | (38.3)% |
| Accrued expenses | 710,673 | | 747,044 | (36,371) | (4.9)% |

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| | | | | |
|-----------------------------------|--------------|--------------|--------------|---------|
| Bank line of credit | 741,836 | 1,030,000 | (288,164) | (28.0)% |
| Current portion of long term debt | 888,939 | 863,160 | 25,779 | 3.0% |
| Current portion of deferred gain | 111,016 | 166,524 | (55,508) | (33.3)% |
| Current Liabilities | 2,799,862 | 3,808,053 | (1,008,191) | (26.5)% |
| | \$ 2,760,176 | \$ 3,150,679 | \$ (390,503) | (12.4)% |

Table of Contents**Long-Term Debt**

Long term debt consists of the following:

| | March 31, 2010 | 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. | \$ 523,158 | \$ 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. | 2,540,448 | 2,660,690 |
| Note 3 to a 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. | 488,090 | 559,159 |
| Total | 3,551,696 | 3,974,943 |
| Less current maturities | (888,939) | (863,160) |
| Net | \$ 2,662,757 | \$ 3,111,783 |

Prime rate was 3.25% at March 31, 2010 and at 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 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, 2010, 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.

Line 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% with a ceiling of 10.5% and a floor of 5.5%. At March 31, 2010 and at September 30, 2009 the rate was at 5.5%. The note is collateralized by all of the Company's assets. At March 31, 2010, there was \$741,836 due on Line of Credit One and there was \$1,000,000 outstanding on Line of Credit One as of September 30, 2009. Line of Credit one matured on March 31, 2010, but has

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been extended by the lender until June 30, 2010. A new, permanent loan renewal is under negotiation and is anticipated to be in place prior to September 30, 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 \$0 and \$30,000 at March 31, 2010 and September 30, 2009, respectively. Line of Credit Two matured on February 1, 2010.

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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 and six months ended March 31, 2010, 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

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, and income tax refunds 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

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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.

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.

Table of Contents**Part II - Other Information****Item 2. Unregistered Sales of Equity Securities and Use of Proceeds****ISSUER PURCHASES EQUITY SECURITIES**

| Period | Total Number of Shares (or Units) Purchased | Average Price Paid per Share (or Unit) | Total Number of Shares (or Units) Purchased as Part of Publicly Announced Plans or Programs | Maximum Number (or Approximate Dollar Value) of Shares (or Units) that May Yet Be Purchased Under the Plans or Programs |
|---------------------------------|--|---|--|--|
| January 1 to January 31, 2010 | 0 | | 0 | 0 |
| February 1 to February 28, 2010 | 195,416(1) | \$ 0.6141(2) | 0 | 0 |
| March 1 to March 31, 2010 | 0 | | 0 | 0 |

(1) Represents shares recovered in connection with the Hancher misappropriation discussed in Note 2 to the condensed consolidated financial statements included in this report.

(2) This is an estimate, since the Company does not have access to the underlying transaction data, as discussed in Note 2 to the condensed consolidated financial statements included in this report.

Item 5. Other Information

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.

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(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.

| Name and Signature | Title | Date |
|--|--|--------------|
| /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 |